

**CREDIT RATING REPORT
On
ASIA INSURANCE LIMITED**

REPORT: RR/18258/17

This is a credit rating report as per the provisions of the Credit Rating Companies Rules 1996. CRISL's Claim Paying Ability Rating is valid for only one year from the date of rating. After the above period, the rating will not carry any validity unless the company goes for rating surveillance. **CRISL followed Insurance Rating Methodology published in CRISL website www.crislbd.com**

Address:
CRISL
Nakshi Homes
(4th & 5th Floor)
6/1A, Segunbagicha,
Dhaka-1000
Tel: 9530991-4
Fax: 88-02-9530995
Email:
crisldhk@crislbd.com

Rating Contact:
Md. Asiful Huq
Chief Rating Officer
asif@crislbd.com

Analysts:
Habibur Rahman Khan
habibur@crislbd.com

Ehmed Kushal Imtiaz
imtiaz@crislbd.com

Surveillance Rating:
CPA AA-

Outlook: Stable

**ASIA INSURANCE
LIMITED**

ACTIVITY
Non-Life Insurance

**DATE OF
INCORPORATION**
April 30, 2000

**COMMENCEMENT OF
BUSINESS**
April 30, 2000

CHAIRMAN
Yussuf Abdullah Harun,
FCA

**CHIEF EXECUTIVE
OFFICER**
Imam Shaheen ABIA

EQUITY
TK. 840.69 million

TOTAL ASSETS
TK. 1,646.82 million

Claim Paying Ability	
CPA Rating	AA-
Outlook	Stable
Date of Rating: December 31, 2017	Valid up to: December 30, 2018

1.0 RATIONALE

CRISL has upgraded the Claim Paying Ability (CPA) rating of Asia Insurance Limited (AIL) to "AA-" (pronounced as double A minus) from "A+" based on the financials up to December 31, 2016 and other relevant qualitative and quantitative information up-to the date of rating.

The rating up gradation reflects AIL's good solvency, improving financial performance, good FDR base, diversified investment portfolio, experienced top management, improving IT infrastructure etc.

AIL sources 100% of its business from Bangladesh market, largely free from natural catastrophes. Based on the financial statement of 2016, overall financial performance of AIL has been found improving during the period under surveillance. Consolidated gross premium earnings of the company increased to Tk. 477.69 million in 2016 from Tk.453.65 million in 2015 while net premium also increased to Tk. 319.63 million in 2016 from Tk.308.16 million in 2015 during the above periods respectively. AIL's underwriting profit has been increased to Tk. 64.46 million in 2016 from Tk. 42.13 million in 2015. The profit before tax increased to Tk. 98.80 million in 2016 from Tk. 78.15 million in 2015. Consequently, both Return on Average Asset (ROAA) and Return on Average Equity (ROAE) moved upward in 2016. The overall liquidity of the company has been found to be average. The Liquid assets to insurance fund ratio decreased to 6.80 times in 2016 from 6.97 times in 2015. As on September 30, 2017, total investment in capital market stood at Tk.255.93 million with the trading intend and suffered unrealized loss of Tk.62.93 million considering market value of Tk.192.99 million. However, FDR base of the company has been decreased to Tk. 622.22 million in 2016 from Tk.641.73 million in 2015. As per Insurance Act 2010, the paid up capital has been fixed at Tk.400 million as minimum capital requirement for all non-life insurance companies. AIL's paid up capital stood at Tk.470.70 million in 2015.

On the other hand, AIL faces challenges from high claim ratio, underwriting loss in marine hull segment, exposure to capital market investment risk, low internal capital generation etc. CRISL expects the company will adopt strategic underwriting approach for improvement underwriting performance through strictly analyzing of risk factors on different industry.

CPA rated in this category is adjudged to 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.

CRISL also views the company with "Stable Outlook" from the industry viewpoint for overall industry growth and policy and regulations implicated by regulatory authority as well as new Insurance Act. CRISL believes that the company will be able to maintain its fundamentals in foreseeable future.

2.0 CORPORATE PROFILE

2.1 The Genesis

Asia Insurance Limited (AIL), a third generation general insurance company, was incorporated under the Companies Act 1994 with the vision to become one of the leading insurance companies in the country through providing integrated insurance service in the non-life sector. AIL got approval to commence insurance business on April 30, 2000. Currently, the company has been operating under the legal framework of the revised Insurance Act, 2010. The company is sponsored by a group of renowned business personalities and reputed industrialists of the country having involvement in diversified businesses. The Paid-up capital

**CREDIT RATING REPORT
On
ASIA INSURANCE LIMITED***Moderately diversified
shareholding pattern*

of the company stood Tk.470.70 million against authorized capital of Tk.1,000.00 million as on 470.70. AIL went into Initial Public Offering (IPO) in 2009 and the shares of the company are listed with both the bourses of the country under 'A' category issue. Presently the company has been operating its business with a network of 22 branches. The company earned gross premium of Tk.477.69 million in 2016 against Tk. 453.65 million in 2015 and made underwriting profit of Tk.64.46 million against Tk. 42.13 million during the above periods respectively. Mr. Yussuf Abdullah Harun FCA, former president of FBCCI is leading the company as Chairman of the Board while Management team consists of a group of experienced professionals and is headed by Md. Imam Shaheen ABIA as the Chief Executive Officer (CEO). AIL carries out its business from its Corporate Head office located at Rupayan Trade Center (14th floor) 114-115, Kazi Nazrul Islam Avenue, Bangla Motor, Dhaka -1000, Bangladesh.

2.2 Ownership Pattern

Shareholding pattern of AIL is moderately diversified without having any significant change during the period under surveillance. As on December 31, 2016 the total outstanding shares of the company stood at 47.07 million. Out of the above outstanding shares, 41.56% shares are held by the sponsors, 29.16% shares are held by institutions while rest 29.28% shares are held by the general public.

