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Credit Rating Report

Provati Insurance Company Limited

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| | |
|------------------------|---|
| Ref No | ACRSL33943/23 |
| 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 Publishing Date | 13-Sep-2023 |
| Rating Validity | 13-Sep-2024 |
| Nature of Rating | Surveillance |
| Analyst(s) | ACRSL Analyst Team |
| Committee(s) | ACRSL Rating Committee |

RATINGS SUMMARY

| Long-Term | Short-Term | Outlook |
|-----------|------------|---------|
| AAA | ST-2 | Stable |

RATINGS EXPLANATION

| | |
|------|---|
| AAA | Long Term: Highest claims paying ability. Risk factors are negligible and almost risk free. |
| 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 FY22 [Ending December 31] audited balance sheet and that management has disclosed all material and adverse to financials since FY20.

EXECUTIVE SUMMARY:

Strengths:

- **PICL has a strong customer base and wide branch network which provide stable revenue source for the company** and help to increase its number of customer, branch and also to build good and long lasting relationship with customers. This captive customer base consists from different established sectors like Banks and NBFIs, Garments, Textile, Food industry and so on. The company holds many captive clients such as Walton Group, Rahmat Group, Bashundhara Group, Abdul Monem Ltd., Energy Pac, Beximco Limited and so on. This strong customer base and wide branch network help PICL to maintain strong operational and financial growth in FY22.
- **Net premium growth rate:** Financial performance of PICL has been shown a growing trend. Net premium stood at BDT 811.83 MN in FY21 compared to BDT 753.61 million in FY20 representing a growth 7.73%. Later, in FY22 net premium of the company stood at BDT 903.30 MN, representing a YoY growth rate of 11.27% from previous year. Operating income is mainly dominated by Fire, Marine Cargo, and Motor insurance. This growth is continuing over the last three years.
- **PICL has high level of financial flexibility** providing cushion against default. It has diversified revenue sources from multiple sectors and also builds up good reserve against exceptional losses. This contributes to PICL's financial flexibility and strong support base in case of financial stress.

Concerns:

- **ACRSL is concerned regarding the exposure of PICL to the insurance sector.** Insurance sector will be one of the hardest hit sectors of the economy, owing to the broad-based slowdown in the economy as a whole, combined with its exposure to the hardest hit sectors of the economy, such as foreign trades, RMG and especially imports. However, owing to the COVID-19 pandemic and subsequent lockdown, the insurance sector will face an acute crisis on multiple fronts, as gross premium and commissions are likely to deteriorate due to slow economic activities owing to severe foreign currency crisis.

RATING RATIONALE

Key Rating Drivers:

We are assigning a long-term rating of "AAA" and a short-term rating of "ST-2" to Provati Insurance Company Limited (hereafter "the company" or "PICL").

- **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 come from Banks and NBFIs, Garments, Textile, Food industry to name a few. Major captive client of the company includes, Walton Group, Rahmat Group, One Group, B.N.S Group, Sheikh Brothers, Nabil Group, Uttara Group, Shanta Group, BBS Cables, Rangdhunu Group, Bashundhara Group, Abdul Monem Limited, Energy Pac, Beximco Limited, 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 networks 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 has increased from BDT 924.58 MN in FY20 to BDT 1056.21 MN in FY21, representing a YoY growth rate of 14.24%. Subsequently in FY22 the Gross premium of the company stood at BDT 1159.84 MN, representing a YoY growth rate of 9.81% due to most of the premium head show positive intensity, 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 from 23.35% in FY20 to 23.60% in FY21, later which increased to 23.76% in FY22. During last three years the ratio showed a positive intensity which indicate financial backup gradually is getting better against the total assets of the company during last three years.
- **PICL's balance sheet profile remained strong with substantial liquid assets providing cushion against claim.** PICL has maintained 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 58.93% in FY20, which slightly decreased to 55.09% in FY21 and steady around 47.10% in FY22.

- **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 2.85x in FY20, which went up to 3.41x in FY21 and further increased to 3.53x in FY22.
- **Overall Liquidity:** Historically, PICL has maintained a sufficient overall liquidity ratio, which is neutral in our view. The ratio stood at 5.37x in FY20 which decreased to 4.79x in FY21 and slightly down to 3.92x in FY22.
- **Balance of Funds / Total Assets:** Historically, PICL's Balance of funds to total assets ratio demonstrated a decreasing trend, but remained at a comfort zone, which is a positive rating factor. The ratio stayed within the range from 26.42% to 22.55% during FY20-FY22.
- **PICL's leverage in terms of Net Liability to Equity remains high over the years.** Over the last three years PICL's Net Liability to Equity ratio demonstrated an increasing trend, and remains high. The ratio was 33.88% in FY20 to 37.49% in FY21, subsequently in FY22 the ratio reached to 49.03%.
 - **Total Liability:** PICL's total liability was BDT 150.54 MN in FY20 to BDT 227.36 MN in FY21 and 343.66 MN in FY22.
 - **Total Equity:** PICL's total equity increased from BDT 627.01 MN in FY20 to BDT 776.33 MN in FY21 and BDT 833.64 MN in FY22.

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.
- **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 vehicles. 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. However, 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 kinds 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 are 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 from FY20-FY22 (ending December 31) and unaudited Q2FY23 financial statements. Projections for until FY23-FY24 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 | Positive |

| | | |
|------------------|---|----------|
| | conflict of interests, as well as fraud at all levels 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 13 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 |
|----------------------------------|------------------|-------------|
| Sponsors & Directors | 12,105,619 | 30.03% |
| General Public | 22,129,067 | 54.89% |
| Company | 5,918,434 | 14.68% |
| Company (Foreign) | 35,960 | 0.09% |
| NRB (Non-Residential Bangladesh) | 118,386 | 0.29% |
| All Investor Accounts | 4,771 | 0.01% |

Table 2 Shareholding Directors are as follows:

| Name | Designation | Share % |
|--------------------------|----------------------|---------|
| Md. Momin Ali | Chairman | 2.02% |
| Maroof Sattar Ali | Vice Chairman | 5.47% |
| Alhaj Mohammed Ali | Director | 2.34% |
| Alhaj Md. Mofizur Rahman | Director | 2.00% |
| Al-Haj Shahdat Hussain | Director | 2.00% |
| Mr. Shahjahan Kabir | Director | 2.01% |
| Abdur Rahman Ansary | Director | 2.00% |
| Sabrina Yeasmin | Director | 2.04% |
| Mr. Pradip Kumar Das | Director | 5.82% |
| Md. Habibur Rahman | Director | 2.00% |
| Md. Mahbubur Rahman, FCA | Independent Director | Nil |

| Name | Designation | Share % |
|---------------------------------|----------------------|---------|
| Professor. Dr. Md. Sayaduzzaman | Independent Director | Nil |
| Habib E Alam Chowdhury | Independent Director | Nil |
| Mohammad Ali Talukder | Sponsor | 2.00% |
| Joarder Nowsher Ali FCA | Sponsor | 0.34% |
| Md. Ruhul Amin FCA | Sponsor | 0.003% |

Source: PICL's Annual Report

1.3 EXECUTIVES OF HEAD OFFICE

| Name | Designation |
|--------------------------------------|--|
| Md. Zahedul Islam (Zahid) | Managing Director |
| Shakawat Hossain Mamun | Additional Managing Director & HIAC |
| Mohammad Nurul Huda Duke | Additional Managing Director & HBD |
| Md. Kabir Hossain, ABIA | Additional Managing Director & HUBC |
| Md. Saiful Islam (Azad) | Deputy Managing Director |
| Lt.Col (R) Md. Faridul Alam, PPM,psc | Asst. Managing Director |
| Md. Mizanur Rahman | Executive Vice President |
| Mahbub-ul-Alam | Executive Vice President |
| Mohammed Serajul Islam | Sr. Vice President & Company Secretary |
| Md. Rafiqul Islam | Sr. Vice President & CFO |
| Md. Karim Ullah | Sr. Vice President & HIT |
| Md. Wahidur Rahman | Vice President |
| Kamal Hossain | Senior Manager |

