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Credit Rating Report

Provati Insurance Company Limited

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Ref No	ACRSL 13521/20
Company Name	Provati Insurance Company Limited
Assigned Ticker	PROVATIINS
Activity	Non-Life Insurance Business
Incorporated On	31 January 1996
Head Office	Khan Mansion (11th Floor), 107 Motijheel Commercial Area, Dhaka-1000, Bangladesh.

Rating Type	Corporate/Entity
Rating Validity	16 Sep 2021
Analyst(s)	ACRSL Analyst Team
Committee(s)	ACRSL Rating Committees

RATINGS SUMMARY

CREDIT RATING	CURRENT	PREVIOUS
Long-Term	AA+	AA
Short-Term	ST-2	ST-2
Publishing Date	17 Sep 2020	16 Sep 2019

RATINGS EXPLANATION

AA+	**Long term:** Very high claims paying ability. Protection factors are strong. Risk is modest, but may vary slightly over time due to underwriting and/or economic condition.
ST-2	**Short Term:** High claims paying ability. Protection factors are good and there is an expectation of variability in risk over time due to economic and/or underwriting conditions.

Rating Validity: This validity assumes no additional loan over that disclosed in Q2FY20 [ending June 30] audited/management certified balance sheet and that management has disclosed all material & adverse to financials since Q2FY20.

RATING RATIONALE

Key Rating Drivers:

- **Decade long expertise and experienced technocrats has helped PICL to build a strong customer base.** Provati Insurance Company Limited (PICL) is one of the reputed insurance companies of the country. The company has been highly focused on its core business, insurance business. The company has captive customer base consisting of different companies. Major businesses of the company comes from Banks and NBFIs, Garments, Textile, Food industry to name a few. Major captive client of the company includes, A.K.H Group, Rahmat Group, One Group, B.N.S Group, Sheikh Brothers, Nabil Group, Uttara Group, Shanta Group, BBS Cables, Rangdhunu Group, Bashundhara Group, Abdul Monam Ltd., Energy Pac, Beximco Ltd., Union Group, Kabir Group among others. The company is primarily staffed with professionals with long experience, qualified insurance technocrats and a team of skilled personnel. Apart from that PICL has developed a number of branch network all over the country under direct weekly super vision from Head office to reach the number of customers throughout the country. Meanwhile the number of insured clients of PICL has been increasing gradually.
    - **Gross premium** of the company increased from BDT 482.60 MN in FY17 to BDT 485.42 MN in FY18, representing a YoY growth rate of 0.59%. Subsequently in FY19 the Gross premium of the company stood at BDT 771.66 MN, representing a YoY growth rate of 58.97%, which is positive rating factor in our view.

- **Historically, PICL has maintained healthy loss reserve to total assets ratio,** which is a positive rating factor. During the last three years, the ratio reached to 21.10% in FY19 from 20.73% in FY18 which was 16.72% in FY17. During last three years the ratio in an increasing which indicate financial cushion against the total assets of the company has been high during last three years.

- **PICL's balance sheet profile remained strong with substantial liquid assets providing cushion against claim**. PICL has maintained more healthy total assets as cash and bank balance over the last three years. This means PCIL's assets are highly liquid and can be used in case of large claims payment. Historically, PCIL has maintained a high cash & bank balance to total assets ratio, which is a positive rating factor.
    - **Cash & Bank Balance / Total Assets:** Historically, PICL has maintained a high cash & bank balance to total assets ratio during the last three years, which is a positive rating factor. The ratio was 38.69% in FY17, which increased to 45.83% in FY17 and further increased to 51.56% in DY19.
    - **Liquid Asset / Net Claim:** Historically, PICL has maintained sufficient liquid asset to net claim ratio which is positive in our view. During last three years the ratio

demonstrated an increasing trend and remains in comfortable position. The ratio was 2.19x in FY17, which increased to 3.05x in FY18 and remains 3.80x in FY19.

- **Overall Liquidity:** Historically, PICL has maintained a high overall liquidity ratio, which is positive in our view. The ratio stood at 2.81x in FY17 which increased to 3.58x in FY17 and remains 4.28x in FY19.

- **Balance of Funds / Total Assets:** Historically, PICL's Balance of funds to total assets ratio demonstrated an increasing trend, which is a positive rating factor. The ratio increased from 15.35% in FY17 to 16.22% in FY18 and further increased to 23.94% in FY19.

- **PICL's leverage in terms of Net Liability to Equity remain high over the years.** Over the last three years PICL's Net Liability to Equity ratio demonstrated a decreasing but remains high. The ratio decreased from 72.40% in FY17 to 50.00% in FY18, subsequently in FY19 the ratio reached to 44.32%. Net-net, during the last three years the ratio decreased 28.08 percentage points.
  - **Total Liability:** PICL's total liability decreased from BDT 518.56 MN in FY17 to BDT 412.90 MN in FY18, representing 20.38% YoY negative growth. Subsequently in FY19 it increased to BDT 504.79 MN, representing 22.26% YoY growth.
  - **Total Equity:** PICL's total equity increased from BDT 500.27 MN in FY17 to BDT 522.48 MN in FY18, representing 4.44% YoY growth. Subsequently in FY19 it increased to BDT 562.54 MN, representing 7.67% YoY growth.

ACRSL Research has a positive long-term outlook on Bangladesh's Insurance sector, a view that is driven by rising income levels, steady remittance, rapid urbanization, and expected overall economic growth.

- **IDRA's complete guideline will be a milestone for the insurance sector of Bangladesh.** IDRA is preparing insurance business guidelines and all the necessary regulations. When these rules and regulations will be implemented, then operation of insurance business will become more efficient and transparent just like banks now. IDRA is planning to provide central software where all the insurance companies (head office and all branches) will be able to use it simultaneously. Therefore, IDRA can monitor all transaction easily and can solve any discrepancy in a fast manner. This will be beneficial for all in long-term.

- **Increase in stock market exposure during this bear market would be a good strategy for long-term investment.** In this bearish trend, it is easy to buy good companies' share at a cheap price. By now all the insurance companies have absorbed the stock market collapse. Therefore, in future, in good economic condition when economic activity will increase, the stock market is expected to get back into track and show bullish trend. Then these investments will provide good return in form of capital gain and dividend.

- **The GDP of our country is increasing than the previous years which results in increase of per capital income.** So this growing GDP and income holds bright prospects for insurance companies. The major problem is the incapability of our people to pay the premium charged by the insurance companies. With the growth in the income more and more people are now willing to take an insurance policy for safeguarding themselves from any danger.

- **There is a big opportunity lies ahead for the insurance companies as the population of our country are increasing day by day**. Although most of people of our country live under extreme poverty level and want to avoid insurance policy number of potential policy holders in Bangladesh is growing with growth of the population. There is somewhat relationship between growing populations with the number of public vehicle. As we know all public vehicle must have an insurance policy. So growing population also increase the motor insurance too. That is growth in population opens greater scope for every kind of insurance business that results in growing prospect for insurance companies.

- **People are now much more conscious about their safety.** So they are encouraged to take an insurance policy for making their life free from any unexpected occurrence. Increase in literacy rate is helping predominantly to create awareness among the people regarding taking insurance policy. Besides this insurance companies are also trying to eradicate the negative attitude of people towards the insurance company by organizing various programs such as seminars, programs including social responsibilities etc.

- **Micro insurance can be a great prospective area for the insurance business in our country**. Most of the people of our country are unable to have costly and long term insurance policies. Micro insurance can be provided to individual personnel or to small business owners against little insurance premiums and with easy terms and conditions. When they will afford to minimize their risks at a lower price, they will take that opportunity and they will become to get used to it. This can cover a huge portion of the society who can be a prospective target market for this business.

- **Insurance companies can usually make more profit from investment activities than from their regular insurance business.** The private insurance companies are realizing this fact and playing role in the financial market. Insurance companies are making large investment in government bonds, ICB projects and in private sector business. There are opportunities to enhance profit through effective and efficient money management by employing capable and experienced personnel. Scope of investment expansion persists in the areas leasing, housing, health and money market.

- **Insurance is not just a tool of risk coverage.** It is also an attractive instrument of savings. The mixture of risk coverage with savings gives the opportunity for innovative product designing which means service diversification. In a dynamic insurance market one can expect to see new products being promoted at regular intervals. So far very little efforts have been taken to innovative and introduce need oriented insurance services in response to existing threats. The prospect of the insurance business in various sectors that affect our economy can be differentiated in the following way.

- **The economy of Bangladesh is predominantly an agrarian one, with most people engage in farming and fishing**. The uncertainty of agriculture due to crop failure caused by climate variation, drought, cyclone, flood and pests affects farmer income as well as government revenue. Furthermore, in the last few years commercialization has occurred in some sections of the agricultural sector. Increase in investment in the agricultural sector is creating a new opportunity for insurance industry. Various agricultural insurance services are becoming common these days. Demand for insurance protection against crop loans, livestock loans, fisheries loans and equipment loans are also increasing day by day.

- **Nowadays in Bangladesh the SME plays a important role in the economic development**. But they are deprived from taking loans from bank for large amount. If insurance business focuses this section in Bangladesh they are able to contribute more in the economy. Thus insurance business has a bright prospect in business sector in a developing country like Bangladesh.

ACRSL remains concerned over the near-to-intermediate term about PICL's exposure to the insurance sector. We have a long-term positive outlook on Bangladesh's Insurance sector, with near-to-intermediate term concerns, based on following analysis:

- **The general insurance market is not likely to remain suppressed in the long-term**. This is because general insurance market expansion and increase of insurance penetration in the country lies in tapping the hither to untapped segments of the market – personal lines business that has remained neglected so far.

- **A vast majority of people especially in rural areas are left outside the insurance coverage.** This mainly results from the unawareness among the people. Even a large portion of people don't have the minimum idea of insurance. People are not aware of the benefits from the insurance policy and a great number of people believe that insurance business is nothing but cheating and assume that insurance policy is quite unnecessary. This negative attitude from the people is lessening the importance of absorbing insurance policy in a large extent.

- **Most of the insurance companies in our country are located in urban areas and there are few branches in rural areas.** They think that they might have better scope for performing their business as the economic condition of the urban is better than the rural areas. They don't think that the large number of our population reside in rural areas and if branches are expanded in rural areas then the business can thrive if proper motivation policy is taken to aware the mass people of the rural areas. Thus this centralization policy acts as an obstruction for the growth of insurance business in our country.

- **Bangladesh is one of the poorest countries in the world and most of the people in this country live under extreme poverty level**. All of these people fight hard to earn their livelihood and are marginal in relation to the expenditure with the income. It is quite impossible for them to save some money for future need. Therefore they are quite unable to give the amount to the insurer which is called as premium and regarded as safety or precautionary measures against any accident. The number of people who can bear the premium to the insurance company is very few in regard to those mentioned above. Therefore the overall poor economic condition is creating obstacle to flourish the insurance business in Bangladesh.