2.3 Market Share

AIL is operating its business with small market share. The non-life insurance industry of Bangladesh reported a gross premium of Tk.27.29 billion in 2016 (provisional) and Tk.30.18 billion in 2015 which was being shared by 46 companies including the Government owned Sadharan Bima Corporation (SBC) having gross premium of Tk.1.83 billion (provisional) in 2016 against Tk.2.96 billion in 2015. Out of total gross premium of Tk.25.46 billion (excluding SBC), AIL has earned Tk.435.23 million in 2016 against Tk.415.86 million. Considering the SBC's gross premium, market share of the company has been found to be average and stood at 1.75% in 2016 and 2.37% in 2015. Without Considering the SBC's gross premium, market share of AIL has been found to be small and stood at 1.59% in 2016 and 1.67% in 2015.

2.4 Branch Network

During the surveillance period, there are no major changes in branch network. Presently, the company has been operating its business through twenty two branches located at different strategically important areas around the country. Its branch network has been constituted with 9 branches in Dhaka, 3 in Chittagong and 1 branch each in Narayanganj, Comilla, Mymensingh, Sylhet, Jessore, Khulna, Faridpur, Barisal, Feni and Narshingdi. The company has planned to expand new branch in Dhaka at Gulshan, utara and savar EPZ and Rajshahi.

3.0 INSURANCE INDUSTRY

The economy of Bangladesh has been rapidly shifting away from an agricultural dependence to the emergence of the services sector with the burgeoning of the latter. Insurance, as one of the critical ingredients of the financial services industry, can play a significant role if promoted properly. The Bangladesh insurance market is in an upward trend despite a low penetration rate. It has the embedded potential to grow and advance further as widely regarded by insurance experts both from home and abroad. In spite of a stable growth rate (around 10%) of the Bangladeshi insurance industry over the last few years, the expansion of the insurance business, particularly the non-life sector, has experienced a downward trend on account of poor investments and slowdown of economic activities primarily led by the political unrest. According to the statistics of Bangladesh Insurance Association (BIA), the total premium income of private sector life insurance companies rose from Tk. 62,429 mil. in 2013 to Tk. 66,879 mil. in 2014 and Tk.66.24 billion (approx.) in 2015. The gross premium income of non-life private sector insurance companies increased from Tk. 21,038 million to Tk. 22,670 million in 2014 with a growth rate of 7.76% and in 2015 total business will be estimated at Tk. Tk.27.22 (approx.) billion. In Bangladesh, marine insurance is considered to be at the

**CREDIT RATING REPORT
On
ASIA INSURANCE LIMITED**

forefront of the non-life insurance business. Marine insurance, in turn, relies on imports, a sector that has continuously been disturbed by the political unrest at different times.

The World Economic Forum's Global Competitiveness Report 2014–2015 ranked Bangladesh infrastructure at 127 out of 144 countries surveyed. Its ranking was 125 for higher education and training, and 131 for institutions. Although power generation capacity has expanded in recent years in part through small private providers, power shortages intensified as growing demand outpaced supply. In the World Bank's Doing Business 2014, Bangladesh ranked last among 189 countries on electricity delivery. Political unrest ahead of the January 2014 national elections further dampened investor confidence. Public investment remains below budgeted targets because of weak implementation capacity in line agencies. Despite advantages of location and abundant low-cost labor, foreign direct investment remains low. Supply disruptions and weaker domestic demand caused by political unrest slowed industry growth. Expansion in electricity output also slowed to 8.2% from 9.7%. However, the pace of construction picked up to 8.6% from 8.0%, reflecting higher government development spending. Annual inflation averaged 7.4% in FY2014, up from 6.8% a year earlier.

Metlife (ALICO) is the only foreign insurance operator in Bangladesh. ALICO earned record-breaking gross premium in the life insurance sector. In April 2015, the regulator approved two other joint venture life insurance companies in Bangladesh. With the advent of two newly established companies in 2015, the number of foreign insurers will reach three, intensifying competition. Bangladesh's Bank and Financial Institution Division drafted the National Insurance Regulation 2014. The recommendation of the said regulation is expected to improve the insurance market of Bangladesh as it has defined both long-as well as short-term goals. The provisional estimates for Bangladesh's GDP growth in the financial year 2015 (ended 30 June 2015) is higher than the 6.1% growth recorded in FY2014, as projected in the Asian Development Outlook, 2015.

Despite political agitation early in 2015 that adversely affected the country's transport services, exports and private investments, growth in Bangladesh held up well because of brisk domestic demand, boosted by higher worker remittances, private sector wages and public investments. Inflation moderated in FY2015 much as forecast in ADO 2015 from 7.4% a year earlier, reflecting large public stocks of food grains, normal weather, a supportive monetary policy and lower global food and commodity prices that a steady exchange rate allowed to be passed through. Export growth was 3.3% in FY2015, down significantly from 12.1% in FY2014. Garments, accounting for about 80% of the total exports, grew slowly by 4.1%, reflecting supply chains disruptions by political demonstrations in early 2015, soft demand from the European Union (EU) and the US and a marked decline in prices for cotton, a major input cost that can affect pricing. Imports rose by 11.2%, accelerating from 8.9% growth in FY2014. Larger imports of food grains, machinery, fertilizer and industrial raw materials helped propel the expansion. As exports grew more slowly than imports, the trade deficit widened markedly. Despite a strong recovery in remittances, the current account recorded a small deficit, slightly higher than the ADO 2015 forecast.

The GDP growth forecast for FY2016 is revised somewhat higher with the expectation that exports will grow with continued economic recovery in the US and the Euro area, strong expansion in remittances will boost consumption demand, private and public investments will pick-up as the business climate improves under a stabilizing political situation and spending will increase under the annual development program (ADP). The ADO 2015 update retains the ADO 2015 projection for average inflation in FY2016, which matches the central bank's monetary policy statement. Although higher public sector wages and upward adjustments to administered prices for natural gas and electricity from 1 September 2015 will exert inflationary pressures, the easing of supply constraints, a cautious (and even expansionary) monetary policy and a better crop outlook should keep inflation under check. Export growth in FY2016 is projected to improve to 6% as economic growth in the Euro area and the US strengthens. Imports are projected to increase by 13%, mainly for capital goods, industrial raw materials and food grains. Despite the expansion in remittances, the larger trade deficit will likely mean a current account deficit (CAD) narrower than in FY2015 but failing to achieve

**CREDIT RATING REPORT
On
ASIA INSURANCE LIMITED**

the small surplus projected in ADO 2015.