1.4 OPERATIONS

Provati Insurance Company Limited operates through the Head Office located at Dhaka, Zonal Offices at Chattogram, Rajshahi, Khulna, Rangpur, Mymensingh, Sylhet, Barishal and 61 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 FY22, PICL has 848 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

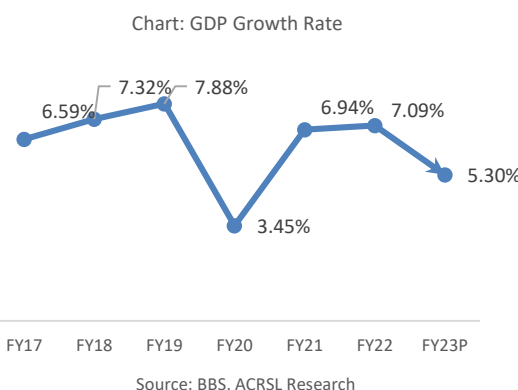
2 FINANCIAL RISK ANALYSIS

2.1 MACROECONOMIC PERFORMANCE

Global Outlook: Global growth is expected to decelerate sharply to 1.7 percent in FY23, overshadowed only by the global recessions caused by the pandemic and the global financial crisis. This is 1.3 percentage points below previous forecasts, reflecting synchronous policy tightening aimed at containing very high inflation, worsening financial conditions, and continued disruptions from Russia's invasion of Ukraine. The combination of slow growth, tightening financial conditions, and heavy indebtedness is likely to weaken investment and trigger corporate defaults. Further negative shocks such as higher inflation, even tighter policy, financial stress, deeper weakness in major economies, or rising geopolitical tensions could push the global economy into recession.

Bangladesh's Economy is expected to grow moderately, in the midst of Global Economic Slowdown

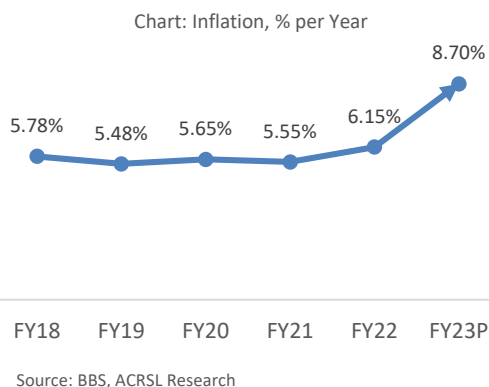
Economic Growth: Bangladesh has made a strong economic recovery from the COVID-19 pandemic, but growth faces new headwinds as global commodity



prices increase amid the uncertainty created by the war in Ukraine. Bangladesh's gross domestic product (GDP) is expected to grow by 5.3% in fiscal year (FY) 2023, according to the latest Asian Development Bank (ADB). The main risk to this growth projection is a greater economic slowdown in Bangladesh's major export destinations driven by global uncertainty over the

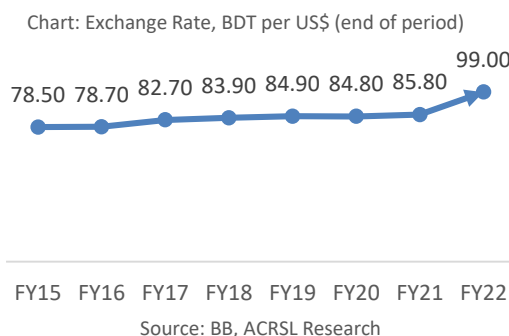
prolonged political tensions. Private investment growth may slow down because of energy shortages and higher production costs. With a shortfall in revenue collection, austerity measures, and depleting foreign exchange reserves, public investment growth may also be slower.

Inflation: In a recent publication by ADB Inflation is expected to accelerate from 6.2% in FY2022 to 8.7% in FY2023 as price pressures increase due to the upward

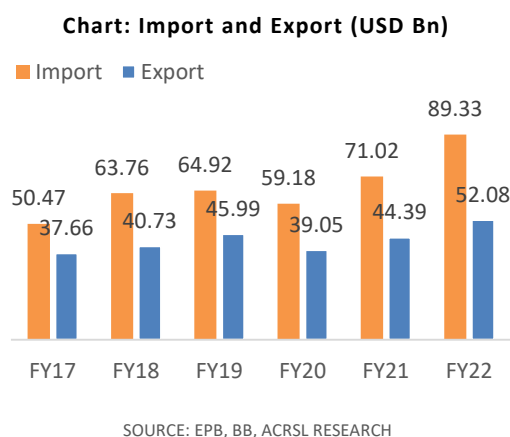


adjustment of domestic-administered prices for fuel oil, gas, and electricity, and higher global commodity prices. Now inflation is one of the several worries facing Bangladesh. A rapidly changing global economic climate leaves not much space for policy as the country's macro-economic parameters are impacted by the recent global events.

Exchange Rate: Bangladesh Bank depreciated the taka further by selling the local currency to banks. Since January FY22, the BB depreciated the local currency by selling the US dollar to banks to support them meet their foreign currency requirements, particularly for import payments, amid the forex crisis that has been lingering for a year. At the end of the period FY22 Central Bank depreciated the taka further by selling the local currency to banks at BDT 99 for a dollar.

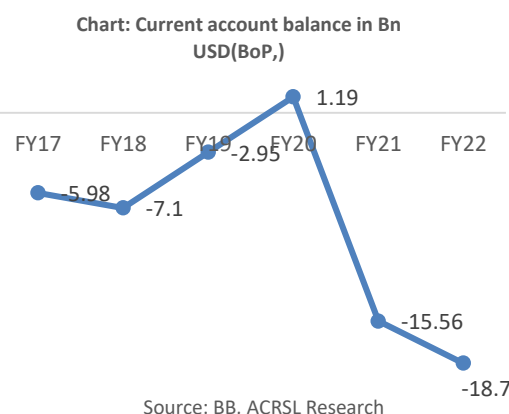


Imports: The import cost of different commodities and raw materials in Bangladesh is on the rise due to a sharp depreciation of the taka against the US dollar in the past one-year, inadequate domestic production and higher prices in the international markets. Imports in Bangladesh increased from BDT 71.02 Bn in FY21 to BDT 89.33 Bn in FY22, representing 25.78% YoY growth.



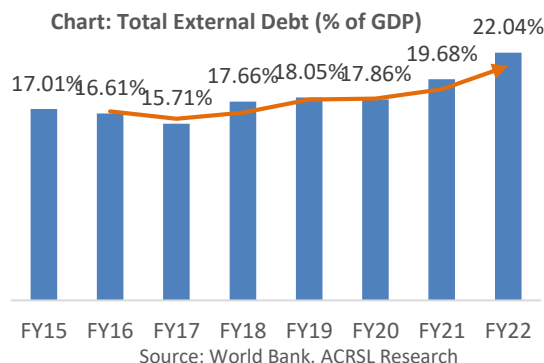
Exports: Exports in Bangladesh expanded recently after the slowdown in global trade flows caused by the Covid-19 pandemic. Exports increased from BDT 39.05 Bn in FY20 to BDT 44.39 Bn in FY21, representing 13.67% YoY growth. Furthermore, total exports grew to BDT 52.08 Bn in FY22 representing 17.32% YoY growth.