- **Most of the insurance companies of our country are facing financial problems.** Recently government is trying to take initiative to close some of the insurance companies because they are not maintaining the minimum standards. They are investing their money in poor securities and business which is vulnerable regarding getting back the money with profit. As a result most of the insurance companies are suffering from loss years after years and for poor financial condition the insurance companies are also unable to expand their branch which is a barrier for the growth of insurance business in Bangladesh.

- **Growing cost of business is another problem that insurance companies are facing now a day**. They urge that government tax, house rent, utility, commission fee, stationeries are growing day by day. But their businesses are not growing so fast with that rate. Besides this the policy holders are not willing to pay too much premium with growing cost that is hampering the strategies of insurance companies. So they are facing difficulties in running their business efficiently.

- **Lack of surveillance from government ministry encourages many insurance companies** to follow some unethical practices like make harassment to policy holder and showing less in the financial statement. This not only destroying the reputation of the well known insurance companies but also creates negative impact in the mind of the people about insurance. Besides this government sometimes impose some conflicting rules and regulation without discussing with insurance companies governing body. It creates conflict among insurance companies with government and act as one of the main hindrances of growing insurance business.

- **Insurance companies perform their activities by recruiting marketing agent and they try to convince** the people to take a policy. Most of the cases the agents are not properly trained and they don’t know the right process to catch potential people to make their policy holders. Therefore these field level agents are unable to fulfill their target and act as a constraint in the insurance business.

- **Spread of insurance business in Bangladesh failed for lack of proper training** by the employees specially the field employees of insurance companies. Still there are not enough training center to provide proper training regarding insurance activities for the officials of insurance company. Though there is one insurance training center in Bangladesh it totally failed to achieve its target in insurance field.

- **Another main problem in the country is that the media is unconcerned to send the right message regarding insurance to the people.** As a result a large portion of population is completely unaware about the insurance policy. Another problem is that the insurance company does not provide adequate information in the company's websites which can fulfill the queries of their potential customers and satisfy themselves to buy an insurance policy.

- **Some insurance companies create harassment on the policy holders or sometimes on the dependents of the policy holders when they want back their money after death or maturity**. The insurance companies show different causes in order to make delay to return back the money at expected time. Sometimes they are eager to pay less than the desired amount by creating various circumstances such as they try to say that the disaster of the subject matter of the policy is not responsible due to their activities. Besides this some field officials also create some illegal acts. They often try to give false information to the people for buying a policy. And these kind of illegal acts create bad reputation to the insurance companies and hindrance the overall insurance business. Those who are harassed by the insurance companies discourage other not to take an insurance policy Lack of motivation program towards public.

- **To take an insurance policy there are great number of rules and regulations which must be compelled by the insured person.** And into those rules a vast number of complexities is present there. Therefore the people are discouraged to take insurance policy because they think that the complexities will create extra pressure on their mind which may hamper other jobs.

Special Note: At the time of publication of this credit rating report by ARGUS Credit Rating Services Limited, audited financial statements until FY19 (ending December 31) and unaudited financial Q2FY20 (ending June 30). Projections for until FY20 were arrived after taking into consideration subsequent events up to the date of reporting, management feedback, and industry insights.

1 CORPORATE PROFILE

1.1 Company Description

History: Provati Insurance Company Limited (PICL) was incorporated as a public limited company in 31st January 1996 upon getting permission from the Government for carrying out non-life insurance business. PICL's major underwriting business includes fire, marine, motor, and miscellaneous insurance business.

Indicators	Comments	Rating Outlook
Quality of Top Management	Senior management of PICL comprises of industry experts and highly qualified personnel with over a decade of experience in the insurance sector. Similarly, professionalism on part of management contributes to brand recognition and operational controls. Moreover, the company's senior management has sound educational, business, social and financial backgrounds and networks. In effect, management proficiency contributes to brand and operating efficiency of PICL that is a positive rating factor.	Positive
Management Adaptation	Senior management brings change at PICL by building group momentum and actively mobilizing others to initiate change. At PICL, management has embedded a culture for change. Such a proactive management contributes to a positive rating outlook.	Positive
Management Structure	PICL's upper management has instituted strict, control mechanisms and a robust infrastructural set up focused on inhibiting negative implications of conflict of interests, as well as fraud, and focused on the smooth flow of operations and the company's long-term operational efficiency. For example, PICL utilizes Software for risk management, finance and accounting purpose. In effect, adherence to control mechanisms has contributed to strong internal controls and is a positive rating factor.	Positive
HR Policy	PICL has a structured HR Policy covering various employment policies, including, selection and recruiting policies, compensation, leave policies, among other factors for employees at all levels of the organization. Moreover, the company's HR policy also clearly delineates the job description and job responsibilities for each of its employees. This contributes to a positive factor.	Positive
Internal Controls	PICL's upper management has instituted strict, control mechanisms and a robust infrastructural set up focused on continuous risk assessment and compliance with laws and regulations. PICL's internal controls inhibit the negative implications of conflict of interests, as well as fraud at all levels	Positive

	of the organization. Similarly, the internal controls have been implemented to allow for a smooth flow of operations. Furthermore, accounting controls ensure the quality of accounting and financial information, particularly the conditions of under which the information is recorded, stored, and available. In effect, adherence to control mechanisms has contributed to strong internal controls and is a positive rating factor.	
Work Environment	PICL's work environment fosters teamwork and collaboration. A rewarding work environment has also contributed to higher job satisfaction, motivational, and productivity. Overall, this is contributing to a positive rating factor.	Positive

1.2 SHAREHOLDING STRUCTURE

The Board consists of 17 Members. The members of the Board of Directors of the Company hold very respectable position in society. They are from highly successful groups of business and industries in Bangladesh. Each member of the Board of Directors plays a significant role in the socio-economic domain of the country. The current Chairman is Md. Momin Ali and the Vice Chairman is Mr. Maroof Sattar Ali.

Table 1 Nature of Ownership/Shareholding Percentage

Shareholders	Number of Shares	% of Shares
Sponsor & Directors	8,959,958	30.17%
General Public	17,117,252	57.63%
Company	3,400,632	11.45%
Company (Foreign)	1	0.00%
NRB (Non-Residential Bangladesh)	172,671	0.58%
All Investor Accounts	51,990	0.18%

Share Holding Directors are as follows:

Name	Designation	Share %
Mr.Md.Momin Ali	Chairman	2.01%
Maroof Sattar Ali	Vice Chairman	5.47%
Alhaj Mohammed Ali	Director	2.34%
Alhaj Md. Mofizur Rahman	Director	2.00%
Mohammad Ali Talukder	Director	2.00%
Al-Haj Shahdat Hussain	Director	2.00%
Mr. Shahjahan Kabir	Director	2.00%
Abdur Rahman Ansary	Director	2.00%
Sabrina Yeasmin	Director	2.03%
Mr. Habib-E-Alam Chowdhury	Director	0.06%
Beg Md. Nurul Azim FCA	Independent Director	Nil
Professor. Dr. Md. Sayaduzzaman	Independent Director	Nil
Mr. Prodip Kumar Das	Director	5.82%
Md. Habibur Rahman	Director	2.00%
Md. Badlur Rahman Khan	Director	0.08%
Joarder Nowsher Ali FCA	Sponsor Shareholder	0.33%
Md. Ruhul Amin FCA	Sponsor Shareholder	0.00%

Source: PICL's Annual Report

1.3 Executives of Head Office

Name	Designation
M.A. Salam	Chief Executive Officer
Shakawat Hossain Mamun	Additional Managing Director
Mohammed Serajul Islam	Company Secretary
Md. Nazrul Islam Mazumder	Additional Managing Director
Md. Zahedul Islam	Additional Managing Director & CFO
Md. Saiful Islam (Azad)	Deputy Managing Director
Lt.Col (R) Md. Faridul Alam, PPM,psc	Executive Director
Md. Mizanur Rahman	Senior General Manager
Mahbub-ul-Alam	Senior General Manager
Md. Karim Ullah	General Manager
Md. Rafiqul Islam	General Manager
Md. Nasir Uddin Bhuiyan	Senior Deputy General Manager

1.4 Operations

Provati Insurance Company Limited operates through the Head Office located at Dhaka, Zonal Offices at Chittagong, Khulna and 56 branches throughout the country. The company's business operations are being carried out in the following areas:

- Underwriting fire insurance
- Underwriting marine (cargo & hull insurance)
- Underwriting miscellaneous insurance
- Underwriting motor insurance

1.5 Information Technology

IT has become indispensable for insurance companies in ensuring smooth operations and providing efficient service. PICL is planning to get Enterprise Resource Planning software (ERP); this will keep the company on the top edge in terms of IT.

Indicators	Presence/Absence
IT Development Team	Present
Accounting Software	Present
Server and Backup Support	Present
Data Security Policy	Present
Market Research Software	Absent

1.6 Human Resource Management

PICL continues to implement appropriate human resource management policies and practices to develop its employees, and to ensure their optimum contribution towards the achievement of corporate goals.

We found the company is employee friendly and efficient service rule and regulation policy. At the end of FY19, PICL has more than 726 employees. At PICL, Human Resources give the organization a competitive edge in terms of knowledge and experience. PICL continued their policy of recruiting the best people and implementing programs to develop and retain high quality human resources.

1.7 Market Share

Insurance market in Bangladesh remains extremely competitive due to existence and operation of a large number of companies, incommensurate with the size of the market.

Market Characteristics	Comment
Market Competition	Very high
Bargaining Power of Customers	High
Threat of New Entrants	Low
Marketing Approach	Aggressive

1.8 Products and Services

Currently, PICL offers insurance products under the following broad categories:

- Fire Insurance
- Marine Hull and Cargo Insurance
- Motor Vehicle Insurance
- Miscellaneous Accident Insurance

2 FINANCIAL RISK ANALYSIS

2.1 MACROECONOMIC PERFORMANCE

2.1.1 World Economic Outlook

Global Financial Stability Overview: Markets in the Time of COVID-19:
The corona virus (COVID-19) pandemic poses unprecedented health, economic and financial stability challenges. Following the COVID-19 outbreak, the prices of risk assets collapsed and market volatility spiked, while expectations of widespread defaults led to a surge in borrowing costs. Several factors amplified asset price moves: previously overstretched asset valuations, pressures to unwind leveraged trades, dealers' balance-sheet constraints, and deterioration in market liquidity. Emerging market economies experienced the sharpest reversal of portfolio flows on record. As a result, financial conditions tightened at an unprecedented speed. Decisive monetary, financial, and fiscal policy actions aimed at containing the fallout from the pandemic managed to stabilize investor sentiment in late March early April, with markets paring back some of their losses.