Global insurance premium stood at US\$ 4,826 billion in 2013, out of which US\$ 2,850 billion is attributable to life and US\$1,976 billion to non-life insurance. Though total premium earnings of advanced countries moved downward to US\$ 3,897 billion from US\$ 4,286.70 billion in 2013, their global share being maintained at 85%. The total income from private sector life insurance companies in Bangladesh rose to Tk.66.24 billion (approx.) in 2015 from Tk.63.08 billion in 2014 and Tk.60.13 billion in 2013. Total volume of non-life insurance market is increasing significantly. In 2002, it was 5.39 billion but in 2015, it was 32.26 billion. The average premium growth during the period 2002 to 2015 is 1.64 billion. Total premium observed increasing trend of total premium during 2002 to 2015 in nonlife Insurance Sector. As the market volume is increasing significantly, the industry is awaiting for deriving positive result in 2017. However, presence of large number of companies in a small market leads to tough market competition and unethical practices which has already created a significant number of sick insurance companies in the industry. Understanding the importance of revitalizing the sector in line with the international norms, the regulatory authority made mandatory credit rating in the industry from 2006. Under the above directives, all insurance companies get credit rating report with mandatory surveillance at the end of each year.

Insurance industry of Bangladesh has a long history of evolution. About a century back, couple of insurance companies started both non-life and life insurance business during the British regime in India. However, insurance business got the momentum during the Pakistan regime. Later, GoB established the Bangladesh Insurance Corporation under "The Bangladesh Insurance Corporation Order, 1972" for the purpose of management, administration and development of insurance and re-insurance business in Bangladesh. On the establishment of this corporation the Pakistan Insurance Corporation in Bangladesh dissolved and the Pakistan Insurance Corporation Act, 1952 in its application to Bangladesh also stood repealed. In order to provide for the management of the nationalized insurance business, a holding corporation with 4 subsidiary corporations was created. Out of the 4 subsidiaries, 2 were exclusively for life and 2 for non-life insurance business. The holding Corporation was, however, named "Jatiya Bima Corporation". On the May 4, 1973, the Insurance Corporation Ordinance No. VII of 1973 was promulgated and subsequently enacted as Act VI of 1973 providing for the establishment of a Jiban Bima Corporation for the purpose of taking over the undertaking of the SurmaJiban Bima Corporation and the Rupsa Jiban Bima Corporation; and a Sadharan Bima Corporation for the purpose of taking over the undertakings of the Karnaphuli Bima Corporation and for the dissolution of the Jatiya Bima Corporation.

Insurance industry of Bangladesh has suffered from undue political interference, fraudulent claims, inadequate risk assessments and limited quality private sector participation. In order to reduce risk of insurance business the parliament has enacted two Acts namely Insurance Development and Regulatory Authority Act, 2010 and Insurance Act, 2010 and replaced the age old insurance laws. The Department of Insurance has been abolished and substituted by the five-member Insurance Regulatory Authority headed by the Chairman. For further enhancing the solvency position, the paid up capital for non-life and life insurance companies have been raised to Tk. 400 million and Tk. 300 million respectively. The number of Directors in the company has been fixed to 20 including 2 Independent Directors and debarred the Directors of an insurance company to be a Director of another insurance company of same class and of a bank or a financial institution simultaneously. The new law also introduced mandatory solvency margin for the insurance companies. Besides, the insurance companies will be required to ensure international accounting standard, separate Islamic insurance from conventional ones and put a limit on commission expenses. The law also allowed foreign investment in non-life insurance sector. With the promulgation of the Acts, the insurance industry has been placed under the Ministry of Finance from the Ministry of Commerce. The government formed Insurance Development and Regulatory Authority (IDRA), a five-member body to regulate the insurance sector. The authority has been formed in line with the section 3, 5 (1) and 6 of the Insurance Development and Regulatory Authority Act-2010. IDRA has taken initiative to develop of Bangladesh insurance industry as well as to regulate the industry within the purview of the Insurance Act, 2010 so as to ensure a level playing field for all

**CREDIT RATING REPORT
On
ASIA INSURANCE LIMITED**

companies. Within a short span of time the authority has succeeded in taking the industry to different height. IDRA has taken action by fixing 15% commission to stop unbridled competition and hefty commission of the insurance companies. The authority also barred on credit business and investment in land & building and discourage in- house business. Besides, IDRA also has taken initiative to introduce offsite supervision by applying CAMEL rating like central bank's CAMELS rating based on seven key indicators- capital adequacy, asset quality, reinsurance, actuarial issues, management efficiency, earnings & profitability and liquidity. Insurers hope that the authority will bring significant changes in the industry if IDRA is allowed to work as an independent authority.

4.0 CORPORATE GOVERNANCE**4.1 Board of Directors and Committees**

Board of Directors of AIL is moderately diversified without having any significant changes during the period under surveillance. As per section 76(1) of Insurance Act 2010, Board may have twelve sponsors, six public and two Independent Directors. The Board of AIL has been constituted with fourteen Directors. All sponsor shareholders are the members of the Board. The Board is currently Chaired by Mr. Yussuf Abdullah Harun, FCA. He was also the former Chairman of Southeast Bank Ltd. and former President of FBCCI. The other members of the Board are also eminent personalities from financial, trading and manufacturing sectors. The Board held 9 meetings in FY 2016 and 7 meetings in 2015. The Board mainly deals with policy and strategic issues of the company. AIL has five Board Committees namely Executive Committee (EC), Claims and Re-insurance Committee, Human Resource Development Committee, Investment Committee and Audit Committee (AC). The EC consists of ten members Chaired by Mr. Abul Bashar Chowdhury and is responsible for overall affairs such as claim settlement, administration, underwriting, reinsurance etc. The Claims and Re-insurance Committee, headed by Chairman Mr. Yussuf Abdullah Harun comprises of Nine members. This committee is authorized to take decisions on re-insurance and claim settlement. The Human Resource Development Committee comprises of nine members and is headed by Mr. Alamgir Kabir, FCA. This Committee is responsible for deciding on promotions and employee compensation package of the company. The Investment Committee (IC) comprises of eight members and is empowered to take decisions particularly regarding investment in stock market headed by Chairman of the company. AC comprises of nine members and is headed by Mr. Zakir Ahmed Khan. AC examines the financial affairs and reviews internal control and the policies related to liquidity management and capital management of the company.

