

Credit Rating Report (Surveillance) Takaful Islami Insurance Limited

Analysts:

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Assigned Rating

Long Term : A₂

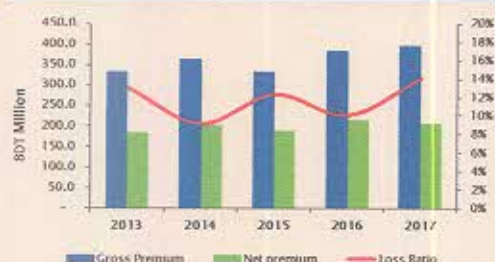
Short Term : ST-3

Outlook : Stable

Date of Rating : 19 July 2018

Valid Till : 30 June 2019

Methodology: CRAB's Non-Life Insurance Rating Methodology
(www.crab.com.bd)



Financial Highlights

Year Ended December 31		
(BDT Mil)	2017	2016
Gross Premium (Mil. BDT)	397.1	384.5
Net-Premium (Mil. BDT)	207.6	213.9
Paid up Capital (Mil. BDT)	379.0	361.0
Ratio		
Loss Ratio (%)	14.0	10.1
Expense Ratio (%)	109.6	94.6
ROAA(%)	8.5	7.2
Underwriting Profit Margin (%)	8.2	17.1
Risk Retention (%)	52.3	55.6
Solvency (times)	12.3x	11.8x

RATING BASED ON: Audited financial statements as of 31 December 2017 and other relevant quantitative as well as qualitative information up to the date of rating declaration.

COMPANY PROFILE

Takaful Islami Insurance Limited (hereafter called TAKAFUL or TIIL or the Company) was incorporated on 21 December 1999. The principal objective of the Company is to carry on all kinds of insurance, guarantee and indemnity business other than life insurance business and provide protection & financial security through 'Tabarru' guided by Islamic Shariah. Major products of TAKAFUL are Fire Insurance, Motor Insurance, Marine Insurance, Engineering Insurance etc. As of 31 December 2017, the paid up capital of the Company reached at BDT 379.0 million. Currently TIIL has 37 branches. Head office of the Company is located at 42, Dilkusha Commercial Area, 7th Floor, Dhaka-1000.

RATIONALE

Credit Rating Agency of Bangladesh Limited (CRAB) has affirmed the long term rating of Takaful Islami Insurance Limited at "A₂" (pronounced Single A two) and retained short term rating at "ST-3". CRAB performed the rating surveillance based on financial statements up to 31st December 2017 and other relevant information.

Insurance Companies rated "A₂" have strong financial security characteristics. Insurance Companies rated 'ST-3' have adequate ability to meet their financial commitments on short-term policy obligations.

The rating reflects the Company's strength in solvency position, higher claim settlement and reserve for exceptional loss. However, high management expenditure along with decreased underwriting profit was the principal concern of TIIL.

High Solvency Margin: The Company's solvency position remained well above the required level for the last five years (on an average 11.2 times for last five years). In 2017, available solvency was 12.3 times of required solvency.

Higher claim settlement: On an average 33.2% of total claim was settled by TIIL in last five years. Compare to previous years TIIL's claim settlement was much higher at 52.3%.

Adequate Reserve: TIIL has kept BDT 205.4 million as reserve for exceptional losses and BDT 13.9 million as general reserve. The proportion of reserve for exceptional losses was 1.2 times of net premium and 8.3 times of net claim. The Company also maintained BDT 83.6 million as reserve for unexpired risk as per regulatory requirement.

High Cost Structure: In 2017, the Company incurred BDT 227.6 million as management expenses. Expenses ratio of GDIC was 109.6% at the end of 2017 whereas combined ratio was 123.6% for the same duration.

Lower Underwriting Profit: During 2017, underwriting profit of the Company reduced by 53.3% to BDT 17.0 million. Underwriting profit margin of the Company decreased by 8.9 percentage points to 8.2% at the end of 2017. During 2017, underwriting profit margin was mainly dominated by the marine class of business.

The rating also takes into account the company's underwriting procedure, management's experience and expertise, internal control & compliance system.

■ OPERATIONAL REVIEW

Classes of Business & Charges

TIIL earned gross premium of BDT 391.7 million, of which 87.7% (BDT 348.1 million) was from direct business and 12.3% (BDT 49.0 million) was from govt. business. In 2017 after reinsurance ceded of BDT 189.5 million the retained premium of the Company reached at BDT 207.6 million. During the same duration net premium earnings of the Company decreased by 2.9%.