A further tightening of financial conditions may expose more "cracks" in global financial markets and test the resilience of financial institutions. Asset managers may face further outflows and may be forced to sell assets into falling markets. Distress may rise among leveraged firms and households. Emerging and frontier markets may face challenging external funding conditions, rising rollover risks, and increased incidence of debt restructurings. Although banks have more capital and liquidity than in the past, have been subject to stress tests, and are supported by central bank liquidity provision, their resilience may be tested in some countries in the face of large market and credit losses. Wide-ranging fiscal, monetary, and financial policies, as well as strong international cooperation, remain essential to safeguard economic and financial stability and to prevent the emergence of adverse macro-financial feedback loops.

Risky Credit Markets: Interconnecting the Dots:
Risky corporate credit markets have expanded rapidly since the global financial crisis. The role of nonbank financial institutions has increased, and the system has become more complex and opaque. This chapter maps out the financial ecosystem of these markets and identifies potential vulnerabilities, which include weaker credit quality of borrowers, looser underwriting standards, liquidity risks at investment funds, and increased interconnectedness. On the positive side, the use of financial leverage by investors and direct exposures of banks which were crucial amplifiers during the global financial crisis have declined. Run risks have lessened in some segments because of a prevalence of long-term locked-in capital in the private debt and collateralized loan obligation (CLO) markets. In an illustrative severe adverse scenario, losses on risky credit exposures at banks are estimated to be manageable, in aggregate, although losses at a few large banks could be substantial. However, losses at nonbank financial institutions could be high. Given the now-limited role played by banks, this could impair credit provision in these markets and make a recession more severe. The corona virus (COVID-19) crisis, which has resulted in price declines in risky credit markets of about two-thirds of the severity of the global financial crisis through late March. Policymakers should now act decisively to contain the economic fallout of COVID-19 and support the flow of credit to firms. Once the crisis is over, they should assess the sources of market

dislocations and tackle the vulnerabilities that have been unmasked by this episode.

Emerging and Frontier Markets: Managing Volatile Portfolio Flows:

The dramatic reversal of emerging market portfolio flows following the global spread of corona virus (COVID-19) highlights the challenges of managing volatile portfolio flows and risks they may pose to financial stability. A prolonged period of low interest rates had encouraged both borrowers and lenders to take on more risk. Surges of portfolio inflows into riskier asset markets contributed to the buildup of debt and, in some cases, resulted in stretched valuations. This chapter quantifies the sensitivities of different types of portfolio flows and the associated cost of funding to global and domestic factors during "normal" times as well as during periods of weak or strong flows. Analysis suggests that both bond and equity flows are much more sensitive to global financial conditions during periods of extreme flows than in normal times, while domestic fundamentals may matter incrementally more for equities and local currency bond flows. Furthermore, greater foreign investor participation in local currency bond markets that lack adequate depth can greatly increase the volatility of bond yields. Dealing with immediate capital outflow pressures calls for using reserves to reduce excessive volatility, deploying capital flow management measures, and preparing for long-term external funding disruptions.

Banking Sector:

Profitability has been a persistent challenge for banks in several advanced economies since the global financial crisis. While monetary policy accommodation has helped sustain economic growth during this period and has provided some support for bank profits, very low interest rates have compressed banks' net interest margins (the difference between interest earned on assets and interest paid on liabilities). Looking beyond the immediate challenges faced by banks as a result of the corona virus (COVID-19) outbreak, a persistent period of low interest rates is likely to put further pressure on bank profitability over the medium term. A simulation exercise conducted for a group of nine advanced economies indicates that a large fraction of their banking sectors, by assets, may fail to generate profits above their cost of equity in 2025. Once immediate challenges recede, banks could take steps to mitigate pressures on profits, including by increasing fee income or cutting costs, but it may be challenging to fully mitigate profitability pressures. Over the medium term, banks may seek to recoup lost profits by taking excessive risks. If so, vulnerabilities could build in the banking system, sowing the seeds of future problems. Authorities can implement a number of policies to help mitigate vulnerabilities arising from excessive risk taking and ensure an adequate flow of credit to the economy, including the removal of structural impediments to bank consolidation, the incorporation of a low-interest-rate-environment scenario on banks' risk assessments and supervision, and the use of macro prudential policies to tame banks' incentives for excessive risk taking.

Banks globally have more and better-quality cap-ital, hold more liquid assets, and borrow less from short-term markets than they did before the global financial crisis. This means that, on aggregate, the banking sector is better prepared to confront losses and liquidity stresses. The resilience of banks, however, may be tested in some countries in the face of the sharp slowdown in economic activity resulting from the COVID-19 pandemic and the associated, necessary containment measures, especially if the downturn turns out to be more severe and lengthier than currently anticipated. Profitability is a concern because it affects bank resilience. While a very high level of profitability could indicate excessive risk taking, low profits mean that it takes longer for banks to build capital against unexpected losses. Slower capital accumulation also constrains banks' provision of credit to support the economy and their ability to absorb shocks, such as mark-to-market losses on their investments or credit losses on loans extended to households and firms. Consistently weak profitability—where the ex post return on equity is below the ex ante cost of equity capital (the return that shareholders require)—also makes it more difficult for banks to raise new capital from the market. This last factor provides a useful benchmark for profitability. Banks with a return on equity below the cost of equity can be said to have an insufficient level of profitability. In this chapter, the cost of equity is measured as the ratio of a bank's return on equity to the price-to-book ratio (this formulation is based on the Gordon growth model. While this market-implied cost of equity varies over time, the median for each region has ranged from 8 percent to 14 percent since 2013.

A decline in interest rates can affect bank profitability through four main channels.

- **Changes in net interest margins:** The replacement of maturing loans by new ones issued at lower interest rates, along with a repricing of bank deposits and other funding instruments, affects banks' net interest margins 0.4% Between 2013—the year immediately after the euro area debt crisis—and 2015, interest rates on deposits fell at a faster rate, on average, than rates on loans, helping cushion the impact on net interest margins. After 2015, however, deposit rates flattened out while interest rates on loans continued to fall. This dynamic led to a fall in net interest margins in many countries.

- **Declines in loan loss provisions:** Low interest rates can stimulate economic activity. Continued accommodative monetary policy including asset purchase programs, forward guidance and negative policy rates—has been crucial in supporting the global economic recovery over the past decade and is playing a key role in responding to the COVID-19–related challenges currently faced by the global economy. A more dynamic economy benefits households and firms by increasing their incomes and profits while, at the same time, lower rates reduce their interest burdens. These two factors tend to reduce borrowers' probability of default, enabling banks to lower their provisions against expected loan losses.

- **Higher credit growth:** Low interest rates and higher economic activity stimulate credit growth, resulting in higher revenues for a given level of net interest margins. However, this would not mechanically result in higher return on assets, unless the expansion takes place through a shift to customer loans from lower yielding securities and interbank assets. Higher credit growth, never the-less, could lead to an increase in return on equity if the expansion in assets is accompanied by an increase in leverage.

- **Higher noninterest income:** A more dynamic economy could also result in higher noninterest income (for example, through fees) if some activities, such as mergers and acquisitions, become more prevalent. Another source of banks' noninterest income—gains on their securities portfolios—could also increase when rates decline, as the latter would lead to a rise in asset prices

Climate Change: Physical Risk and Equity Prices

Disasters as a result of climate change are projected to be more frequent and more severe, which could threaten financial stability. The impact of climate change physical risk on global equity valuations to assess this threat. The chapter shows that the impact of large disasters on equity markets, bank stocks, and non–life insurance stocks has generally been modest over the past 50 years High levels of insurance penetration and sovereign financial strength can help preserve financial stability in the face of climatic disasters. The chapter does not find those aggregate equity valuations—as of 2019—reflect the predicted changes in physical risk under various climate change scenarios, which suggests that investors do not pay sufficient attention to climate change risks. Better disclosure of exposures to climatic disasters and stress testing for financial firms can help preserve financial stability and should complement policy measures to mitigate and adapt to climate change.

2.1.2 Bangladesh Economy

Bangladesh’s economic freedom score is 56.4, making its economy the 122nd freest in the 2020 Index. Its overall score has increased by 0.8 point, led by a higher score for property rights. Bangladesh is ranked 29th among 42 countries in the Asia–Pacific region, and its overall score is well below the regional and world averages. The country has benefitted from the outsourcing of production to places where it can be done in a more cost-effective way. The ready-made garments (RMG) industry is labour intensive and labour is available in Bangladesh in abundance at a cheap price. The abundance of labour has also made Bangladesh a major labour exporting country, bringing valuable foreign exchange. It also helps in the balance of payment situation. The political stability in Bangladesh in the last decade and propitious circumstances brought on by globalization has resulted in very fast economic growth in the country. Bangladesh’s GDP growth in last few years has averaged around 8 percent. This was happening at a time when economic growth in rest of the world was slowing down. However, this fast economic growth has been disrupted by the outbreak of the COVID-19 pandemic.

It now appears that Bangladesh is facing a major economic crisis in the making caused by the Covid-19 pandemic. After a brief reopening of the economy, the country now has reverted to ’hard’ lockdowns in various places to deal with the Covid-19 pandemic amid demands from certain sections of the population to do so.

But lockdowns are not sustainable for the time that will be required to develop a vaccine. Also, lockdowns are not feasible for a country like Bangladesh if people cannot be provided with the basic necessities of life. More importantly, it would bring the economy to an almost grinding halt which will cause a significant blow to the economy having crippling effects on the lives of people, especially working people and business enterprises across the country. In fact, the economy is now almost coming to a grinding halt with debilitating effects on all sectors of the economy thus threatening millions of livelihood in Bangladesh.

While the government is striving to contain the virus, emphasis should be directed more to augment immunity. Given the resource availability and a weak and inadequate healthcare system to deal with the pandemic, Bangladesh may default into building up some kind of ’herd immunity', so more people become immune to the virus, thus reducing transmission. This can be done by managing rather than defeating the virus enabling the country to begin to open up.

In fact, epidemics of the size of Covid-19 have huge economic impacts in terms of managing the health crisis and containing the virus while trying to keeps the economy functioning. According to the Bangladesh Bureau of Statistics (BBS), 20.5 per cent of the population live below the poverty line that is about 34 million people and 85.1 per cent of work forces are employed in the informal sector that is about more than 50 million people. Most of these workers in the informal sector are also unemployed. Now the pandemic has further worsened their employment prospects. It is now estimated that the pandemic has rendered 80 per cent workers unemployed in the informal sector. Only 6 million people are employed in the formal sector, largely in manufacturing.
Over the last decade, the economy has been growing at around 7 per cent per annum, yet 20 per cent of the population earn less than US$5.00 a day, 9.2 per cent of employed in the country earn less than US$1.90 a day and only 15 per cent of Bangladeshi workers earn over US$6.00 a day. This is the pre-pandemic

employment and wages situation in the country. Now the situation has worsened significantly.