Current Account Balance: A clear picture of the status of a country's foreign transaction situation can be obtained via the status of its current account balance. Detailed data on regular income and expenditure including import and export are usually included in the balance. If the account has a surplus, the country does not have to undertake any debt for current transactions. If there is a deficit, a loan becomes inevitable. Bangladesh opened the FY23 with a record 33.24 billion trade deficit and \$18.7 billion current account deficit amid the Russia-Ukraine war. As the ripple effects of the war and the sanctions and counter-sanctions continued to batter

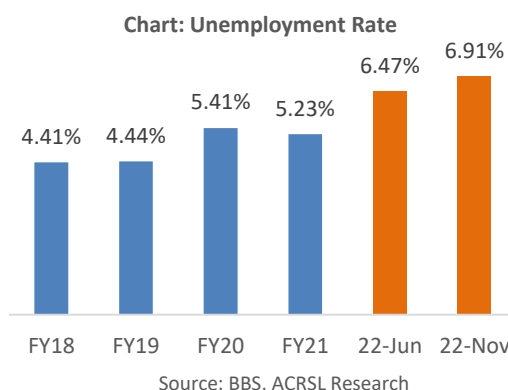


Bangladesh's economy, the authorities put restrictions on spending and sought long term support from the International Monetary Fund and other agencies to avert a full-blown economic crisis.

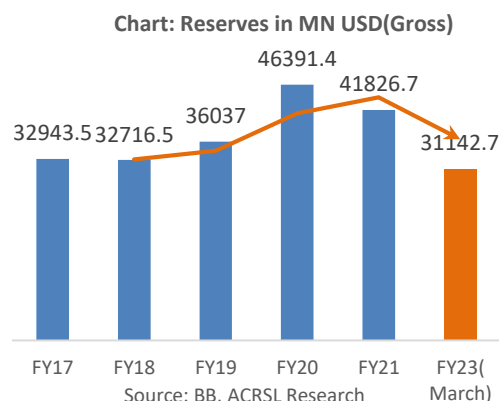
Total External Debt (% of GDP): The data reached an all-time high of 96.2 USD bn in Dec 2022 and a record low of 22.1 USD bn in Mar 2012. Our analysis revealed that total external debt (% of GDP): showed an increasing trend. The ratio increased maintaining an average rate of 18 percent from FY15 to FY22.



Unemployment Rate: The Unemployment Rate is on rise in Bangladesh. Unemployment refers to the share of the labor force that is without work but available for and seeking employment. Bangladesh unemployment rate for FY21 was 5.23%, declined 0.18% from FY20. Later the rate showed an increasing trend in FY22. The unemployment rate reached to 6.91% in November 2022.



Foreign Exchange Reserves (Gross): Bangladesh's foreign currency reserves have slipped to a six-year low of USD 31.15 billion in March 2023, after the Bangladesh Bank cleared import bills to the tune of \$1.05 billion with a number of Asian countries. BB has imposed restrictions on the import of luxury items and unnecessary products to handle this situation. Banks were facing difficulties in settling import payments and opening letters of credit due to the ongoing dollar crisis on the market. To stabilize the foreign exchange market, the Bangladesh Bank sold over \$11 billion to different banks.



Interest Rate: The Bangladesh Bank has decided to implement a market-based interest rate from July, moving away from the 9% interest rate cap on loans, an initiative that may help the central bank uses its policy rates effectively in its

fight against higher inflation.

Bangladesh Government Bonds (Yield): The interest rates of both Treasury bills and bonds are controlled by the central bank. The yield of BGTB with different tenor is shown here.

| Residual Maturity | Bangladesh Govt. Bonds |
|-------------------|------------------------|
| 3 months | 6.57% |
| 6 months | 7.31% |
| 1 year | 7.52% |
| 2 years | 8.30% |
| 5 years | 8.37% |
| 10 years | 8.51% |
| 15 years | 8.85% |
| 20 years | 8.95% |

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 PICL's business mix, operating efficiency, and overall strengths:

- Organizational structure
- Dependence of management team on one or more person
- Coherence of the team
- Independence of the management from the Board of Directors
- Good track record of the management to date

Senior management and the company at large is currently led by Md. Zahedul Islam (Zahid), who serves as the company's Chief Executive Officer. ACRSL research indicates the company's financial performance has improved, especially in terms of gross premium income, on a year over year basis from FY20 to FY22.

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. BGIC, 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.

2.3 Corporate Governance

| Board Practice | Presence/Absence |
|--|------------------|
| Existence of Board Charter | Present |
| Existence of Committees for audit and remuneration | Present |
| Separate CEO/MD 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 | Present |
| 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 challenges | Present |
| Procedures to identify potential risks and opportunities | Present |
| Risk Management and Internal Control Systems | Present |
| Presence of Research and Development Team | Present |

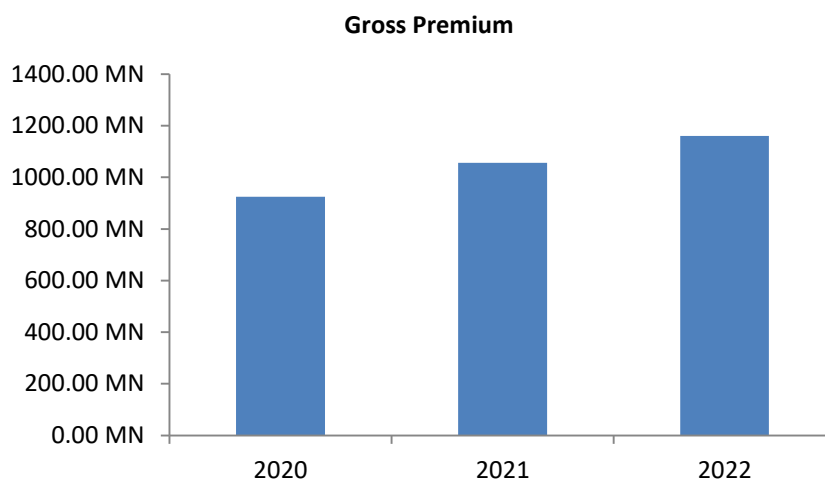
3 FINANCIAL RISK ANALYSIS

3.1 OPERATING PERFORMANCE ANALYSIS

| Indicators | 2020 | 2021 | 2022 | Observations | Bias |
|----------------------|--------|--------|----------|---|----------|
| Gross Premium Growth | 19.82% | 14.24% | ↓ 9.81% | Gross premium growth of PICL demonstrated a decreasing trend over the last three years. | Neutral |
| Net Premium Growth | 18.01% | 7.73% | ↓ 11.27% | Net Premium Growth of PICL demonstrated a positive increasing trend since recent years. | Positive |
| Claims Ratio | 35.04% | 36.96% | ↑ 31.20% | Claims ratio of PICL demonstrated a fluctuating trend over the last three years. | Neutral |
| Expense Ratio | 53.03% | 55.93% | ↑ 54.33% | Expense ratio of PICL demonstrated a decreasing trend since recent years. | Positive |
| Combined Ratio | 88.07% | 92.89% | ↑ 85.53% | Combined ratio of PICL demonstrated a decreasing trend over the last three years. | Neutral |
| Retention Ratio | 81.51% | 76.86% | ↓ 77.88% | Retention Ratio of PICL demonstrated a positive increasing trend since recent years. | Positive |

3.1.1 Gross Premium

| | FY20 | FY21 | FY22 |
|------------------------|-----------|------------|------------|
| Gross Premium (in BDT) | 924.57 MN | 1056.57 MN | 1159.84 MN |

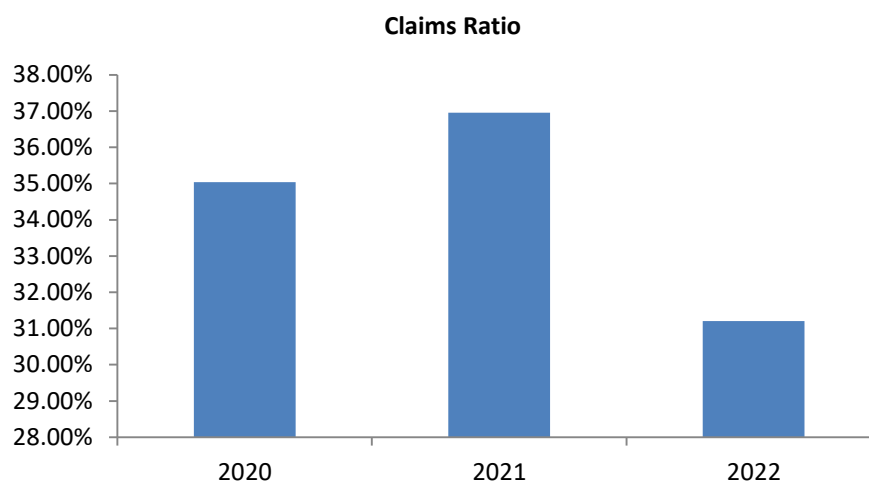


Historical Trend: Between FY20 to FY22, PICL's gross premium demonstrates an increasing trend. The gross premium of PICL increased from BDT 924.57 MN in FY20 to BDT 1056.57 MN in FY21 and further increased to BDT 1159.84 MN in FY22, representing a positive bias on PICL's gross premium.