4.2 Management Team

The management team of AIL is led by experienced professionals along with Mr. Imam Shaheen, ABIA as the Chief Executive Officer (CEO). CEO has long experience in insurance sectors. In the management team, CEO is aided by One Additional Managing Director (AMD), three Deputy Managing Directors (DMD), three Senior Executive Vice Presidents (SEVP), four Executive Vice Presidents (EVP) including CFO, seven Senior Vice Presidents (SVP), three Vice Presidents (VP) and nine Assistant Vice Presidents (AVP). The overall operations of the company are being carried out by 9 Departments namely Board, Legal affairs, HR & Administration and share dept, Establishment and Motor-Pool department, Finance & Accounts, Re-Insurance & Claims, Underwriting & Branch Control, Audit & Compliance, Share & Investment department and MIS & IT. AIL has three committee under management namely Management Committee, Purchase and Procurement Committee and Business Plan & Development Committee. Management Committee is Chaired by CEO. The Committee reviews the individual business performance of the executives and claims position. Purchase & Procurement Committee reviews transparency of all the purchase and procurement transaction of AIL.

Fourteen members Board

Reputed Board member

Experienced top
management

**CREDIT RATING REPORT
On
ASIA INSURANCE LIMITED****4.3 IT Infrastructure in MIS**

The company has a separate MIS & IT Department to manage all IT related matters. IT function is maintained by a Mr. Mohammad Noman Siddique, AVP having long experience in related field. All the departments of the Head office are connected with Local Area Network (LAN) supported by two servers i.e. brand and gateway. All the branches of AIL are connected with central database through online system.

All the departmental and branch offices work of the company had been automated by installation and implementation of Integrated Insurance Business Solution (IIBS) custom ERP supplied by Confidence Software Ltd. AIL has upgraded the server system from RAK-720 with auto backup in 32U RAK. During the surveillance period there are few changes in IT department such as securing file sharing system, adding new CUBE and SS display etc. The company is also yet to manage Disaster Management System with a parallel to online real time computer system somewhere other than the present site.

4.4 Human Resources Management

Quality of human resources makes the difference in today's competitive insurance business. The company has a documented HR policy. Presently AIL has been carrying out its business with total staff strength of 299 as on December 31, 2016. The company promoted seventeen employees while recruited 21 in 2016. HR turnover in AIL has been found to be low. Total 06 employees have left the company during 2017 of which 05 employees are desk level and 01 is marketing person. The company has its documented service rules and pay scales approved by the Board. The activities of the human resources of the company are being looked after by the Board Affairs, Administration & HR Department. The company has its Personnel Policy for the employees covering group insurance benefit, gratuity fund, medical allowance, provident fund and incentive bonus. The company has no separate training wing. In order to develop skills of the employees, different level executives of the company attended different programs relating to insurance business during the period. Eleven different level employees participated in different training programs organized by Bangladesh Insurance Association, Bangladesh Insurance Academy, Bangladesh Bank Training Academy, Academy of learning Ltd during 2016. However, number of participants has been found to be inadequate compared to human resource base of the company.

4.5 Marketing Strategy

The marketing activities of the company are being carried out under direct supervision of the Branch Control Department. The company has total 142 marketing executives as on December 31, 2016. Major businesses of the company come from banks and different Group of Companies. AIL earned 15.87% of its gross premium from in-house business during 2016 while it was 9.55% during 2015. AIL earned around 8.89 of its gross premium from the government business in 2016 against 8.33% in 2015. AIL has good new business strategy to emphasize on attracting new businesses. Out of total private business, the company earned 34.99% from new business against 65.00% from renewal business (30.00% new and 70.00% renewal in 2015) in terms of gross premium in 2016. While analyzing the business composition, it has been revealed that 49.77% gross premium of the company has been earned in 2016 from the top twenty clients indicating high dependency on top clients.

5.0 BUSINESS PROFILE**5.1 Business Mix**

AIL carries out all types of general insurance business as per the Insurance Act. The company underwrote total risk of Tk.145.37 billion in 2016 which was Tk.134.19 billion in 2015. The above underwriting risk constituted of Tk.72.58 billion (Tk.56.74 billion in 2015) in fire business, Tk.36.98 billion (Tk.40.68 billion in 2015) in marine business, Tk. 2.22 billion (Tk. 1.65 billion in 2015) in motor business and Tk.33.59 billion (Tk.35.12 billion in 2015) in miscellaneous business category. The above underwriting portfolio reveals company's risk appetite towards fire business which is considered to be of high risk compared to other

**CREDIT RATING REPORT
On
ASIA INSURANCE LIMITED**

business category. The income mix against the above underwriting risk of the business classes revealed that fire business contributed the highest 43.25% of total gross premium, followed by 37.21% from marine, 10.92% from miscellaneous and 8.62% from motor business category during 2016. While analyzing the zonal breakdown of policies, it was found that the business portfolio is concentrated in Dhaka zone having 76.28% of underwriting risk during 2016.