Nearly 10 million Bangladeshis are working in foreign countries, mostly in the Gulf countries. Now the depressed oil prices affecting the Gulf States and lockdowns imposed in Europe since April are already causing serious economic slowdown in these countries having a negative impact on expatriate Bangladeshi workers abroad.

On May, 9, the World Health Organization (WHO) declared that the pandemic situation globally was 'worsening'. Amid this worsening global pandemic situation, the World Bank (WB) in its updated Global Economic Prospects Report projected that the global economy would contract 5.2 per cent this year (2020) and suggested a further downward revision was possible. That will cause the deepest recession since a 13.8 per cent global economic contraction in 1945-46 at the end of the World War II.

Economic slowdown in Europe and North America is of particular concern for Bangladesh as these are the principal markets for Bangladesh's principal export product -- readymade garments (RMG). These two regions are also expected to continue to slow down at least for next six months or more and that has implications for 4 million workers in the RMG industry in Bangladesh.
Also, RMG generates close to $30 billion in exports accounting for 83 per cent of total exports and 14 per cent of GDP. Now the industry is in deep crisis as exports plummet due to the cancellation of purchase orders from Europe and North America. According to the Financial Express of May 9, merchandise exports dropped by 61.57 per cent equivalent to $1.46 billion in May this year compared to the same month last year (2019).

Remittances from Bangladeshi workers accounted for $15.5 billion to the national economy in 2018. Now host countries in Europe and the Middle-East are themselves facing economic slowdown causing large-scale layoffs of migrant worker. Most of them are now returning home to Bangladesh and on return heading towards their country homes exacerbating the health crisis.
Bangladesh has a greater reliance on trade relative to the other countries in the region, making the country more exposed to changes in the global economic environment due the current pandemic. The impact on the Bangladesh economy due to fall in export earnings from RMG and other exports and also fall in remittances is likely to be very significant. Importantly, foreign exchange earnings of the country are expected to drop by about 25 per cent which in monetary terms is estimated at more than $4 billion.

In early March, the Asian Development Bank (ADB) estimated that the Bangladesh economy would contract by 1.1 per cent wiping $3.02 billion off its GDP. The World Bank (WB) and the International Monetary Fund (IMF) predicted a decline of just over 2 per cent during the current fiscal year. Their prediction appears to be fairly realistic given the rising numbers Covid-19 infections and fatalities the country is currently experiencing and the reimposition of lockdowns. The Economic Intelligence Unit (EIU) estimate is even direr, predicting a decline of 4 per cent of Bangladesh GDP next year.

Bangladesh is now categorized as a least developed country (LDC). But the last three decades have been marked by the country achieving significant economic growth and poverty reduction. In recent time the rate of growth has been hovering around 7-8 per cent per annum which has propelled Bangladesh to be eligible to become a developing country by next year (2021). Now the economic downturn caused by the Covid-19 pandemic is likely to put that aspiration on hold.

Faced with the looming economic crisis, on March 25, Prime Minister Sheikh Hasina announced a bailout/stimulus package of Tk. 50 billion ($600 million) to support export oriented industries. The Prime Minister on April, 5, further announced another stimulus package of TK 67.7 billion. Taken together these stimulus packages account for about 3 per cent of GDP. The IMF also provides a loan of $732 million. But even well designed stimulus packages can be rendered ineffective, if Bangladesh cannot overcome and go past the all-pervasive systemic barriers in utilising the stimulus packages.

So far, there have been no runs on basic essentials of life in Bangladesh as happened in many other countries. Bangladesh also has greater social resilience than richer countries. People in Bangladesh, in general, rely less on the state and have far more experience in dealing with natural disasters. Also, strong social bonds provide help to people to weather through difficult times. Bangladesh is also food self-sufficient largely helped by high tariff barriers. The country also has a long established government supported food distribution system geared for the poor. As such makes the country more resilient to disruptions in global food supply chains.

Although health crisis may last for a while, the economic crisis that the pandemic has caused will outlive it and last for several years, may even last for a decade or more. A report published by the International Labour Organisation (ILO) last month (May, 2020) concluded that the economic effect of the pandemic was delivering a 'triple shock' to young people by destroying their jobs, disrupting their education and training and creating obstacles to seek or move between jobs.

In fact, the pandemic is creating a 'lockdown generation' of young people. That made Director General of the ILO, Guy Ryder to comment 'if we do not take significant and immediate action to improve the situation, the legacy of the virus could be with us for decades'. The prognosis is rather quite dire. There is now a growing fear that Bangladesh may risk a massive reversal of economic gains made over the last three decades, more alarmingly an entire generation may be lost, if not in lives, but in opportunities and dignity.

Economic downturns (recessions) are fundamentally cyclical, not structural, yet the boundary between the two can be blurred. Quite often a cyclical downturn can rebound with a structural overhang causing households' willingness and ability to spend or borrow being structurally impaired as was the case with the US economy as it recovered from the GFC. This was equally true of businesses to invest.

Also, recessions are caused by demand deficiencies, but this time it has been caused by the pandemic leading to a supply shock negatively impacting both household and business expenditures. The current economic crisis is still in its early stage, but the fear is that it will be as severe as the 'Great Depression' of 1929-33, affecting the global economy. Bangladesh is now faced with battling both the pandemic and its economic fallout. In such a situation economic risks are not only limited to short term, but also extend to major future productivity losses both through labour and capital. The economic crisis is likely to trigger a series of corporate and household debt defaults turning into a financial crisis as well.

Bangladesh has already initiated fiscal responses to mitigate the emerging crisis but the stimulus packages do not look robust enough to meet the current needs. Bangladesh now has a relatively low debt/GDP ratio but that may reverse as output falls sharply and deficit grows. That may make the government hesitant to undertake any robust stimulus initiatives. However, the national budget of 2020-21 has allocated TK386.88 billion stimulus package (FE, June, 12). While business leaders welcomed the budget, but they remain unconvinced about its implementation of the package (FE, May 12). However, surprisingly there was no reason/s advanced for their scepticism.

Bangladesh is now facing a critical period in its economic history and there is not much space for exercising fiscal prudence at this critical point in time. Fiscal policy will have to play a far more decisive and significant role in view of the fact that the scope for using monetary policy to stimulate the economy has become ineffective despite falling real interest rates. As the economic recovery process can turn out be a long drawn-out process, the government must continue with the fiscal stimulus until recovery is assured.

2.1.3 Regulatory Risk Analysis

As part of regulatory risk analysis, ACRSL considers the following factor:

IDRA's recent circulars, particularly withdrawing all special premium rates since august 2011 have created strong reaction from the large clients. It has also created significant aversion among the large clients. At present large clients are reviewing their insurance position and inclined to go for minimum insurance covers to keep their insurance costs down. As a result, this may negatively affect the growth of general insurance in Bangladesh.

2.2 COMPANY SPECIFIC RISK ANALYSIS

2.2.1 Management Analysis

Effective and efficient management have been the key to PICL's growth and the company's present market position. ARGUS Credit Rating Services Limited (ACRSL) looks at the following factors as part of management analysis in order to determine SIL's business mix, operating efficiency, and overall strengths:

i. Organizational structure
ii. Dependence of management team on one or more person
iii. Coherence of the team
iv. Independence of the management from the Board of Directors
v. Good track record of the management to date

2.2.2 Internal Controls and Risk Management

Insurance business involves assumption of risks of many types – physical as well as moral. Physical risks are identified as those caused by natural catastrophes, accidental losses and manmade disasters. The key to proper management of insurance business risks is to endure proper selection of risks as well as of the client through a vetting process known as underwriting. General insurance companies closely follow country's economic development and any slowdown in the economic activities as these has adverse impact on the insurance industry's growth. PICL, being aware of these business risks, practices the following to protect its interests:

- Selection of risks which have the potential of making underwriting profit
- Diversification into many segments of business – product wise as well as client wise.
- The company maintains a conservative reserving policy and its various technical reserves have been created to adequately cater to unforeseen development in the future.

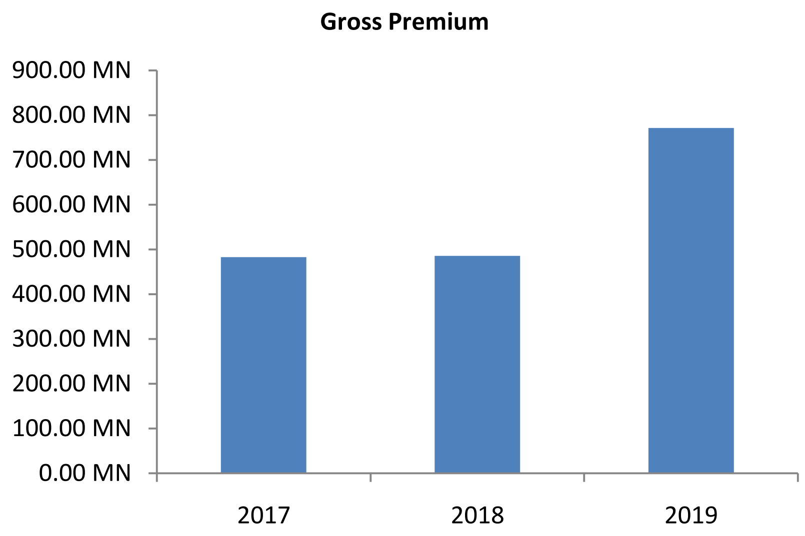
3 FINANCIAL RISK ANALYSIS

3.1 Operating Performance Analysis

Indicators	2017	2018		2019		Observations	Bias
Gross Premium Growth	8.87%	0.59%	↑	58.97%	↑	Gross premium growth of PICL demonstrated an increasing trend in recent year.	Positive
Net Premium Growth	8.89%	(2.96%)	↓	68.44%	↑	Net premium growth of PICL demonstrated a fluctuating and overall an increasing trend	Positive
Claims Ratio	50.74%	40.15%	↓	24.24%	↓	Claims ratio of PICL demonstrated a decreasing trend in recent year.	Neutral
Expense Ratio	37.34%	53.32%	↑	52.68%	↓	Expense ratio of PICL demonstrated a fluctuating trend over the last 3 years.	Neutral
Combined Ratio	88.58%	93.74%	↑	76.93%	↓	Combined ratio of PICL demonstrated a fluctuating trend over the last 3 years.	Neutral
Retention Ratio	80.96%	78.11%	↓	82.76%	↑	Retention Ratio of PICL demonstrated a fluctuating trend.	Positive

3.1.1 Gross Premium

	FY17	FY18	FY19
Gross Premium (in BDT)	482.60 MN	485.42 MN	771.66 MN

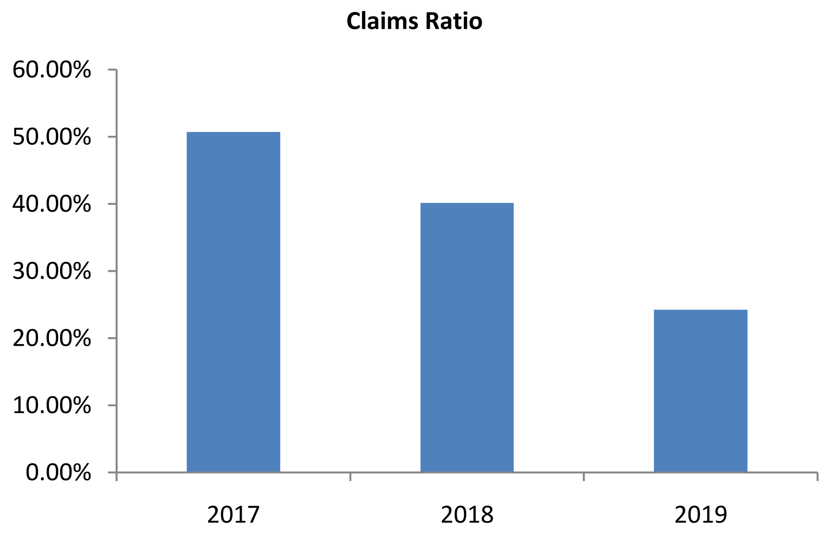


Historical Trend: Between FY17 to FY19, PICL's gross premium demonstrates an increasing trend. The gross premium of PICL increased from BDT 482.60 MN in FY17 to BDT 485.42 MN in FY18 and further increased to BDT 771.66 MN in FY19,representing a CAGR of 26.45%.