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. PICL's new insurance product, health insurance and weather crop insurance, is expecting to generate additional premium going forward.

3.1.2 Claims Ratio

| | FY20 | FY21 | FY22 |
|--------------|--------|--------|--------|
| Claims Ratio | 35.04% | 36.96% | 31.20% |

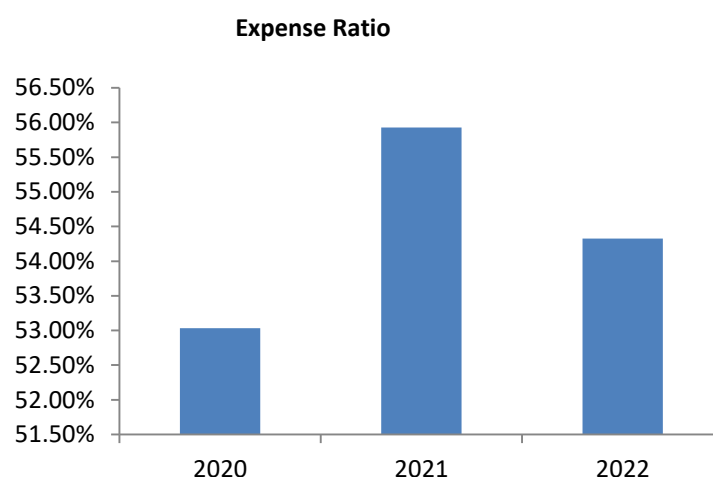


Historical Trend: The claims ratio has demonstrated a fluctuating trend over the last three years. The claims ratio of PICL was 36.96% in FY21, which increased from 35.04% in FY20, but in FY22 its claims ratio reduced by 5.76 percentage point YoY, to 31.20% which is neutral in our view.

Looking forward: ACRSL has a neutral bias on BGIC's claims ratio for FY23. In line with the increasing gross premium growth 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 Covid-19, disaster, accident, and other natural causes and Act of God, which are notoriously difficult to predict.

3.1.3 Expense Ratio

| | FY20 | FY21 | FY22 |
|---------------|--------|--------|--------|
| Expense Ratio | 53.03% | 55.93% | 54.33% |



Historical Trend: Historically, PICL has maintained a low expense ratio in last year, which is a positive rating factor. The expense ratio demonstrates a fluctuating trend over the year, and remain on the lower side. The ratio of PICL was increased to 55.93% in FY21 from 53.03% in FY20. But, in FY22 it has decreased by 1.60 percentage point YoY, to 54.33%.

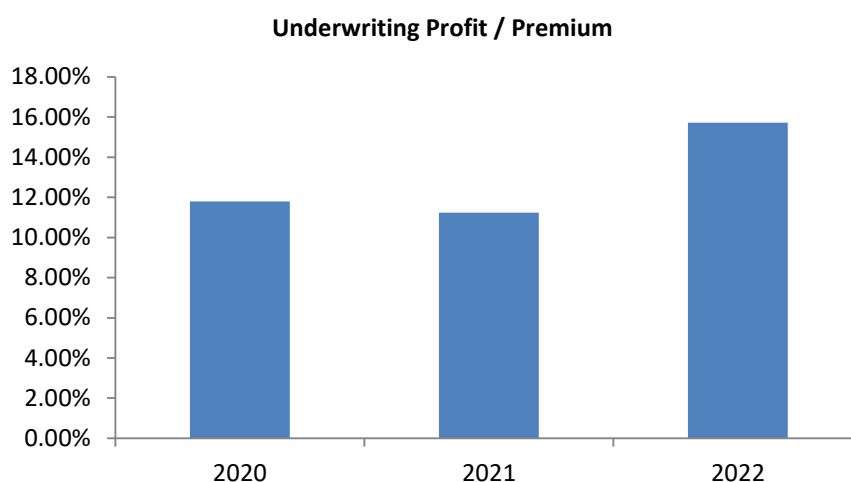
Looking Forward: ACRSL has a positive bias on PICL's expense ratio for FY23. Given the increasing salaries & allowance expense, the company's net premium is stable at a minimal rate compared to its peer group. Since we anticipate PICL will take insurance business more due to high profitability, it is likely that management expense will decrease from these levels going forward.

3.2 PROFITABILITY ANALYSIS

| Indicators | 2020 | 2021 | 2022 | Observations | Bias |
|--------------------------------------|--------|--------|----------|--|----------|
| Underwriting Profit / Premium | 11.79% | 11.24% | ↓ 15.71% | ↑ Underwriting profit to premium demonstrated a fluctuating trend over the last three years. | Positive |
| Investment Yield | 6.09% | 10.59% | ↑ 2.83% | ↓ Investment Yield of PICL has demonstrated a fluctuating trend over the last three years. | Neutral |
| Net Profit / Premium | 12.21% | 18.39% | ↑ 11.26% | ↓ Net profit to premium of PICL demonstrated a fluctuating trend over the last three years. | Neutral |
| Net Profit / Total Income | 10.90% | 15.27% | ↑ 10.39% | ↓ Net profit to total income of PICL demonstrated a fluctuating trend over the last three years. | Neutral |
| ROE | 14.68% | 19.23% | ↑ 12.20% | ↓ ROE has demonstrated fluctuating trend over the last three years. | Neutral |
| ROA | 8.07% | 10.72% | ↑ 6.34% | ↓ ROA has demonstrated fluctuating trend over the last three years. | Neutral |

3.2.1 Underwriting Profit / Premium

| | FY20 | FY21 | FY22 |
|-------------------------------|--------|--------|--------|
| Underwriting Profit / Premium | 11.79% | 11.24% | 15.71% |

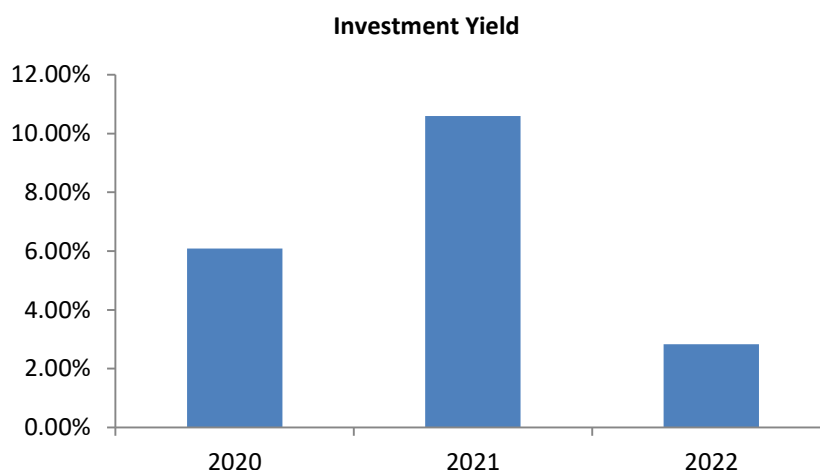


Historical Trend: Between FY20 to FY22, PICL's Underwriting Profit / Premium ratio demonstrates a fluctuating trend. During the FY20-FY21 period, the ratio of the insurance company declined 0.55 percentage points YoY, falling from 11.79% to 11.24%. Subsequently, during the period FY21-FY22, the ratio raised by 4.47 percentage points YoY, to 15.71%. Net-net, PICL's Underwriting Profit / Premium ratio raised 3.92 percentage points.