Table 1

Segregation of Net Premium

(Mil. BDT)	--Year ended December 31--					
	2017			2016		
	Amount	Total (%)	Growth (%)	Amount	Total (%)	Growth (%)
Fire	80.1	38.6	(16.9)	96.4	45.0	39.9
Marine	99.9	48.1	7.2	93.2	43.6	(4.6)
Motor	23.4	11.3	24.9	18.8	8.8	(10.1)
Misc.	4.2	2.0	(25.4)	5.6	2.6	241.0
Total	207.6	100.0	(2.9)	213.9	100.0	13.1

During 2017, net claim of the Company decreased by 34.5% to BDT 29.1 million on the back of high claim on fire segment of business. Of the total net claim 88.7% was in fire insurance segment followed by motor insurance (by 7.6%), marine insurance (by 3.5%) and miscellaneous insurance (by 0.2%) during 2017.

Table 2

Segregation of Net Claim

(Mil. BDT)	--Year ended December 31--					
	2017			2016		
	Amount	Total (%)	Growth (%)	Amount	Total (%)	Growth (%)
Fire	25.8	88.7	80.3	14.3	66.2	(19.1)
Marine	1.0	3.5	(61.7)	2.7	12.3	50.4
Motor	2.2	7.6	(49.6)	4.4	20.2	14.8
Misc.	0.1	0.2	(75.9)	0.3	1.3	943.9
Total	29.1	100.0	34.5	21.6	100.0	(7.2)

Growth Analysis

In 2017, gross premium earnings of the Company grew marginally by 3.3% whereas net premium decreased by 2.9%. Nevertheless, underwriting profit of TIIL also notable declined (by 53.3%) to BDT 17.0 million. Furthermore, investment & other income also declined by 20.0% in 2017 compare to 2016.

Table 3

Key Performance Indicators						
--Year ended December 31--						
(Mil. BDT)	2017		2016		2015	
	Amount	Growth (%)	Amount	Growth (%)	Amount	Growth (%)
Gross Premium	397.1	3.3	384.5	15.1	334.0	(7.8)
Net Premium	207.6	(2.9)	213.9	13.1	189.1	(7.0)
Net Claim	29.1	34.5	21.6	(7.2)	23.5	25.4
Underwriting Profit	17.0	(53.3)	36.5	4.5	34.9	11.5
Investment & Other Income	32.1	(20.0)	40.1	(12.2)	45.7	3.7
Net Profit (before tax)	81.2	27.2	63.8	(10.8)	71.6	24.2
Management Expense	227.6	12.4	202.4	7.0	189.3	0.9
Shareholder's Equity	662.9	9.4	605.9	7.8	562.2	10.5
Total Assets	951.1	6.9	889.4	11.8	795.6	6.3

Due to higher management expense during 2017 net profit (before tax) of the Company declined by 27.2% and became BDT 81.2 million which was BDT 63.8 million in 2016. Moreover, management expense of the Company was BDT 227.6 million which grew by 12.4% over last year. Total assets of the Company reached BDT 951.1 million registering a growth of 6.9% in the same period.

■ FINANCIAL REVIEW

Underwriting Quality

TIIL's loss ratio increased by 3.9 percentage points mainly resulted from higher net claim payment during the year. Expense ratio of the Company increased by 15.0 percentage points resulted from lower net premium. As an overall effect, combined ratio of TIIL increased to 123.6% at the end of 2017. Proportion of net premium from marine segment was 48.1%, followed by fire segment (by 38.6%) and motor segment (by 11.3%). Rest of the portion was shared by miscellaneous business segment.

Table 4

Underwriting Performance				
--Year ended December 31--				
%	2017	2016	2015	2014
Loss Ratio	14.0	10.1	12.4	9.2
Fire	32.2	14.9	25.7	7.9
Marine	1.0	2.9	2.0	9.1
Motor	9.4	23.3	18.3	14.3
Misc.	1.6	5.0	1.6	1.7
Expense Ratio	109.6	94.6	100.1	92.3
Combined Ratio	123.6	104.8	112.5	101.5

Management Expenses

During 2017 the Company incurred management expense of BDT 227.6 million registering a growth of 12.4% resulted from increase in management expense of fire business class. The management expense of TIIL comprises agency commission and management expenses shown in the revenue account and in profit & loss account.