5.2 Reinsurance

In accordance with the present rule, 50% of the re-insurable general insurance business shall be reinsured with Sadharan Bima Corporation (SBC) and the remaining to be reinsured either with the corporation or any other insurer inside or outside Bangladesh. AIL, in line with the existing regulation, has made 100% reinsurance arrangement with Sadharan Bima Corporation. AIL has surplus treaty for all class of business except motor business, for which the company has excess of loss treaty. The fire business of the company is also protected by CAT XL treaty. During 2016, the company underwrote total risk of Tk.145.37 billion against reinsurance coverage of Tk. 57.51 billion representing 39.56% gross reinsurance coverage.

5.3 Claim Settlement

An insurance company, as per law, is supposed to settle a claim within 90 days from the date of receipt of full documents. However, no explicit idea of 'full document' is given in law which gives rise to mystification between the insurer and the insured. Claim settlement process starts with the intimation of claim by the insured Department. Subsequent to the intimation, a government licensed surveyor is appointed by the insured department for the assessment of actual quantum of loss. On receipt of required documents from the client and the survey report from the surveyor, the documents and the survey report are scrutinized. The CEO is empowered to approve the claim up to Tk.1.00 lac for fire and marine, Tk.30,000 for motor and Tk.50,000 for miscellaneous claims. Any claims beyond the above limits are placed before the Claims & Reinsurance Committee and settled by the Board for final approval. AIL has paid significant amount of claim during 2016 (Tk.88.69 million) and 2015 (Tk.94.62 million). As on September 30, 2017 total outstanding claims stood at Tk.65.71 million of which AIL's portion was Tk.21.28 Million and reinsurance coverage was Tk.44.43 million.

5.4 Underwriting Quality and Expertise

The overall underwriting activities are being carried out under the direct supervision of Mr. S.I.M. Ashraful Alam (Head of Underwriting and Branch Control Department) who is serving as the Senior Vice President, having adequate experience in insurance industry. Underwriting profit of AIL increased to Tk. 64.46 million in 2016 from Tk. 42.13 million in 2015. Net claim paid stood Tk. 88.69 million in 2016 from Tk.94.62 million in 2015. AIL underwrote 51 and 12 high valued risk (more than one billion) assignments during 2016 and 2015 respectively.

5.5 Sectoral Business Review

AIL, as mentioned earlier, carries out all types of general insurance business. While analyzing the performance in terms of business class, CRISL reviews the following dimensions:

5.5.1 Fire Business

The overall underwriting performance of AIL in fire segment has been found to be average during the period under surveillance. The gross premium earning has increased to Tk.206.61 million in 2016 from Tk.188.03 million in 2015 indicating 9.88% growth, underwriting profit stood at Tk. 20.20 million in 2016 and Tk. -31.61 million in 2015. The underwriting performance improved during 2016 due to decrease net claim. Total sum insured in this business segment increased to Tk.72.58 billion during 2016 from Tk. Tk.56.74 billion in 2015 against reinsurance coverage of Tk.47.18 billion in 2016 indicating 65.00% re-insurance coverage. Net premium increased to Tk.112.28 million in 2016 from Tk. Tk.99.62 million due to increase of its own retention capacity. Consequently, retention ratio increased to 54.34% in 2016 from 52.98% in 2015. Expense ratio increased to 61.00% in 2016 from 60.63% in 2015 due to comparatively higher growth of management expenses and agency commission against adjusted net premium. Claim ratio decreased to 21.87% in 2016 from 53.69% in 2015 due to

Tk. 20.20 million
underwriting profit in fire
business

**CREDIT RATING REPORT
On
ASIA INSURANCE LIMITED**

comparative decrease of net claim against adjusted net premium. Combined ratio also decreased to 82.87% in 2016 from 114.32% in 2015 due to cumulative effect of claim and expenses ratio.

5.5.2 Marine Business

The overall underwriting performance in this segment has been found to be moderate during the surveillance period. The underwriting profit decreased to Tk. 22.59 million in 2016 from Tk. 61.97 million in 2015 due to increase in net claim paid by Tk. 53.15 million. Total underwriting business in this segment decreased to Tk. 36.97 billion in 2016 from Tk.40.68 billion in 2015 against reinsurance coverage of Tk.6.30 billion in 2016 indicating 17.00% re-insurance coverage. The gross premium earning stood at Tk. 177.75 million in 2016 and Tk.177.41 million in 2015. Net premium earnings decreased to Tk. 139.82 million in 2016 from Tk.143.42 million in 2015. The retention ratio stood at 78.66% in 2016 and 80.84% in 2015. The expense ratio has increased to 55.33% in 2016 from 50.00% in 2015 due to comparatively higher growth of expenses against adjusted net premium earnings. Claim ratio also significantly increased to 30.14% in 2016 from 5.28% in 2015 due to increase in claim payment in 2016. Combined ratio in this segment also increased to 85.47% in 2016 from 55.28% in 2015 due to cumulative effect of aforementioned substantial increase of claim and expense ratio.

Tk.22.59 million
underwriting profit in
marine business

5.5.3 Motor Business

The overall underwriting performance of AIL in motor segment has been found to be moderate during the period under surveillance. The company has made underwriting profit of Tk. 7.40 million in 2016 and Tk.2.93 million in 2015. Total underwriting business in this segment increased to Tk. 2.22 billion in 2016 from Tk.1.65 billion in 2015. Both gross premium and net premium earnings increased in 2015. Gross premium has increased to Tk. 41.20 billion in 2016 from Tk.31.05 million in 2015 while net premium also increased to Tk. 40.61 billion in 2016 from Tk.29.41 million in 2015 during the above periods respectively. The retention ratio slightly increased in 2016, and stood at 98.58% in FY 2016 against 94.75% in 2015. Expense ratio in this segment moved downward to 44.31% in 2016 from 45.09%. Claim ratio has moved downward to 26.55% in 2016 from 35.45% in 2015 due to comparatively lower growth of claim expenses against adjusted net premium earnings. Combined ratio in this segment also decreased to 70.86% in 2016 from 80.54% in 2015 due to cumulative effect of aforementioned increase of claim and expense ratio.