Looking forward: ACRSL has a positive bias on PICL's gross premium trajectory. PICL's management assumes that their qualified marketing team will be able to increase its present market share.

3.1.2 Claims Ratio

	FY17	FY18	FY19
Claims Ratio	50.70%	40.15%	24.24%

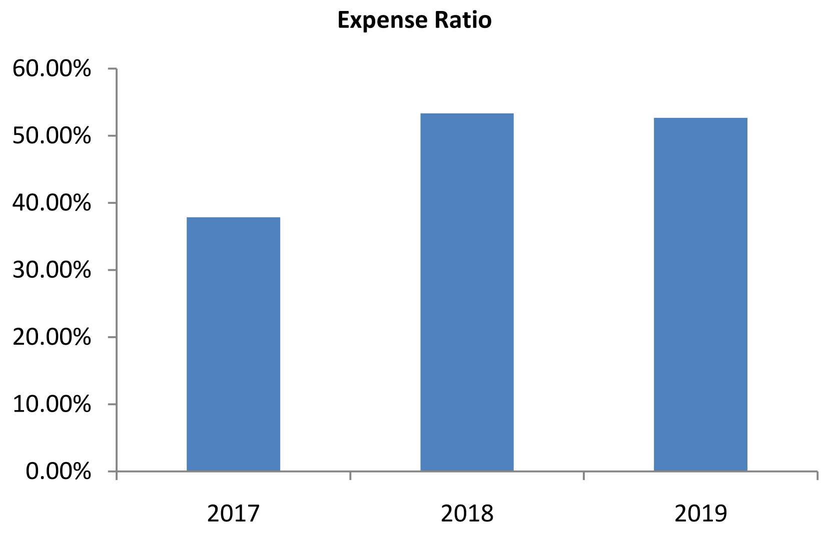


Historical Trend: Historically, PICL's claims ratio demonstrates a decreasing trend , which is positive in our view. The claims ratio of PICL stood at 50.70% in FY17 which decreased to 40.15% in FY18 and remained 24.24% in FY19.

Looking forward: ACRSL has a positive bias on PICL’s claims ratio for FY20. Given the increasing gross premium the company should be able to diversify its underwriting risk based on regular survey and other risk management tools. However, we note that the company’s claims ratio is also affected by disaster, accident, and other natural causes, which are notoriously difficult to predict.

3.1.3 Expense Ratio

	FY17	FY18	FY19
Expense Ratio	37.84%	53.32%	52.68%



Historical Trend: Historical Trend: Between FY17 to FY19, PICL's expense ratio demonstrates a fluctuating trend. During FY17-FY19, expense ratio increased from 37.84% in FY17 to 53.32% in FY18. Subsequently, during the period FY18-FY19, the expense ratio slightly decreased to 52.68%.

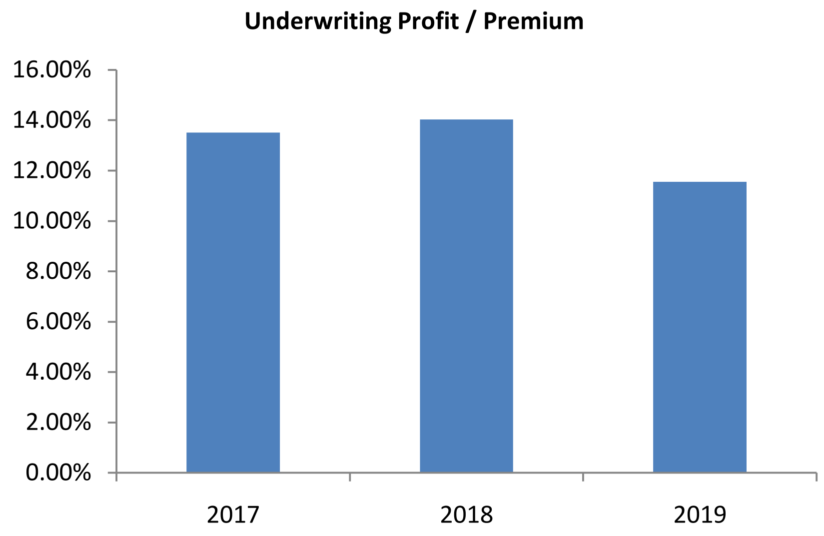
Looking Forward: ACRSL has a positive bias on PICL's expense ratio for FY18. Given the historical trend, ACRSL research projects that PICL's management expense ratio will follow a gradual decreasing trend.

3.2 Profitability Analysis

Indicators	2017	2018		2019		Observations	Bias
Underwriting Profit / Premium	13.51%	14.04%	↑	13.51%	↓	Underwriting profit to premium demonstrates a fluctuating trend	Neutral
Investment Yield	6.86%	6.36%	↓	5.66%	↓	Investment Yield of PICL has demonstrated a decreasing trend during last three years	Neutral
Net Profit / Premium	13.20%	13.90%	↑	11.06%	↓	Net profit to premium of PICL demonstrates a fluctuating trend over the last 3 years.	Neutral
Net Profit / Total Income	11.68%	12.18%	↑	10.06%	↓	Net profit to total income of PICL demonstrates a fluctuating trend over the last 3 years.	Neutral
ROE	10.31%	10.08%	↓	12.56%	↑	ROE has demonstrates a fluctuating trend over the last 3 years.	Neutral
ROA	5.06%	5.63%	↑	6.62%	↑	ROA has demonstrates an increasing trend over the last 3 years.	Positive

3.2.1 Underwriting Profit / Premium

	FY17	FY18	FY19
Underwriting Profit / Premium	13.51%	14.04%	11.56%



Historical Trend: PICL historically has maintained a fluctuating trend underwriting profit to net premium ratio. During FY17-FY18, the ratio slightly increased from 13.51% to 14.04%. Subsequently, the ratio further decreased to 11.56% in FY19.

Looking Forward: ACRSL has a neutral bias on SIL's underwriting profit to premium ratio for FY20 and onwards. We anticipate, PICL will be able to increase its net premium in FY20 and report a stable net claim amount.

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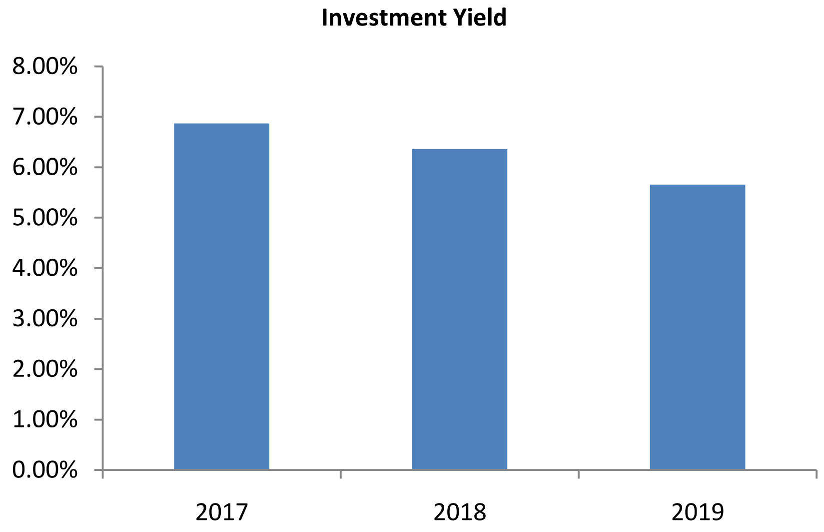
3.2.2 Investment Yield

	FY17	FY18	FY19
Investment Yield	6.87%	6.36%	5.66%

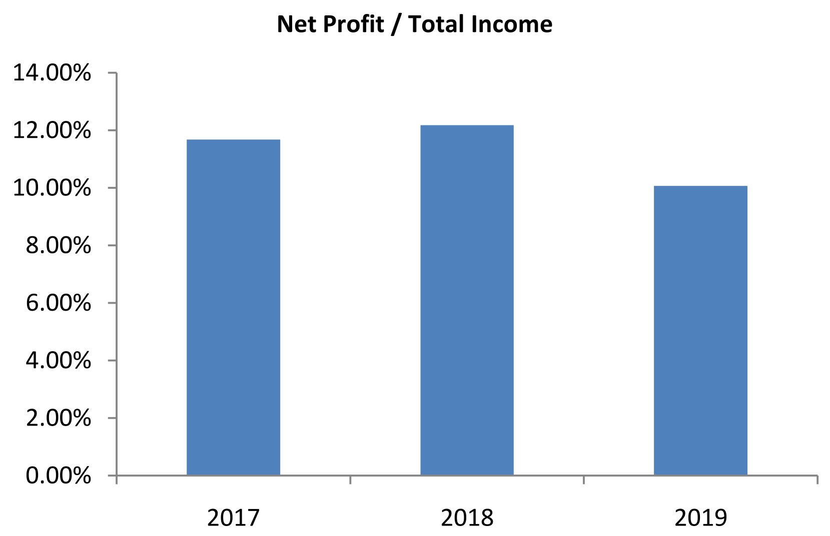


Historical Trend: Historically PICL has maintained a moderate investment yield. During FY17-FY18, the ratio decreased from 6.87% to 6.36%.Subsequently in FY19, yield from investment decreased to 5.66%.

Looking Forward: ACRSL has a Neutral bias on PICL's investment yield for FY20. PICL has already absorbed the shock of stock market collapse; we are expecting that the company will be able to report better income from share market going forward. We anticipate PICL will be able to increase its investment income to some extent in FY20.