Table 5
Class Wise Management Expenses

	--Year ended December 31--			
(Mil. BDT)	2017	2016	2015	2014
Fire	88.7	78.8	67.9	74.3
Marine	58.5	45.6	53.0	44.7
Motor	12.2	8.4	9.9	10.1
Misc.	4.1	6.4	4.1	3.4
Total	163.4	139.2	134.9	132.5
Mgt. Expense (P/L Account)	11.9	11.9	10.0	6.5
Agency Commission	52.2	51.3	44.4	48.7
Grand Total	227.6	202.4	189.3	187.7

In 2017, actual management expenses of the Company were BDT 227.6 million against the allowable management expenses of BDT 106.0 million. Moreover, the actual management expenses were 114.8% more than the allowable amount.

Claim Settlement

In 2017, total claims were 239 in number amounting BDT 213.6 million from all classes of business. In the same duration 151 new claims amounting BDT 87.8 million was incurred. Settled claims were 121 in number amounting BDT 111.7 million. Top 10 settled claim of the Company consists 92.6% of total claim settlement. In 2017 claim settlement ratio increased to 52.3% from 22.8% in 2016. During the same period the outstanding claim was 96 amounting BDT 102.2 million. Top 10 outstanding claims amount was BDT 108.7 million which was 77.5% of total outstanding claims.

Table 6
Claim Settlement

	--Year ended December 31--			
(Amount in Mil. BDT)	2017	2016	2015	2014
1) Claims Outstanding at the Beginning of the Year	125.8	128.9	187.3	110.9
2) Claims Lodged during the Year	87.8	34.1	44.2	140.6
3) Total Claims (1+2)	213.6	162.9	231.6	251.5
4) Claims Paid during the Year	111.7	37.2	102.7	64.1
5) Claims Paid as % of Total Claims	52.3%	22.8%	44.4%	25.5%
6) Claims Repudiated during the Year	-	-	-	-
7) Claims Repudiated as % of Total Claims	-	-	-	-
8) Claims Settled during the Year (4+6)	111.7	37.2	102.7	64.1
9) Claims Settled as % of Total Claims	52.3%	22.8%	44.4%	25.5%
10) Claims Outstanding at the End of the Year (3-8)	102.2	125.8	128.9	187.3

Profitability

Of the total revenue of the Company was dominated by capital gain (by 49.1% of total) came from sale of quoted shares followed by profit, interest & dividend income (by 33.3% of total) and underwriting profit (by 17.7% of total). During 2017, underwriting profit of the Company reduced by 53.3% to BDT 17.0 million. Moreover, the underwriting profit margin of the Company decreased by 8.9 percentage points to 8.2%. During 2017, underwriting profit margin was mainly dominated by the marine class of business. Net profit (before tax) of TIIL enhanced by 27.2% to BDT 81.2 million resulted from capital gain. In 2017, return on assets was 8.5% which was 7.2% in 2016.

Investment Portfolio

During 2017 investment portfolio of TIIL increased by 9.3% to BDT 765.2 million. Of the total investment 69.6% was in fixed deposits with different banks, 27.1% in quoted shares of different companies and 3.3% invested in govt.

CRAB Non-Life Insurance Rating

securities. The market value of the quoted share was BDT 207.4 million against cost price of BDT 192.7 million at the end of 2017. The quoted shares investment includes Islami Bank Bangladesh Limited, Beximco Limited, Summit Power Limited, Titas Gas etc.

Table 7

Investment Portfolio						
--Year ended December 31--						
(Mil. BDT)	2017		2016		2015	
	Amount	Total (%)	Amount	Total (%)	Amount	Total (%)
Govt. Securities (NIB)	25.0	3.3	25.0	3.6	25.0	4.0
Shares	207.4	27.1	178.7	25.5	149.4	24.1
<i>Quoted Shares</i>	<i>207.4</i>	<i>27.1</i>	<i>178.7</i>	<i>25.5</i>	<i>149.4</i>	<i>24.1</i>
<i>Un-quoted Shares</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
Fixed Deposit	532.9	69.6	496.3	70.9	445.0	71.8
Total Investment	765.2	100.0	700.0	100.0	619.4	100.0

Capital Adequacy

In 2017, paid up capital of TIIL grew by 5.0% and reached to BDT 379.0 million resulted from internal capital generation. TIIL's shareholders' equity to total assets ratio was 69.7% at the year end.