Looking Forward: ACRSL has a positive bias on PICL's underwriting profit to premium ratio for FY23. We anticipate PICL will be able to increase its net premium to an extent in FY23, and be able to report a high under writing profit compared to net premium

3.2.2 Investment Yield

| | FY20 | FY21 | FY22 |
|------------------|-------|--------|-------|
| Investment Yield | 6.09% | 10.59% | 2.83% |

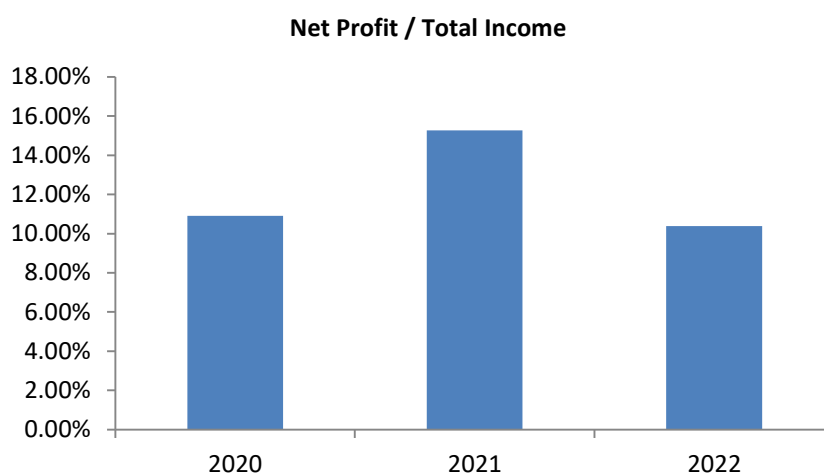


Historical Trend: Between FY20 to FY22, PICL's Investment Yield demonstrates a stable but overall decreasing trend. During the FY20-FY21 period, Investment Yield of the insurance company increased 4.50 percentage points YoY, raising from 6.09% to 10.59%. Subsequently, during the period FY21-FY22, Investment Yield declined 776 basis points YoY, to 2.83%.

Looking Forward: ACRSL has a neutral bias on PICL's investment yield for FY23. PICL has already absorbed the shock of stock market collapse in previous year, 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 FY23 as current market condition is stable, and be able to report a better investment yield.

3.2.3 Net Profit / Total Income

| | FY20 | FY21 | FY22 |
|---------------------------|--------|--------|--------|
| Net Profit / Total Income | 10.90% | 15.27% | 10.39% |



Historical Trend: PICL historically has demonstrated a fluctuating trend in net profit to total income ratio. The ratio of PICL increased from 15.27% in FY21 to 10.90% in FY20. But it decreased to 10.39% in FY22.

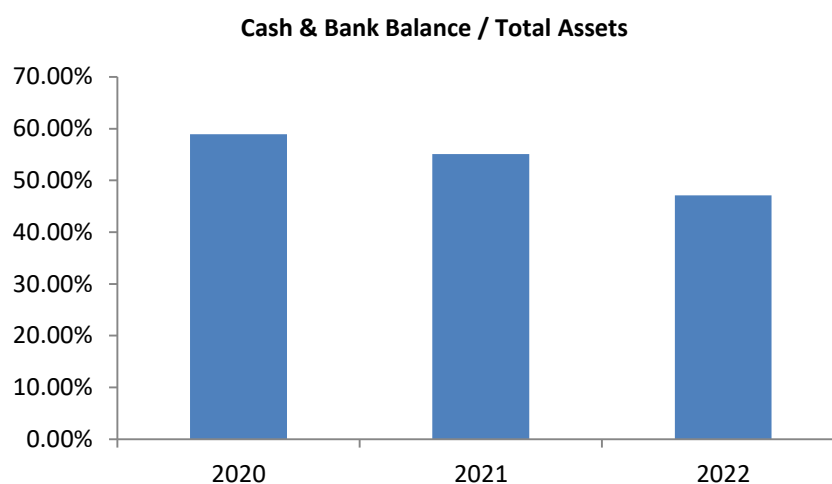
Looking Forward: ACRSL has a neutral bias on PICL's net profit to total income ratio for FY23. We anticipate PICL will be able to manage its net profit to total income ratio lessen its agency commission and management expense, as the regulatory authority IDRA said no extra commission for insurance going forward; which may increase its net profit after tax in the coming years.

3.3 LIQUIDITY ANALYSIS

| Indicators | 2020 | 2021 | 2022 | Observations | Biased |
|------------------------------------|--------|--------|----------|---|----------|
| Cash & Bank Balance / Total Assets | 58.93% | 55.09% | ↓ 47.10% | ↓ Cash & bank balance to total assets demonstrates a decreasing trend over the last three years | Neutral |
| Liquid Asset / Net Claim | 2.85x | 3.41x | ↑ 3.53x | ↑ Liquid asset to net claim demonstrates an increasing trend since recent year. | Positive |
| Overall Liquidity | 5.37x | 4.79x | ↓ 3.92x | ↓ Overall liquidity of PICL demonstrates a fluctuating trend over the last three years. | Neutral |

3.3.1 Cash & Bank Balance / Total Assets

| | FY20 | FY21 | FY22 |
|------------------------------------|--------|--------|--------|
| Cash & Bank Balance / Total Assets | 58.93% | 55.09% | 47.10% |

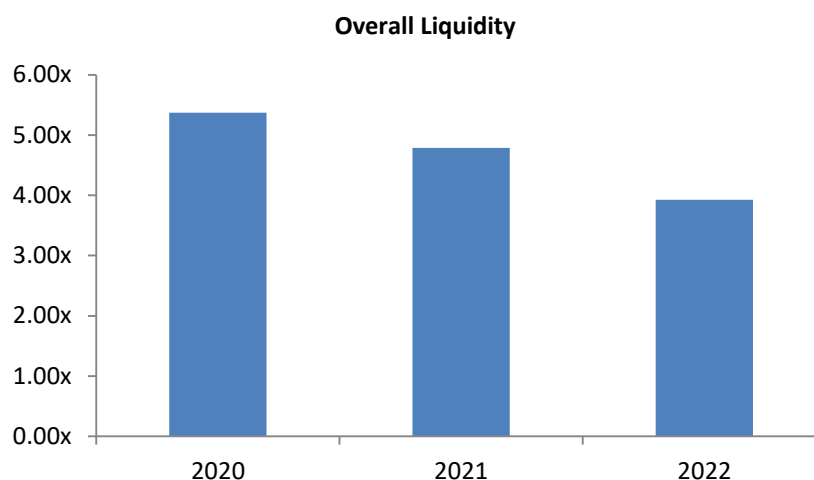


Historical Trend: Historically, PICL has maintained a minimum level of cash & bank balance to total assets, which is neutral in our analysis. However, during last three years, the ratio demonstrates a decreasing trend. The ratio of PICL decreased from 58.93% in FY20 to 55.09% in FY21. Subsequently, the ratio further decreased to 47.10% in FY22. Net-net, PICL's Cash & Bank Balance / Total Assets ratio declined 11.83 percentage points

Looking Forward: ACRSL has a positive bias on PICL's cash & bank balance to total assets ratio for FY23. Given insurance business' unpredictable claim demand, ACRSL cannot reliably project PICL's cash & bank balance. Since we anticipate present high inflation will be within a stable range and overall economic activity will increase in near future, it is likely that the company will increase its cash & bank balance from these levels going forward.