3.2.3 Net Profit / Total Income

	FY17	FY18	FY19
Net Profit / Total Income	11.68%	12.18%	10.06%



Historical Trend: PICL historically has demonstrated a fluctuating net profit to total income ratio. The ratio of PICL increased from 11.68% in FY17 to 12.18% in FY18. Subsequently it decreased to 10.06% in FY19.

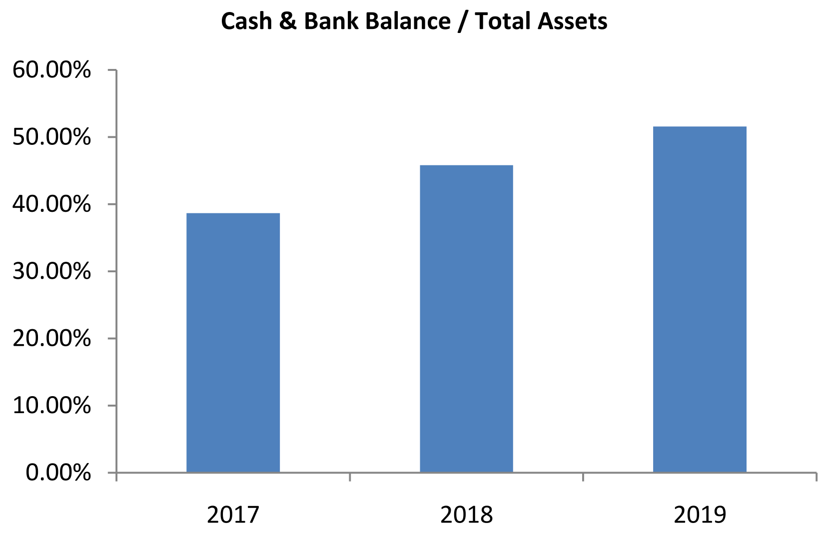
Looking Forward: ACRSL has a neutral bias on PICL's net profit to total income ratio for FY20. We anticipate PICL will be able to lessen its agency commission and management expense, as the regulatory authority IDRA said no extra commission for insurance going forward; which may increase its net profit after tax in the coming years.

3.2.4 Liquidity Analysis

Indicators	2017	2018		2019		Observations	Biased
Cash & Bank Balance / Total Assets	38.69%	45.83%	↑	51.56%	↑	Cash & bank balance to total assets demonstrates an increasing trend over the last three years	Positive
Liquid Asset / Net Claim	2.19x	3.05x	↑	3.80x	↑	Liquid asset to net claim demonstrates an increasing trend during last three years	Positive
Overall Liquidity	2.81x	3.58x	↑	4.28x	↑	Overall liquidity of PICL demonstrates an increasing trend	Positive

3.2.5 Cash & Bank Balance / Total Assets

	FY17	FY18	FY19
Cash & Bank Balance / Total Assets	38.69%	45.83%	51.56%

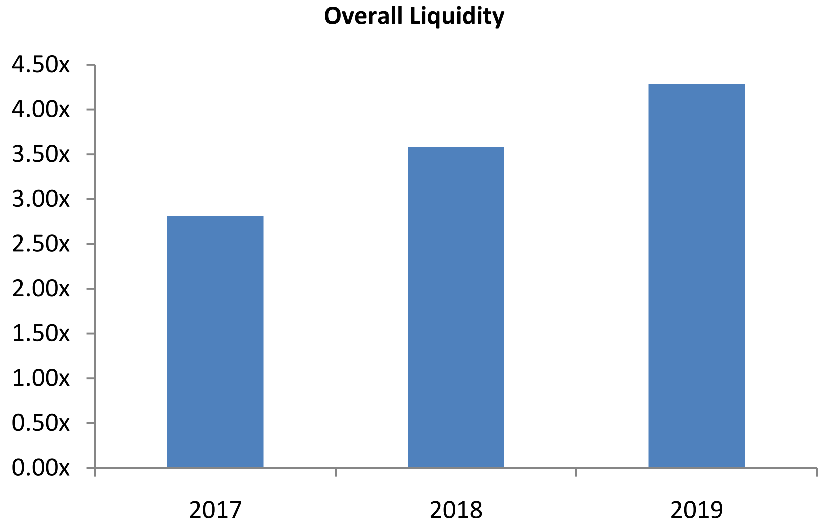


Historical Trend: Historically, PICL has maintained a high cash & bank balance to total assets, which is positive. During last three years, the ratio demonstrates an increasing trend. The ratio of PICL increased from 38.69% in FY17 to 45.83% in FY18. Subsequently, the ratio increased to 51.56% in FY19.

Looking Forward: ACRSL has a positive bias on PICL's cash & bank balance to total assets ratio for FY20.We are assuming that PICL will be able to report positive growth in net premium, thus, balance of funds will increase. Therefore, we are expecting PICL to report an increasing balance of funds to total assets ratio in the near future

3.2.6 Overall Liquidity

	FY17	FY18	FY19
Overall Liquidity	2.81x	3.58x	4.28x



Historical Trend: Historically, PICL has maintained a high overall liquidity ratio, which is positive. During the last three years, the ratio demonstrates an increasing trend. The ratio of PICL increased from 2.81x in FY17 to 3.58x in FY18 and further increased to 4.28x in FY19.

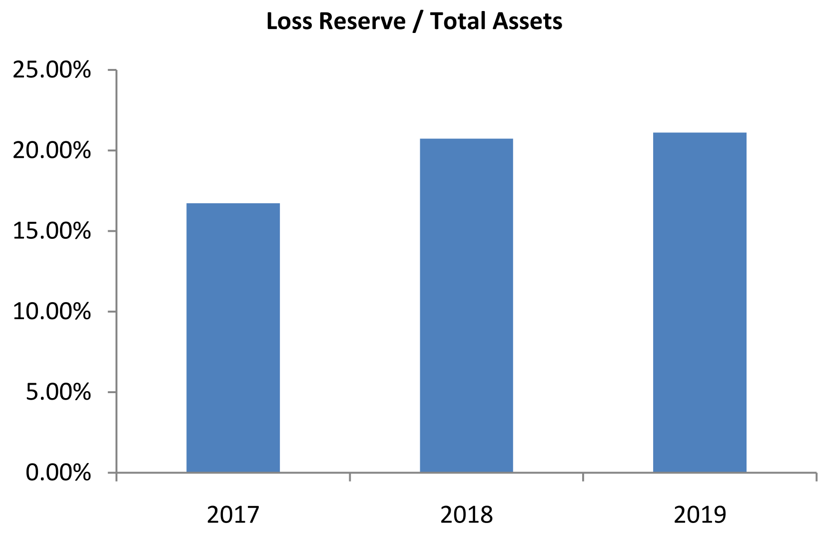
Looking Forward: ACRSL has a positive bias on PICL's overall liquidity ratio for FY20. Given insurance business's unpredictable liabilities demand. We are assuming that PICL's net liabilities will be within a stable range in the near future. Hence, we are expecting PICL to report a stable overall liquidity ratio going forward.

3.3 BALANCE SHEET ANALYSIS

Indicators	2017	2018		2019		Observations	Bias
Net Premium / Total Equity	78.10%	72.57%	↓	113.52%	↑	Net premium to total equity demonstrates a fluctuating and overall in increasing trend	Positive
Net Liabilities / Total Equity	72.40%	50.00%	↓	44.32%	↓	Net liabilities to total equity demonstrates a decreasing trend over the last 3 years	Positive
Loss Reserve / Total Assets	16.72%	20.73%	↑	21.10%	↑	Loss reserve to total assets demonstrates an increasing trend	Positive
Balance of Funds / Total Assets	15.35%	16.22%	↑	23.24%	↑	Balance of funds to total assets demonstrates an increasing trend	Neutral
Total Asset Growth	13.99%	20.96%	↑	7.51%	↑	Total asset growth of PICL demonstrated an increasing trend over the last 3 years	Positive

3.3.1 Loss Reserve / Total Assets

	FY17	FY18	FY19
Loss Reserve / Total Assets	16.72%	20.73%	21.10%

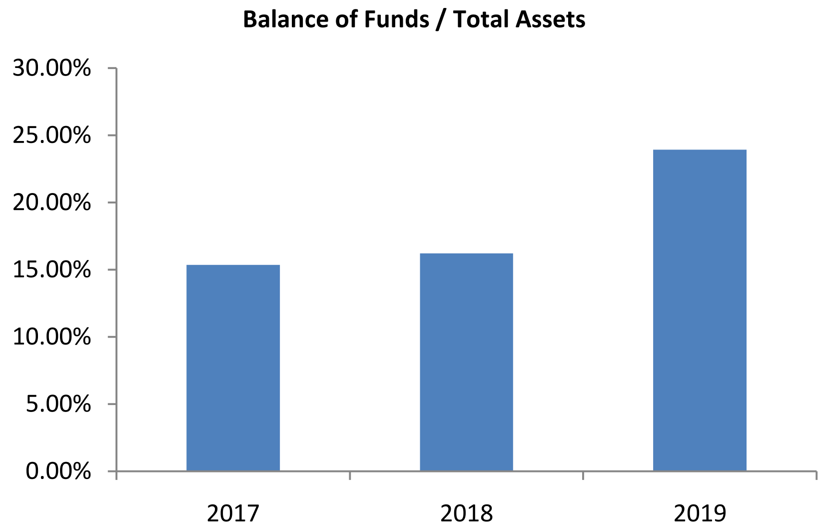


Historical Trend: Historically, PICL has maintained high loss reserve to total assets ratio which is positive . During the last three years, the ratio demonstrates an increasing trend. Between FY17-FY18, the ratio increased from 16.72% to 20.73%. Subsequently, during FY18-FY19, the ratio slightly increased to 21.10%.

Looking Forward: ACRSL has a positive bias on PICL's loss reserve to total assets ratio for FY20. We anticipate PICL will be able to increase its net premium going forward, hence, a portion of net premium will be added to loss reserve to enjoy the related tax rebate. Therefore, we are expecting PICL to report a stable loss reserve to total assets ratio.

3.3.2 Balance of Funds / Total Assets

	FY17	FY18	FY19
Balance of Funds / Total Assets	15.35%	16.22%	23.94%



Historical Trend: Historically, PICL has maintained sufficient balance of funds to total assets ratio. During the last three years, the ratio demonstrates an increasing trend. The ratio of PICL increased from 15.35% in FY17 to 16.22% in FY18. Subsequently in FY19 the ratio increased to 23.94%.

Looking Forward: ACRSL has a positive bias on PICL's balance of funds to total assets for FY20. We are assuming that PICL will be able to report positive growth in net premium, thus, balance of funds will increase. Therefore, we are expecting PICL to report an increasing balance of funds to total assets ratio in the near future.