Tk.7.40 million
underwriting profit in
motor business

5.4 Miscellaneous Business

The underwriting performance of AIL in miscellaneous business has been found to be improving. Gross premium earnings in this segment stood at Tk. 52.14 million in 2016 and Tk.57.16 million in 2015. Total sum insured decreased to 33.59 billion from Tk.35.12 billion in 2015. However, net premium earnings stood at Tk. 26.93 million in 2016 and Tk.35.71 million in 2015 during the above periods respectively. Consequently, retention ratio decreased to 51.64% in 2016 from 62.47% in 2015. Claim ratio moved downward to 1.66% in 2016 and 7.97% in 2015 due to decrease in claim payment against adjusted net premium earnings. Expense ratio increased to 64.05% in 2016 from 57.19% in 2015. Combined ratio in this segment remain stable and stood at 65.71% in 2016 and 65.15% in 2015 due to cumulative effect of aforementioned substantial increase of claim and expense ratio.

5.5 Retention Capacity

SBC revises retention limit of private sector general insurance companies from time to time depending on financial strength, underwriting expertise etc. As per latest treaty (covering for the period April 1, 2017 to March 31, 2018), retention limit has been fixed at Tk.10.00 million in fire business, Tk.3.00 million in marine (cargo) business, Tk.2.50 million in marine (hull) business, Tk.1.00 million in miscellaneous business category and Tk.1.00 million in engineering business. For all business, AIL has surplus treaty as well as facultative arrangement. However, the motor business is protected by excess of loss treaty where retained loss of the company is Tk.0.50 million while maximum amount of Tk.2.00 million in excess of the above is protected by SBC. Moreover, the company can underwrite a policy with sum insured beyond the treaty limit under facultative arrangement.

**CREDIT RATING REPORT
On
ASIA INSURANCE LIMITED***Diversified investment
portfolio**Improving financial
performance**Moderate technical
performance**Good solvency*

Page 9 of 15

5.6 Investment Portfolio

There have been no major changes in investment portfolio during the period under surveillance. The investment portfolio of AIL has been found to be diversified, however, due to investment in capital market and decline of MV of maximum shares overall investment portfolio has become exposed to financial risk. As on September 30, 2017, total investment in capital market stood at Tk.255.93 million with the trading intend and suffered unrealized loss of Tk.62.93 million considering market value of Tk.192.99 million. However, FDR base of the company has been decreased to Tk. 622.22 million in 2016 from Tk.641.73 million in 2015. Total investment stood at Tk. 839.21 million in 2016 and Tk. 841.30 million in 2015. Out of the above investment in 2016, Tk.622.22 million (Tk. 641.73 million in 2015) has been invested in FDR followed by Tk.191.99 million in shares, Tk.25.00 million in bond.

6.0 PERFORMANCE**6.1 Financial Performance**

Overall financial performance of AIL has been found improving during the period under surveillance. AIL's underwriting profit has been increased to Tk. 64.46 million in 2016 from Tk. 42.13 million in 2015. The profit before tax increased to Tk. 98.80 million in 2016 from Tk. 78.15 million in 2015. The profit after tax also increased to Tk. 74.97 million in 2016 from Tk. 57.04 million in 2015.

Consolidated gross premium earnings of the company increased to Tk. 477.69 million in 2016 from Tk.453.65 million in 2015 while net premium also increased to Tk. 319.63 million in 2016 from Tk.308.16 million in 2015 during the above periods respectively. Both gross underwriting margin and net underwriting margin increased in 2016. Gross underwriting margin increased to 52.29% in 2016 from 46.27% in 2015 while net underwriting margin also increased to 17.46% in 2016 from 11.78%. Pre-tax operating profit margin increased to 26.76% in 2016 from 21.84% in 2015 respectively. Consequently, both Return on Average Asset (ROAA) and Return on Average Equity (ROAE) moved upward in 2016. ROAA has been increased to 6.21% in 2016 from 5.22% in 2015 while ROAE moved upward to 9.06% in 2016 from 7.05% during the above periods respectively. Return on Average Investment (ROAI) increased to 7.86% in 2016 and 8.64% in 2015.

6.2 Technical Analysis

The overall technical performance of the company which is measured in terms of retention ratio, expense ratio and claim ratio which have been found to be moderate during 2016. The retention ratio of the company has decreased to 66.91% in 2016 from 67.93% in 2015 due to comparative decrease of net premium over gross premium, however it has been found to be good. Expense ratio of the company has increased to 57.12% in 2016 from 54.42% in 2015 due to comparatively higher growth of expenses against adjusted net premium earnings. Due to decrease in net claim payment, claim ratio has moved downward to 24.02% in 2016 and 26.45% in 2015. The company is yet to reduce its high management expense. Total management expenses and agency commission (respective business classes and other non related business) of AIL stood at Tk.228.61 million against the allowable limit of Tk.209.99 million indicating 8.86% higher than allowable limit in 2016 which was 24.32% higher in the previous year.

7.0 BALANCE SHEET STRENGTH**7.1 Solvency Analysis**

As per Insurance Act 2010, the paid up capital has been fixed at Tk.400 million as minimum capital requirement for all non-life insurance companies. AIL's paid up capital stood at Tk.470.70 million in 2016. Though maximum solvency indicators have declined in 2016, equity base of the company has been found to be good and increased to Tk. 840.69 million in 2016 from Tk.813.56 million in 2015. The equity consists of 55.99% paid up capital, 13.83% share premium, 23.82% reserve for exceptional losses, 5.79% retained earnings and

**CREDIT RATING REPORT
On
ASIA INSURANCE LIMITED**

Average liquidity

remaining 0.57% as general reserve. External liabilities to equity ratio have increased to 0.72 times in 2016 from 0.65 times in 2015 due to comparatively higher growth of liability against equity. Unexpired risk reserve to net claim ratio has been increased to 1.45 times in 2016 from 1.30 times in 2015 due to comparatively lower growth of claim expenses against risk reserve. Net worth to total assets also decreased to 51.05% in 2016 from 53.02% in 2015. Moreover, Internal Capital Generation Ratio (ICGR) of AIL increased to 5.05% from 2.10%.