Solvency Margin

TIIL's solvency margin remained well above the required level in 2017. TIIL's required solvency was BDT 48.4 million whereas the Company's available solvency was BDT 597.6 million which means the value of assets had been more than the liabilities. Thus during 2017 the available solvency was 12.3 times of required solvency.

Table 8

Solvency					
--Year ended December 31--					
(Mil. BDT)	2017	2016	2015	2014	2013
Available Solvency (AS)	597.6	551.3	503.1	449.7	440.6
Required Solvency (RS)	48.4	46.9	42.6	46.2	43.0
Solvency Margin (times)	12.3	11.8	11.8	9.7	10.3

Liquidity Position

TIIL's current assets increased by 4.5% mainly resulted from different advances and pre-payments. Moreover, Current liabilities of the Company also increased marginally (by 3.7%) compared to previous year. In 2017 current assets was 3.4 times of current liabilities. In the same duration, TIIL's liquid assets to net claims decreased to 20.8 times (2016: 26.4 times) on the back higher claim settlement. Of the total liability in 2017, 71.0% was shared by current liabilities. Out of the total assets, 61.0% was shared by cash & bank balance during the same duration. TIIL's net cash flow from operating activity decreased to BDT 22.5 million in 2017 from BDT 68.3 million in 2016.

Re-insurance Utilization

Sadharan Bima Corporation (SBC) and overseas Reinsurers had provided treaty reinsurance protection to TIIL. Each year SBC and foreign Reinsurer revise the treaty retention capacity of all private general insurance companies. The retention capability for 1st April 2017 to 31st March 2018 was: Fire BDT 7.00 million; Marine Cargo BDT 3.00 million, Marine Hull BDT 3.00 million; Miscellaneous: BDT 1.00 million for all business, BDT 0.20 million for personal accident; and Motor: BDT 0.50 million. Usually high retention level signals inadequate reinsurance protection while low retention level hampers profitability. Risk retention of TIIL was high in motor class of business which was in line with industry scenario. In 2017, risk retention of the Company decreased by 3.3 percentage points to 52.3% from 55.6% in 2016.

Table 9

Risk Retention Ratio					
---Year ended December 31---					
(%)	2017	2016	2015	2014	2013
Fire	40.7	48.1	44.5	43.5	43.9
Marine	69.9	72.0	73.6	76.3	74.6
Motor	83.4	83.3	88.6	94.5	96.9
Misc.	14.3	17.4	7.2	6.5	7.4
Total	52.3	55.6	56.6	56.2	55.1

Reserve Adequacy

In 2017, TIIL kept BDT 205.4 million for exceptional losses which increased by 11.3% from the previous year. The proportion of reserve for exceptional losses was 1.2 times of net premium and 8.3 times of net claim. During the year the Company maintained general reserve of BDT 13.9 million. In 2017, TIIL's reserve to total assets was 25.4%. In addition, TIIL has the reserve for unexpired risk which was BDT 83.6 million. It is mandatory for all insurance companies to maintain this reserve. For all class of business excluding marine-hull insurance TIIL preserves 40% of net premium and for marine hull insurance the rate is 100%. TIIL has been maintaining this reserve regularly as per regulation.

■ CORPORATE GOVERNANCE

Shareholding Pattern

As on 31st December 2017, the paid up capital of TIIL was BDT 379.0 million consisting 36,097,389 ordinary shares and 1,804,869 bonus shares allotted in 2016. 43.8% shares were held by the Sponsor Directors, 56.1% held by the General Public and Institutional Investors. TIIL will issue 6% stock dividends and 5% cash dividend for the financial year 2017.

Board of Directors

Engr. Khandaker Mesbahuddin Ahmed is the Chairman of the Board. The Board of TIIL has 20 members (including 2 Independent Director) and most of them have entrepreneurial experiences. During 2017 the Board held 05 board meetings. The Directors attended in aggregate 80% of the total number of meetings in the same duration.

Committees of the Board

The Board of TIIL has 03 committees to run the organization smoothly. The committees are Executive Committee, Claims Committee and Audit Committee. Executive committee comprises of 09 members. The committee is responsible for approval of all expenditure, purchase, appointment, promotion and business plan. During 2017, Executive Committee held 12 meetings. Claims Committee comprising 6 members conducted 08 meetings and Audit Committee having 05 members arranged 05 meetings. There are a Management Committee comprised of 05 members and the committee conducted 06 meetings in 2017.