4 CORPORATE GOVERNANCE

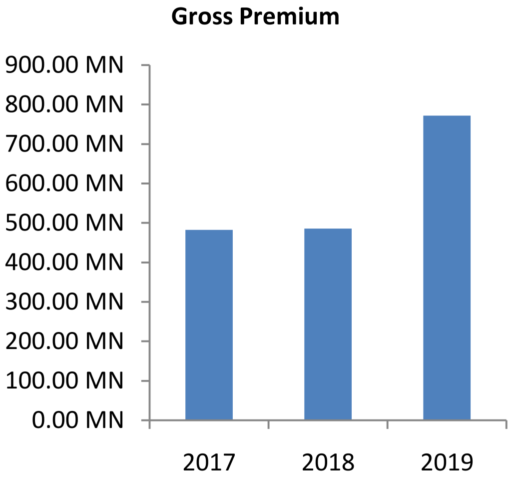
Board Practice	Presence/Absence
Existence of Board Charter	Present
Existence of Committees for audit and remuneration	Present
Separate CEO and Chairperson	Present
Procedures to review/address external audit findings	Present

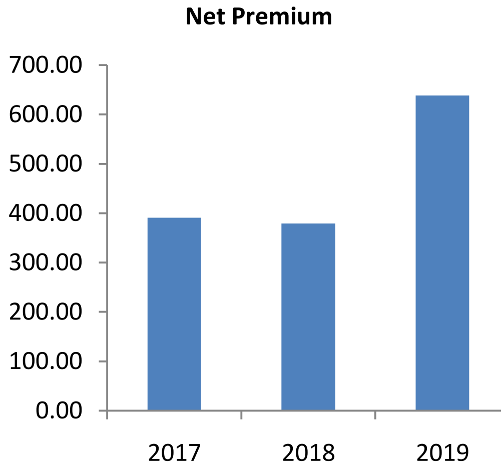
Code of Ethics/Conduct	Presence/Absence
Commitment to legal and regulatory compliance	Present
Policies to prohibit facilitation payments and bribes	Present
Guidelines on giving and receiving gifts	Absent
Training and/or communication on code of ethics	Present

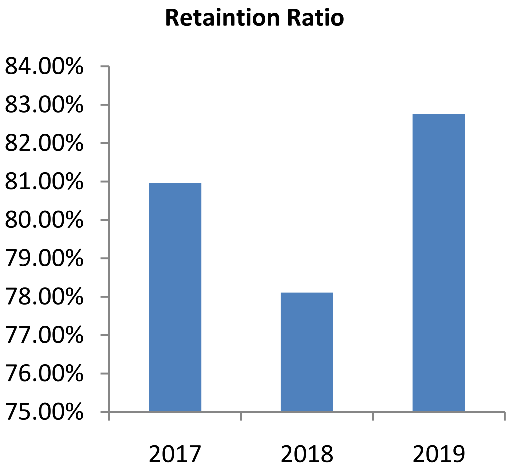
Business Value and Risk Management	Presence/Absence
Demonstrated commitment to work towards long term sustainability	Present
Demonstrated commitment to address social, ethical and environment	Present
Procedures to identify potential risks and opportunities	Present
Risk Management and Internal Control Systems	Present
Research and Development Team	Present