7.2 Liquidity and Funding

The overall liquidity of the company has been found to be average. Total current assets of the company stood at Tk. 1,416.76 million and Tk. 1,470.34 million in 2015 indicating that AIL is capable of managing liquid assets to meet claim payment as well as its day to day obligation with good safety and efficiency. The Liquid assets to insurance fund ratio decreased to 6.80 times in 2016 from 6.97 times in 2015. Liquid assets to total assets ratio slightly decreased to 53.13% in 2016 from 56.05% from 58.52% during the above periods respectively. Due to comparatively lower growth of current assets against current liability current ratio of the company also decreased to 2.42 times in 2016 from 2.82 times in 2015. Liquid assets to net claim ratio have moved upward to 9.87 times in 2016 and 9.09 times in 2015. Liquid asset to total current liability ratio decreased to 1.50 times in 2016 and 1.65 times in 2015 during the above periods respectively.

8.0 RISK MANAGEMENT**8.1 Industry Risk**

Too many insurance companies in a small market pose significant risk for all the companies. The two acts 'Insurance Development and Regulatory Authority Act, 2010' and 'Insurance Act, 2010' has brought significant changes in the regulation of the industry. For further enhancing the solvency position, the paid up capital for non-life and life insurance companies have been raised to Tk.400 million and Tk.300 million respectively. Moreover, mandatory credit rating for the insurance companies created a positive vibration in the industry as the institutional insured expect for good credit rating to safeguard their interest. The same will pressurize the underperforming (non investment grade) insurance companies to retain their market share. Moreover, two more non-life insurance companies have commenced their business in small market.

8.2 Business Risk Management

AIL adopted underwriting guideline to mitigate the business risk. Moreover, underwriting professionals at branch level are given specific instruction and guidelines from time to time from Head Office regarding underwriting of different types of policies. AIL has decentralized its underwriting functions and delegated powers to employees of its different branches for providing prompt, efficient and effective underwriting services to the prospective clients. Among the different classes of businesses AIL has more concentration in fire (49.93% of total underwriting risk) and marine cargo (25.26% underwriting risk) business segment which are categorized under high to medium risk category. During 2016, among the different class of businesses, AIL earned maximum (43.25%) gross premium from fire business while incurred net claim of 36.37% of total net claim in this segment. However, out of outstanding claim maximum portion (85.24%) remains in fire segment indicating significant business risk, though maximum portion has been covered by reinsurance. Besides, the zonal concentration of the company remained in Dhaka and Chittagong region indicating significant business risk.

8.3 Internal Control Risk

AIL has separate Audit & Compliance Department besides the Board Audit Committee to ensure proper internal control of the company. The department comprises of three officials headed by Mr.Ahsan Habib having professional background on Internal Audit. This department audited the branches as per audit plan which approved by board audit committee and after audit the Department sends the report to the MD and respective branches to comply with. When the branches reply, the reports are placed before the Audit Committee.

**CREDIT RATING REPORT
On
ASIA INSURANCE LIMITED**

Exposure to financial risk

8.4 Catastrophic Risk Management

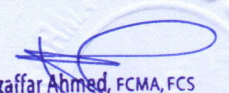
Bangladesh is vulnerable to natural disaster which exposes AIL to catastrophic risk. However, the company has CAT excess of loss treaty with SBC to protect the risk in fire business from which it can cover loss of Tk.7.00 million in excess of Tk.3.00 million. AIL, however, did not encounter any catastrophic loss in 2016 and previous year.

8.5 Financial Risk

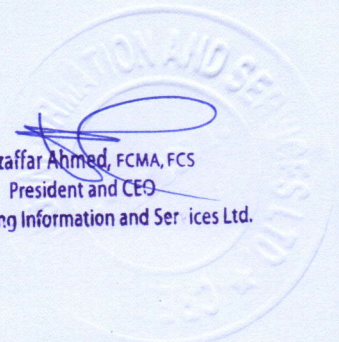
The applicable income tax rate for insurance companies is 40.00% on the taxable net profit. In last nine subsequent accounting years (2006-2016), the company kept provision of Tk. 216.99 million. Assessment of AIL has been completed up to accounting year 2006-07. Following that year, assessment is yet to be completed due to appeal. If the company becomes unsuccessful in those appeals, additional provision will be required to fulfill the shortfall in provision which will expose the company to financial risk.

9.0 OBSERVATION SUMMARY

<p>Rating Comforts:</p> <ul style="list-style-type: none"> • Good solvency • Improving financial performance • Good FDR base • Diversified investment portfolio • Experienced top management • Improving IT infrastructure • Reputed and qualified Board members 	<p>Rating Concerns:</p> <ul style="list-style-type: none"> • Moderate profitability • High claim ratio • No growth in FDR • Underwriting loss in marine hull segment • Exposure to capital market investment risk • Low internal capital generation • High Management expenses • Exposure to financial risk • Decline in return of investment • Moderate Market share
<p>Business Prospects:</p> <ul style="list-style-type: none"> • Expansion of branch network • Prudent underwriting • Product diversification • Compliance of Insurance Act 	<p>Business Challenges:</p> <ul style="list-style-type: none"> • Too many companies in small market • Unethical business practice • Compliance of Insurance Act



Muzaffar Ahmed, FCMA, FCS
President and CEO
Credit Rating Information and Services Ltd.



**CREDIT RATING REPORT
On
ASIA INSURANCE LIMITED****10.0 PROSPECTS**


Aside from a handful of high-profile casualties, the global insurance industry seems, so far, to have escaped the worst ravages of the financial crisis. Mainstream business operations are holding up well. Although the insurance industry has been more resilient than the banking sector, capital markets have not always drawn the same conclusion. Share prices at most of the world's major insurers have tumbled, while spreads on credit default swaps have widened considerably, indicating fears of future debt default. Whether the markets are accurate in their pricing of insurance assets remains to be seen, but insurers do seem to have been affected by the general market downturn. Faced with troubled capital markets, falling ratings and share prices, many insurers are rethinking their risk and capital management strategies.