■ MANAGEMENT

Senior Management

Mr. Md. Azizul Islam, is the CEO of Takaful Islami Insurance Ltd. Mr. Islam has more than 30 years of experience in insurance sector and joined TIIL in 2017. Prior to join TIIL Mr. Islam served Paramount Insurance Limited as Managing Director & CEO for about 12 years. The operation of TIIL is managed through 9 departments. These are Board Secretariat, Admin & Establishment, Finance & Accounting, Non-Marine underwriting, Marine Underwriting, Claims & Reinsurance, Internal Audit, Share and IT.

Other Senior Management

Mr. Abul Kalam Azad	Asst. Managing Director & Company Secretary
Mr. Moinul Ahsan Chowdhury	Asst. Managing Director & CFO
Mr. Mohammad Selim	General Manager & Head of Claim and Re-Insurance Dept.

Human Resource

As on 31st December 2017 TIIL had total 1,136 employees. The Company has total 37 branches, among those 21 are in Dhaka Division; 7 in Chattogram Division and the rest in other areas of Bangladesh. The recruitment of officers in different grades is made by publishing advertisement in daily newspaper or through internet. HR department scrutinize the applications and call for written test. After the written test the final selection is made by taking interview of the shortlisted candidates. TIIL took steps for training of its employees internally by senior officers of the Company and by Bangladesh Insurance Academy (BIA), Bangladesh Insurance Association, DSE training centre and Central Shariah Council. Service rule of TIIL is approved by the Board and duly submitted to IDRA.

Information Technology (IT)

Takaful Islami Insurance Limited is in process to use information technology towards utmost facilities. TIIL has connected its 36 branches under online networking from the beginning of 2013. TIIL with the help of external software developer organization developed "Integrated Insurance Business Solution" software which facilitates all the business process and functions of TIIL.

External Auditor

Shiraz Khan Basak & Co.

ANNEXURE 1

TABLE 1.1: DETAILS OF SHAREHOLDING AS OF 31 DECEMBER 2017

SL No.	Name of Directors	No. of shares	% of Holdings
Sponsor Directors:			
1	Engr. Khondaker Mesbahuddin Ahmed (Chairman)	1,137,055	3.00%
2	Mr. Anwar Hossain Khan (Vice Chairman)	788,853	2.08%
3	Mr. Emdadul Haque Chowdhury	758,041	2.00%
4	Mr. Anwar Hossain Chowdhury	758,041	2.00%
5	Mr. Md. Abul Hashem	758,041	2.00%
6	Md. Mofiz Uddin	884,371	2.33%
7	Mr. Md. Humayun Kabir Patwary	1,137,055	3.00%
8	Mr. Shamsul Arefin Khaled	758,041	2.00%
9	Mr. Abul Hashem	1,137,055	3.00%
10	Mrs. Farzana Rahman	1,137,055	3.00%
11	Mrs. Nasreen Haque	798,654	2.11%
12	Mr. Md. Moshir Rahman Chamak	758,041	2.00%
Public Shareholder Directors:			
13	Mr. Anwar Hossain	404,288	1.07%
14	Mr. Md. Mohiuddin	316,914	0.84%
15	Mr. AFM Motassem Belal	91,306	0.24%
16	Mr. Md. Hafiz Uddin	25,256	0.07%
17	Mr. Masudul Haque	1,048,612	2.77%
18	Dr. Mohammad Osman Ghani	1,559,955	4.12%
Sponsor Shareholder:			
19	Mrs. Shahnaz Parvin	1,363,998	3.60%
20	Alhaj Tofazzol Hossain	505,359	1.33%
21	Mr. Waliul Huq	252,678	0.67%
22	Mrs. Monowara Sultana	126,328	0.33%
23	Mrs. Amena Shaheen	126,328	0.33%
Independent Directors:			
24	Mr. A.K.M Aminul Islam	-	-
25	Mr. Md. Nurun Nabi Bhuiyan	-	-
Total		16,631,325	43.9%

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ANNEXURE 2

TABLE 2.1: INCOME SEGREGATION

Segregation of Investment & Other Income

--Year ended December 31--

(Mil. BDT)	2017		2016	
	Amount	Total (%)	Amount	Total (%)
Profit on TDR	19.0	23.9	22.5	52.6
Interest Income	8.2	10.3	9.1	21.3
Dividend Received	4.8	6.0	8.4	19.7
Gain on Sales of Share	47.4	59.6	2.6	6.1
Other Income	0.1	0.2	0.1	0.3
Total	79.5	100.0	42.8	100.0