3.3.2 Overall Liquidity

| | FY20 | FY21 | FY22 |
|-------------------|-------|-------|-------|
| Overall Liquidity | 5.37x | 4.79x | 3.92x |



Historical Trend: Between FY20 to FY22, PICL's Overall Liquidity ratio demonstrates a slightly decreasing trend. During the FY20-FY21 period, Overall Liquidity of the insurance company declined 0.58x YoY, falling from 5.37x to 4.79x. Subsequently, during the period FY21-FY22, Overall Liquidity ratio declined 0.86x YoY, to 3.92x. Net-net, PICL's Overall Liquidity declined 1.45x.

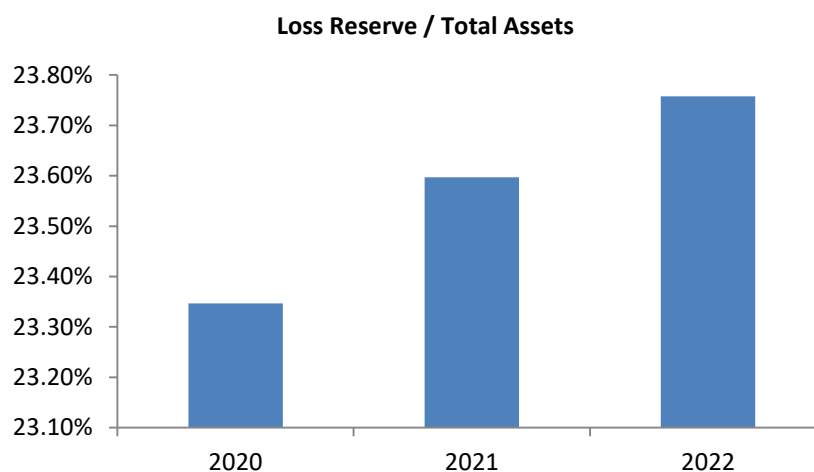
Looking Forward: ACRSL has a neutral bias on PICL's overall liquidity ratio for FY23. Given insurance business's unpredictable liabilities demand, ACRSL cannot reliably project PICL's overall liquidity ratio. We are assuming that PICL's net liabilities will be within a stable range in the near future. Hence, we are expecting BGIC to report a good overall liquidity ratio going forward.

3.4 BALANCE SHEET ANALYSIS

| Indicators | 2020 | 2021 | 2022 | Observations | Bias |
|---------------------------------|---------|---------|-----------|---|----------|
| Net Premium / Total Equity | 120.19% | 104.57% | ↓ 108.36% | ↑ Net premium to total equity demonstrates an overall fluctuating trend over the last 3 years. | Neutral |
| Net Liabilities / Total Equity | 33.88% | 37.49% | ↑ 49.03% | ↑ Net liabilities to total equity demonstrate an increasing trend over the last 3 years. | Negative |
| Loss Reserve / Total Assets | 23.35% | 23.60% | ↑ 23.76% | ↑ Loss reserve to total assets demonstrates an increasing trend over the last 3 years. | Positive |
| Balance of Funds / Total Assets | 26.42% | 23.38% | ↓ 22.55% | ↓ Balance of funds to total assets of PICL demonstrated a decreasing trend over the last 3 years. | Neutral |
| Total Asset Growth | 6.89% | 22.11% | ↑ 15.13% | ↓ Total asset growth of PICL demonstrated a fluctuating trend over the last 3 years. | Neutral |

3.4.1 Loss Reserve / Total Assets

| | FY20 | FY21 | FY22 |
|-----------------------------|--------|--------|--------|
| Loss Reserve / Total Assets | 23.35% | 23.60% | 23.76% |

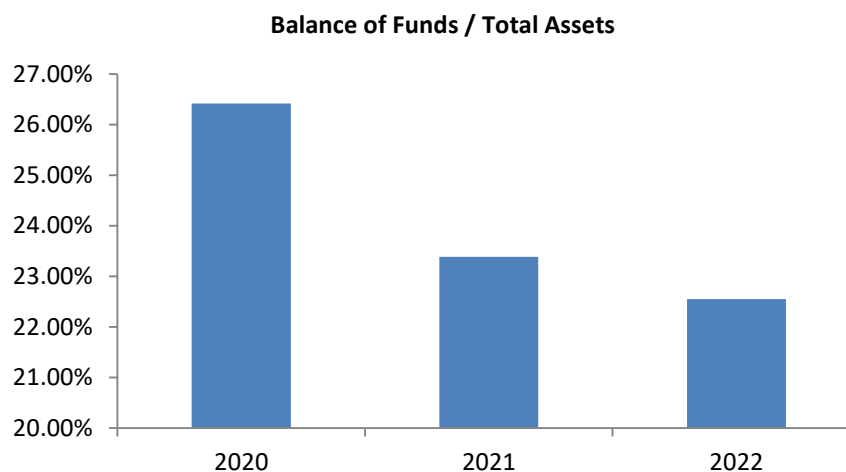


Historical Trend: Historically, PICL has maintained a high loss reserve to total assets ratio which is positive. During the last three years, the ratio demonstrates an increasing trend. Between FY20-FY21, the ratio increased from 23.35% to 23.60%. Subsequently, during FY21-FY22, the ratio slightly increased to 23.76%.

Looking Forward: ACRSL has a positive bias on PICL's loss reserve to total assets ratio for FY23. 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.

3.4.2 Balance of Funds / Total Assets

| | FY20 | FY21 | FY22 |
|---------------------------------|--------|--------|--------|
| Balance of Funds / Total Assets | 26.42% | 23.38% | 22.55% |



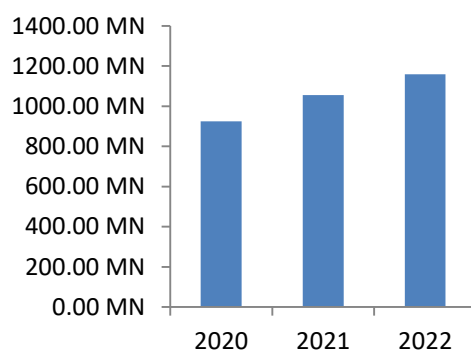
Historical Trend: Historically, PICL has maintained sufficient balance of funds to total assets ratio. During the last three years, the ratio demonstrates an overall decreasing trend. The ratio of PICL decreased from 26.42% in FY20 to 23.38% in FY21. Subsequently in FY22 the ratio slightly decreased to 22.55%.

Looking Forward: ACRSL has a positive bias on PICL's balance of funds to total assets for FY23. 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.