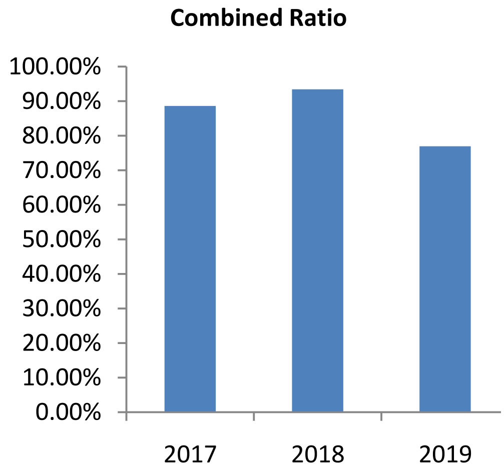
5 CHARTS

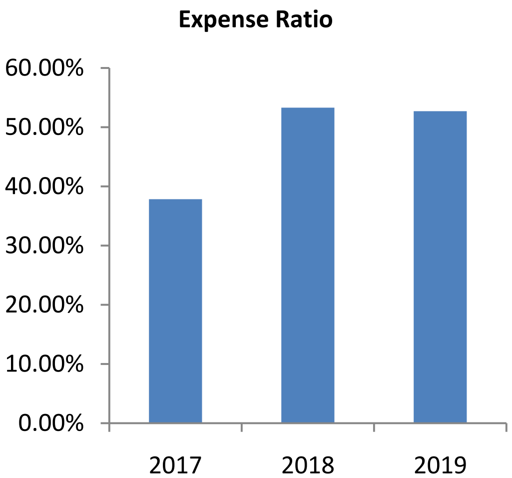
5.1 Operating Performance Analysis

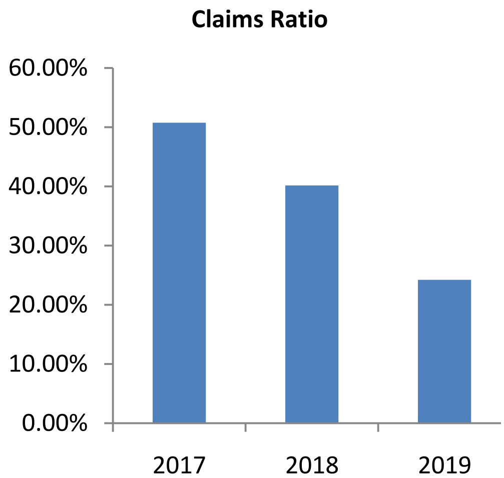




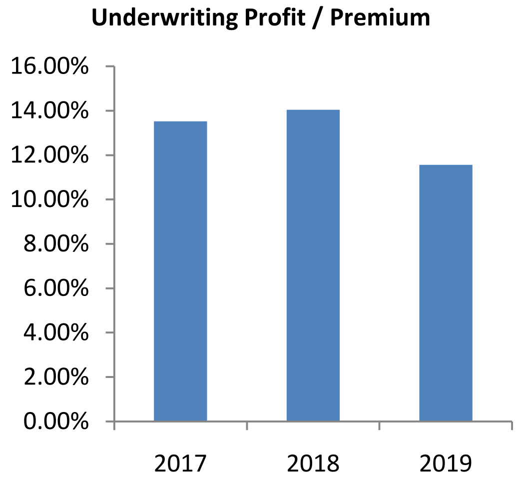


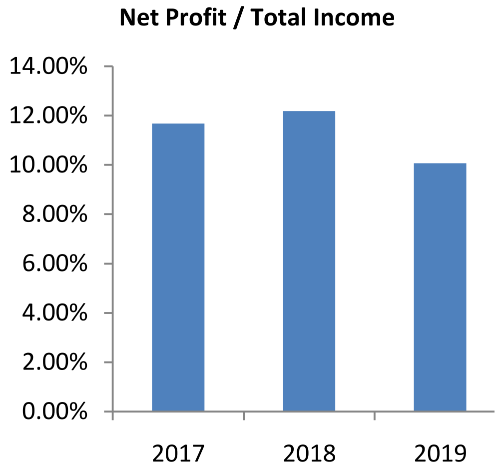


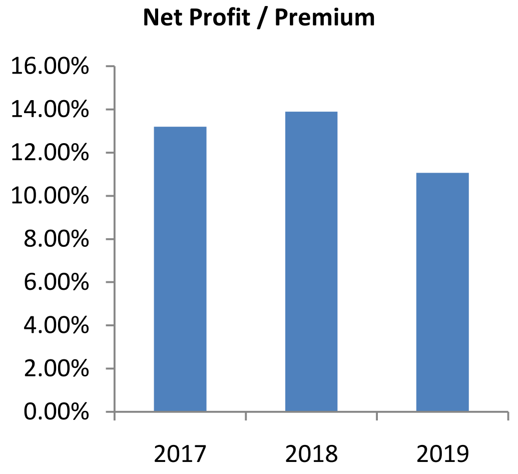




5.2 PROFITABILITY ANALYSIS

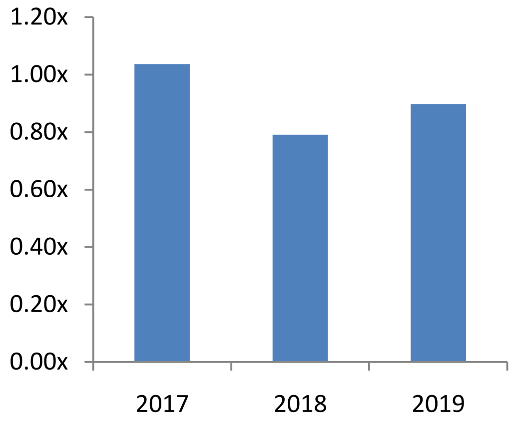




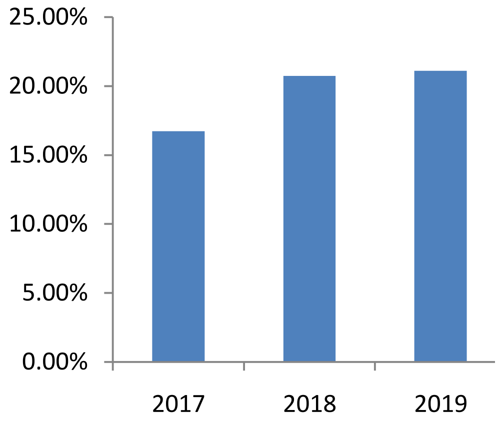


5.3 Balance Sheet Analysis

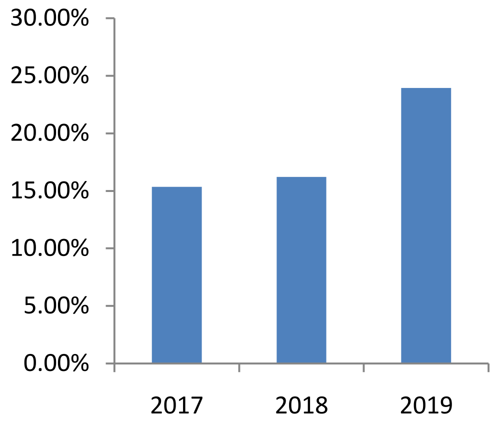
Total Liabilities to Total Equity



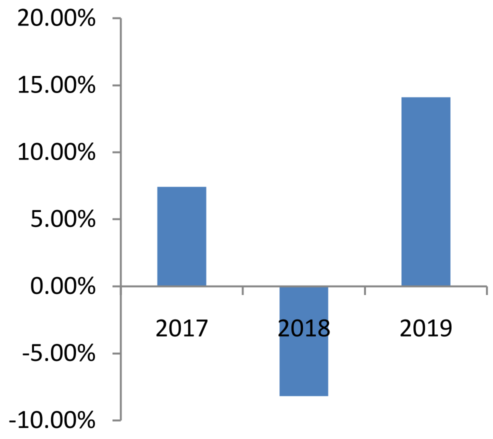
Loss Reserve / Total Assets



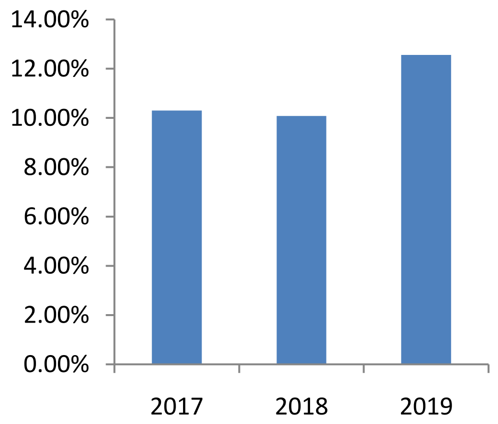
Balance of Funds / Total Assets



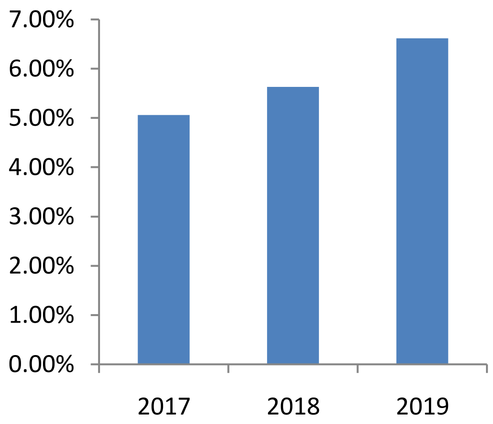
Total Asset Growth



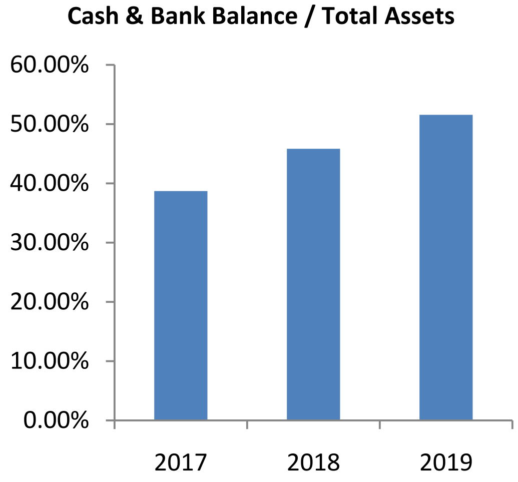
ROE

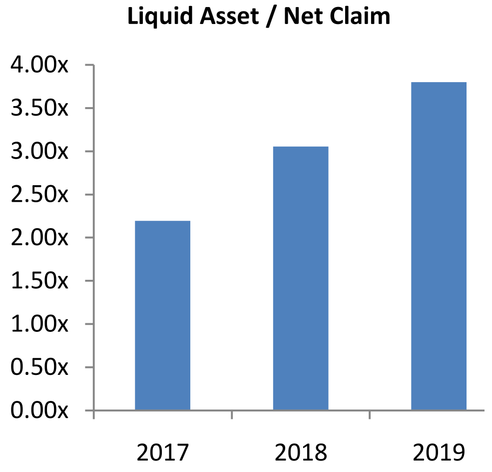


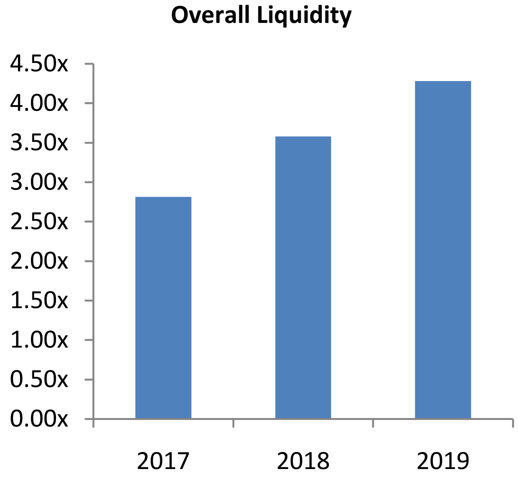
ROA



5.4 Liquidity Analysis







Appendix A: Summary of Financial Metrics

*in BDT MN

Balance Sheet Metrics	2017	2018	2019
Paid-Up Capital	297.03	297.03	297.03
Total Reserve	170.33	193.88	225.24
Total Equity	500.27	522.48	562.54
Balance of Funds	156.36	151.68	255.48
Liabilities & Provisions	331.99	244.76	192.10
Investments	40.54	36.35	37.82
Cash & Bank Balance	394.14	428.71	550.33
Fixed Assets	143.28	147.13	146.99
Total Assets	**1,018.83**	**935.38**	**1,067.33**

Income Statement Metrics	2017	2018	2019
Interest Income	22.94	25.81	30.93
Investment Income	6.69	3.38	1.77
Net Premium	390.69	379.14	638.62
Net Claims	198.23	152.24	154.81
Commission	72.39	72.81	115.75
Management Expenses	75.45	129.33	220.71
Underwriting Profit	52.80	53.22	73.83
Net Profit Before Tax	68.99	69.71	91.96
Net Profit After Tax	51.56	52.68	70.66

Consolidated Rev. Account Metrics	2017	2018	2019
Gross Premium	482.60	485.42	771.66
Re-insurance Premium	91.91	106.28	133.04
Net Premium	390.69	379.14	638.62
Commission on Re-insurance	20.98	23.79	30.28
Agency Commission	72.39	167.69	181.46
Last year's Unexpired Risk	143.56	156.36	151.68
Net Claims	198.23	152.24	154.81
Management Expenses	75.45	129.33	220.71
Reserve for Unexpired Risk	156.36	151.68	255.48
Underwriting Profit	52.80	53.22	73.83

Source: PICL Annual Reports FY17 to FY19

Appendix B: Summary of Analytics

Indicators	2017	2018	2019
Total Income Growth	8.94%	-2.04%	62.34%
Gross Premium Growth	8.87%	0.59%	58.97%
Net Premium Growth	8.89%	-2.96%	68.44%
Retention Ratio	80.96%	78.11%	82.76%
Claims Ratio	50.74%	40.15%	24.24%
Expense Ratio	37.84%	53.32%	52.68%
Combined Ratio	88.58%	93.47%	76.93%
Underwriting Profit / Premium	13.51%	14.04%	11.56%
Investment Yield	6.87%	6.36%	5.66%
Net Profit / Premium	13.20%	13.90%	11.06%
Net Profit / Total Income	11.68%	12.18%	10.06%
Net Profit Growth	1.66%	2.18%	34.12%
Cash & Bank Balance / Total Assets	38.69%	45.83%	51.56%
Liquid Asset / Net Claim	2.19x	3.05x	3.80x
Overall Liquidity	2.81x	3.58x	4.28x
Net Premium / Total Equity	78.10%	72.57%	113.52%
Net Liabilities / Total Equity	72.40%	50.00%	44.32%
Total Liabilities / Total Equity	103.66%	79.03%	89.73%
Loss Reserve / Total Assets	16.72%	20.73%	21.10%
Balance of Funds / Total Assets	15.35%	16.22%	23.94%
Investments in Share / Total Assets	3.11%	2.17%	2.28%
Total Asset Growth	7.42%	-8.19%	14.11%
ROA	5.06%	5.63%	6.62%
ROE	10.31%	10.08%	12.56%

Source: ACRSL Research

APPENDIX C: LONG TERM RATING DETAILS

ACRSL INSURANCE RATINGS (LONG TERM)

Rating	Definition
AAA Triple A (Highest Safety)	Highest claims paying ability. Risk factors are negligible and almost risk free.
AA+, AA, AA- Double A (Very High Safety)	Very high claims paying ability. Protection factors are strong. Risk is modest, but may vary slightly over time due to underwriting and/or economic condition.
A+, A, A- Single A (High Safety)	High claims paying ability. Protection factors are good and there is an expectation of variability in risk over time due to economic and/or underwriting conditions.
BBB+, BBB, BBB- Triple B (Adequate Safety)	Good claims paying ability. Protection factors are good. Changes in underwriting and/or economic conditions are likely to have impact on capacity to meet policyholder obligations than insurers in higher rated categories.
BB+, BB, BB- Double B (Moderate Safety)	Average claim paying ability. Protection factors are average. The companies are deemed likely to meet these obligations when due. But changes in underwriting and/or economic conditions are more likely to weaken the capacity to meet policyholder obligations than insurers in higher rated categories.
B+, B, B- Single B (Inadequate Safety)	Inadequate Claim paying ability. Protection factors are weak. Changes in underwriting and/or economic conditions are very likely to further weaken the capacity to meet policyholder obligations than insurers in higher rated categories.
CCC+, CCC, CCC- Triple C (Risky)	Uncertain claims paying ability. The companies may not meet these obligations when due. Protection factors are very weak and vary widely with changes in economic and/or underwriting conditions.
CC+, CC, CC- Double C (Vulnerable)	Poor claims paying ability. Adverse underwriting or economic conditions would lead to lack of ability on part of insurer to meet policyholder obligations.
C+, C, C- Single C (Near to Default)	Very high risk that policyholders obligations will not be paid when due. Present factors cause claim paying ability to be vulnerable to default or very likely to be default. Timely payment of policyholder obligations possible only if favorable economic and underwriting conditions emerge.
D Single D (Default)	Insurance companies rated in this category are adjudged to be currently in default or likely to be in default soon.

APPENDIX D: SHORT TERM RATING DETAILS

ACRSL INSURANCE RATINGS (SHORT TERM)

ST-1	**Highest Grade** Very high claims paying ability. Protection factors are strong. Risk is modest, but may vary slightly over time due to underwriting and/or economic condition.
ST-2	**High Grade** High claims paying ability. Protection factors are good and there is an expectation of variability in risk over time due to economic and/or underwriting conditions.
ST-3	**Good Grade** Good claims paying ability. Protection factors are good. Changes in underwriting and/or economic conditions are likely to have impact on capacity to meet policyholder obligations than insurers in higher rated categories.
ST-4	**Satisfactory Grade** Average claim paying ability. Protection factors are average. The companies are deemed likely to meet these obligations when due. But changes in underwriting and/or economic conditions are more likely to weaken the capacity to meet policyholder obligations than insurers in higher rated categories.
ST-5	**Non-Investment Grade** Inadequate Claim paying ability. Protection factors are weak. Changes in underwriting and/or economic conditions are very likely to further weaken the capacity to meet policyholder obligations than insurers in higher rated categories
ST-6	**Default** Insurance companies rated in this category are adjudged to be currently in default.