ANNEXURE 3

TABLE 3.1: RATING HISTORY

Date of Rating	Long Term	Short Term	Outlook
15 June 2017	A ₂	ST-3	Stable
23 June 2016	A ₃	ST-3	Stable
06 August 2015	A ₃	ST-3	Stable

CRAB RATING SCALES AND DEFINITIONS
LONG TERM RATING: NON-LIFE INSURANCE

RATING	DEFINITION
AAA Triple A (Extremely Strong Financial Security)	Insurance Companies rated 'AAA' have EXTREMELY STRONG financial security characteristics. 'AAA' is the highest Insurer Financial Strength Rating assigned by CRAB.
AA ₁ , AA ₂ , AA ₃ * Double A (Very Strong Financial Security)	Insurance Companies rated 'AA' have VERY STRONG financial security characteristics, differing only slightly from those rated higher.
A ₁ , A ₂ , A ₃ Single A (Strong Financial Security)	Insurance Companies rated 'A' have STRONG financial security characteristics, but are somewhat more likely to be affected by adverse business conditions than Insurers with higher ratings.
BBB ₁ , BBB ₂ , BBB ₃ Triple B (Good Financial Security)	Insurance Companies rated 'BBB' have GOOD financial security characteristics, but are more likely to be affected by adverse business conditions than higher rated insurers.
BB ₁ , BB ₂ , BB ₃ Double B (Marginal Financial Security)	Insurance Companies rated 'BB' have MARGINAL financial security characteristics. Positive attributes exist, but adverse business conditions could lead to insufficient ability to meet financial commitments.
B ₁ , B ₂ , B ₃ Single B (Weak Financial Security)	Insurance Companies rated 'B' have WEAK financial security characteristics. Adverse business conditions are likely to impair their ability to meet financial commitments.
CCC ₁ , CCC ₂ , CCC ₃ Triple C (Very Weak Financial Security)	Insurance Companies rated 'CCC' have VERY WEAK financial security characteristics, and are dependent on favorable business conditions to meet financial commitments.
CC Double C (Extremely Weak Financial Security)	Insurance Companies rated 'CC' have EXTREMELY WEAK financial security characteristics and are likely not to meet some of their financial commitments.
C Single C (Near to Default)	A 'C' rating is assigned to insurance companies that are currently highly vulnerable to non-payment, having obligations with payment arrearages allowed by the terms of the documents, or have obligations subject of a bankruptcy petition or similar action though have not experienced a payment default. C is typically in default, with little prospect for meeting its financial commitments.
D (Default)	'D' is assigned to insurance companies which are in DEFAULT. The 'D' rating also will be used upon the filing of a bankruptcy petition or the taking of a similar action if payments on an obligation are jeopardized.

*Note: CRAB appends numerical modifiers 1, 2, and 3 to each generic rating classification from AA through CCC. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.

SHORT TERM CREDIT RATING: NON-LIFE INSURANCE

RATING	DEFINITION
ST-1 Highest Grade	Insurance companies rated 'ST 1' have STRONG ability to meet their financial commitments on short-term policy obligations. They are rated in the highest category by CRAB.
ST-2 High Grade	Insurance companies rated 'ST 2' have a GOOD ability to meet their financial commitments on short-term policy obligations. However, they are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than insurers in the highest rating category.
ST-3 Average Grade	Insurance Companies rated 'ST 3' have an ADEQUATE ability to meet their financial commitments on short-term policy obligations. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened ability of the insurers to meet their financial obligations.
ST-4 Below Average Grade	Insurance Companies rated 'ST 4' are regarded as VULNERABLE and has significant speculative characteristics. The insurance companies currently have the ability to meet their financial commitments on short-term policy obligations; however, they may be facing major ongoing uncertainties which can lead to the insurer's inadequate ability to meet their financial obligations.
ST-5 Inadequate Grade	Insurance Companies rated 'ST 5' are regarded as CURRENTLY VULNERABLE to non-payment and are dependent upon favorable business, financial, and economic conditions for them to meet their financial commitments on short-term policy obligations.
ST-6 Lowest Grade	Insurance Companies rated 'ST 6' are considered to have Obligations which have a high risk of DEFAULT or which are currently in default.

The Rating Committee of CRAB is the final authority to award a rating. The Rating Committee of CRAB is comprised of external independent persons who are not members of the Board of the Company and they ensure the independence of rating.

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