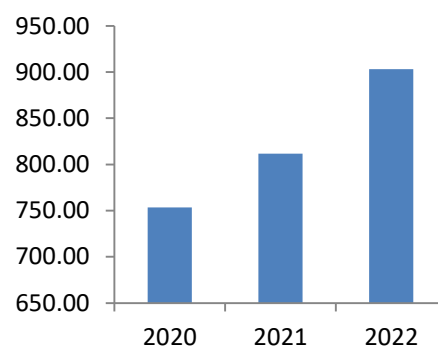
4 CHARTS

4.1 OPERATING PERFORMANCE ANALYSIS

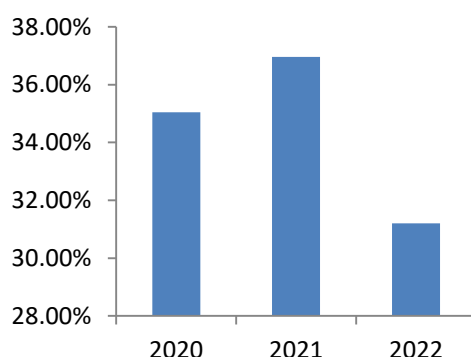
Gross Premium



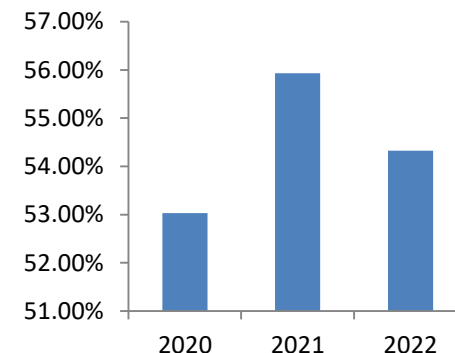
Net Premium



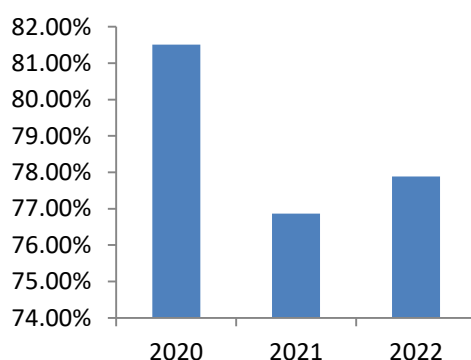
Claims Ratio



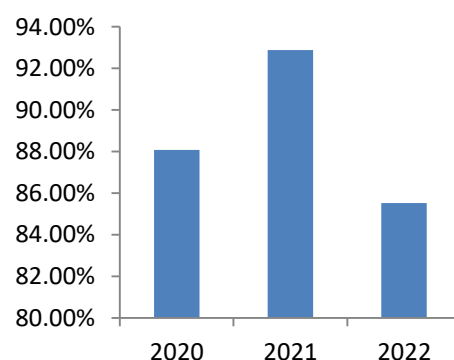
Expense Ratio



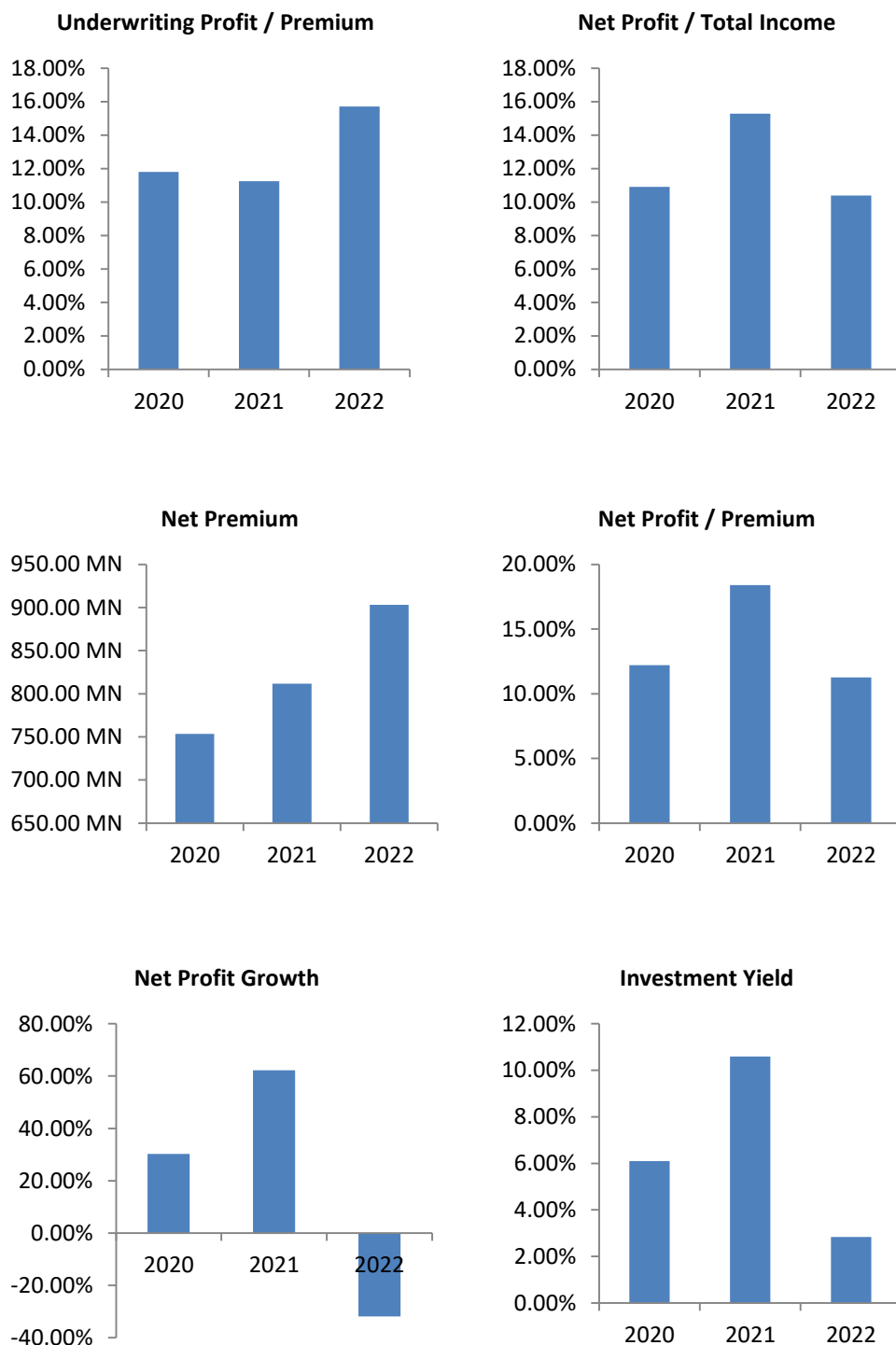
Retention Ratio



Combined Ratio

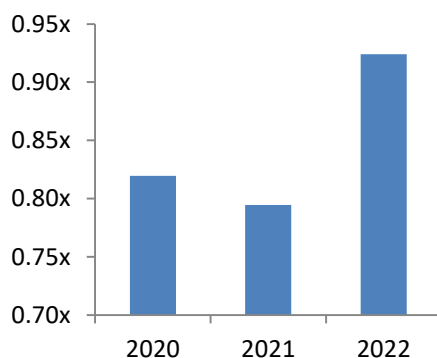


4.2 PROFITABILITY ANALYSIS

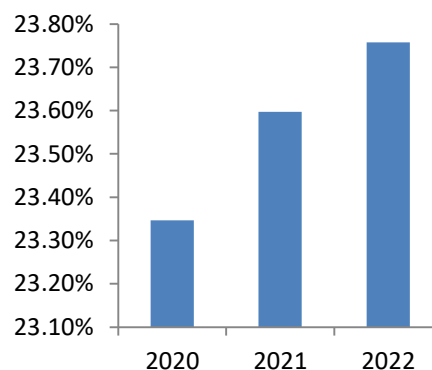


4.3 BALANCE SHEET ANALYSIS

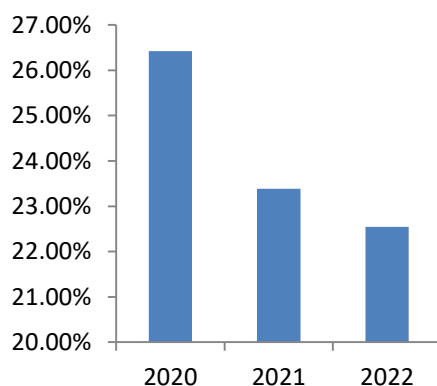
Total Liabilities to Total Equity



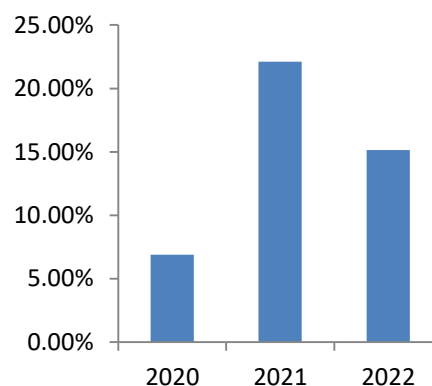
Loss Reserve / Total Assets



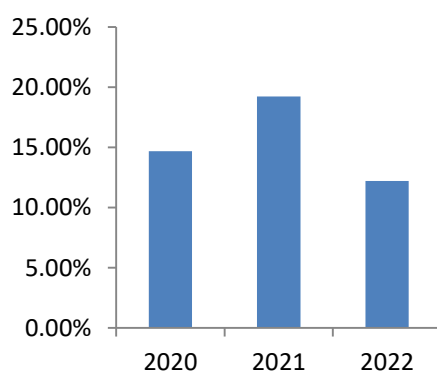
Balance of Funds / Total Assets



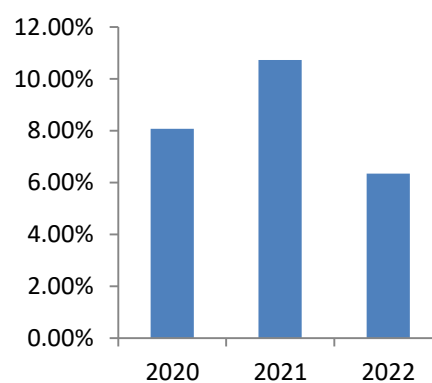
Total Asset Growth



ROE

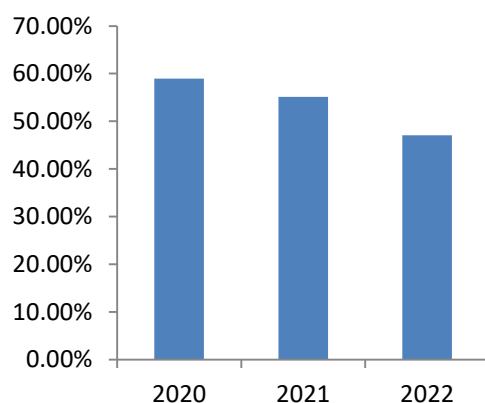


ROA

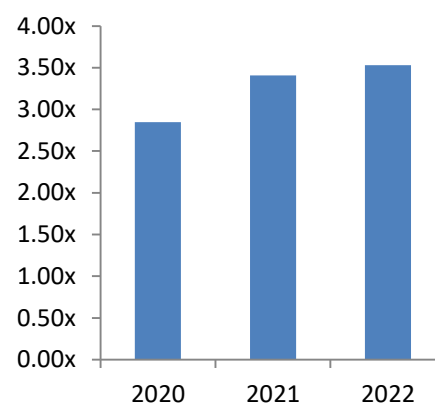


4.4 LIQUIDITY ANALYSIS

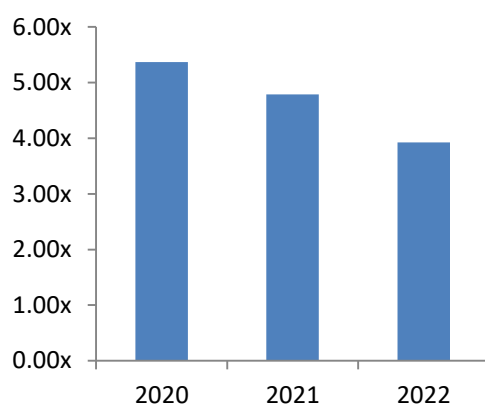
Cash & Bank Balance / Total Assets



Liquid Asset / Net Claim



Overall Liquidity



Appendix A: Summary of Financial Metrics

*in BDT MN

| Balance Sheet Metrics | 2020 | 2021 | 2022 |
|-----------------------------------|-----------------|-----------------|-----------------|
| Paid-Up Capital | 297.03 | 347.52 | 403.12 |
| Total Reserve | 266.37 | 328.74 | 381.07 |
| Total Equity | 627.01 | 776.33 | 833.64 |
| Balance of Funds | 301.46 | 325.77 | 361.66 |
| Liabilities & Provisions | 150.54 | 227.36 | 343.66 |
| Investments | 79.80 | 254.91 | 239.13 |
| Cash & Bank Balance | 672.35 | 767.54 | 755.48 |
| Fixed Assets (At Cost less Depr.) | 169.19 | 186.27 | 220.85 |
| Total Assets | 1,140.91 | 1,393.15 | 1,604.00 |

| Income Statement Metrics | 2020 | 2021 | 2022 |
|--------------------------------|--------------|---------------|---------------|
| Interest Income | 39.12 | 34.73 | 47.50 |
| Investment Income | 4.77 | 67.99 | -22.62 |
| Interest and investment income | 45.81 | 108.29 | 28.15 |
| Net Claims | 264.08 | 300.03 | 281.84 |
| Agency Commission | 138.69 | 157.95 | 173.98 |
| Management Expenses | 260.97 | 295.09 | 316.74 |
| Underwriting Profit | 88.83 | 91.25 | 141.92 |