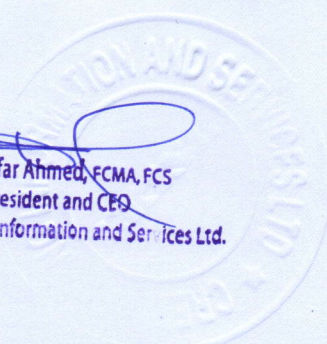
Finally, changes in insurance industry (Insurance Development & Regulatory Act 2010 and Insurance Act 2010) are likely to bring positive changes in the insurance sector to make it vibrant and operationally sound. Besides, the authority has given license to two more non-life and nine life insurance companies in a small market signifying stiff competition. Based on the overall global, macroeconomic and industry outlook, insurance industry is presumed to encounter tough time for which all the market players including AIL should take cautious steps to adopt itself with the local and as well as global changes.

END OF THE REPORT

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[We have examined, prepared, finalized and issued this report without compromising with the matters of any conflict of interest. We have also complied with all the requirements, policy procedures of the BSEC rules as prescribed by the Bangladesh Securities and Exchange Commission.]


Muzaffar Ahmed, FCMA, FCS
President and CEO
Credit Rating Information and Services Ltd.



CREDIT RATING REPORT
On
ASIA INSURANCE LIMITED

11.0 Financials:

11.1 Balance Sheet as at December 31

BALANCESHEET	2016Y	2015Y
ASSETS		
Cash in Hand	2.10	1.15
Cash with Banks	658.69	659.24
Cash and Bank Balance	660.79	660.39
Amount Due from other person/bodies carrying insurance business	261.32	210.44
Adv., Depo. & PrePmt. (Sundry Debtors)	280.47	400.53
Outstanding Int./Divi./Rent	22.18	25.10
Investment in Securities (ST)	191.99	174.57
Total Current Assets	1,416.76	1,471.03
Investment in Securities(LT)	25.00	25.00
Fixed Assets	38.30	38.43
Stock of Stationary	0.42	0.62
Land and Property	166.34	-
Non Current Assets	230.06	64.04
Total Assets	1,646.82	1,535.08
Paid Up Capital	470.70	470.70
Reserve for Exceptional Loss	200.27	175.27
Share Premium	116.29	116.29
General Reserve	4.77	3.77
Retained Earning	48.66	47.53
Shareholders' Equity	840.69	813.56
Fire Insurance	44.91	39.85
Marine Insurance	56.68	57.52
Motor Insurance	16.24	11.77
Miscellaneous Insurance	10.77	14.28
Balance of Fund Account	128.60	123.42
Estimated Liab. of Outstanding Claims	68.55	68.56
Total Insurance Fund	197.15	191.99
Premium Deposit	70.32	59.38
Deferred Liab.	0.38	1.67
Amount Due to other person/bodies carrying insurance business	247.06	220.73
Sundry Creditors	63.01	41.00
Other Loans	6.69	6.29
Current Liab.	387.46	329.07
Total Current Liab. including Insurance Fund	584.61	521.06
Long Term Debt	3.07	7.12
Provision for Income Tax	218.46	193.34
Total Liab.	806.14	721.52
Total Liab. and Shareholders' Equity	1,646.82	1,535.08

**CREDIT RATING REPORT
On
ASIA INSURANCE LIMITED**

11.2 Profit and Loss Account for the year ended on December 31

PROFIT & LOSS A/C	2016Y	2015Y
Net Underwriting P/L	64.46	42.13
Interest on FDR & STD	45.44	60.90
P/L from Sale of Shares	7.23	0.24
Interest on PSP & Bonds	2.99	2.99
Dividend Income	12.45	9.64
Other Interest Income	0.05	0.07
Gross Investment and Other Interest Income	68.16	73.85
Other Income	0.08	0.06
Total Income	132.71	116.04
Management Expenses (P/L A/c)	18.12	28.62
Interest Expenses	1.90	2.21
Depreciation Expenses	13.88	7.05
Total Management Expenses	33.91	37.89
Profit before Tax	98.80	78.15
Provision for Tax	23.83	21.12
Profit after Tax	74.97	57.04
Reserve for Exceptional Loss	25.00	15.00
Profit after Tax & Exceptional Loss	49.97	42.04
Balance B/F	47.53	54.54
Proposed Dividend	47.07	47.07
General Reserve	1.00	-
Dividend Equalization Fund	0.77	-
Other Appropriation	-	1.98
Balance Transferred to B/S	48.66	47.53

11.3 Consolidated Revenue Account for the year ended on December 31

Particulars	2016Y	2015Y
Gross Premium of the year	477.69	453.65
Re-insurance Premium	158.06	145.48
Net Premium less Re-insurance	319.63	308.16
Commission on Re-Insurance ceded & others	49.59	49.63
Adjusted Net Premium	369.23	357.79
Opening Balance	123.42	97.11
Total	492.65	454.90
Net Claims Paid	88.69	94.62
Agency Commission paid	74.41	69.79
Commission on Re-Insurance paid	-	-
Expenses of Management	136.08	124.58
Other Expenses	0.40	0.35
Profit Transferred to P/L A/C	64.46	42.13
Balance (C/F)	128.60	123.42

**CREDIT RATING REPORT
On
ASIA INSURANCE LIMITED**

**CRISL RATING SCALES AND DEFINITIONS
INSURANCE CLAIM PAYING ABILITY RATING**

RATING	DEFINITION
AAA Triple A	Highest claims paying ability. Risk factors are negligible and almost risk free.
AA+, AA, AA- Double A	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 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	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	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 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	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	Poor claims paying ability. Adverse underwriting or economic conditions would lead to lack of ability on part of insurer to meet policyholder obligations.
C	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	Insurance companies rated in this category are adjudged to be currently in default.

Muzaffar Ahmed, FCMA, FCS
President and CEO
Credit Rating Information and Services Ltd.