| Net Profit Before Tax | 118.12 | 176.08 | 140.06 |
| Net Profit After Tax | 92.01 | 149.33 | 101.67 |

| Consolidated Rev. Account Metrics | 2020 | 2021 | 2022 |
|-----------------------------------|--------|---------|---------|
| Gross Premium | 924.57 | 1056.21 | 1159.84 |
| Re-insurance Premium | 170.97 | 244.38 | 256.54 |
| Net Premium | 753.61 | 811.83 | 903.30 |
| Commission on Re-insurance | 44.90 | 57.81 | 47.08 |
| Agency Commission | 138.69 | 157.95 | 173.98 |
| Last year's Unexpired Risk | 255.53 | 301.46 | 325.77 |
| Net Claims | 264.08 | 300.03 | 281.84 |
| Management Expenses | 260.97 | 296.09 | 316.74 |
| Reserve for Unexpired Risk | 301.46 | 325.77 | 361.66 |
| Underwriting Profit | 88.83 | 91.25 | 141.92 |

Source: PICL's Annual Reports FY20 to FY22

Appendix B: Summary of Analytics

| Indicators | 2020 | 2021 | 2022 |
|-------------------------------------|---------|---------|---------|
| Total Income Growth | 20.23% | 15.83% | 0.06% |
| Gross Premium Growth | 19.82% | 14.24% | 9.81% |
| Net Premium Growth | 18.01% | 7.73% | 11.27% |
| Retention Ratio | 81.51% | 76.86% | 77.88% |
| Claims Ratio | 35.04% | 36.96% | 31.20% |
| Expense Ratio | 53.03% | 55.93% | 54.33% |
| Combined Ratio | 88.07% | 92.89% | 85.53% |
| Underwriting Profit / Premium | 11.78% | 11.24% | 15.71% |
| Investment Yield | 6.09% | 10.59% | 2.83% |
| Net Profit / Premium | 12.22% | 18.39% | 11.26% |
| Net Profit / Total Income | 10.90% | 15.27% | 10.39% |
| Net Profit Growth | 30.24% | 62.21% | -31.92% |
| Cash & Bank Balance / Total Assets | 58.93% | 55.09% | 47.10% |
| Liquid Asset / Net Claim | 2.85x | 3.41x | 3.53x |
| Overall Liquidity | 5.37x | 4.79x | 3.92x |
| Net Premium / Total Equity | 120.19% | 104.57% | 108.36% |
| Net Liabilities / Total Equity | 33.88% | 37.49% | 49.03% |
| Loss Reserve / Total Assets | 23.35% | 23.60% | 23.76% |
| Balance of Funds / Total Assets | 26.42% | 23.60% | 22.55% |
| Investments in Share / Total Assets | 8.74% | 19.31% | 16.09% |
| Total Asset Growth | 6.89% | 22.11% | 15.13% |
| ROA | 8.06% | 10.72% | 6.34% |
| ROE | 14.67% | 19.23% | 12.20% |

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. |