

## Credit Rating Report (Surveillance) Takaful Islami Insurance Limited

### Analysts:

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### Assigned Rating

Long Term : A<sub>2</sub>

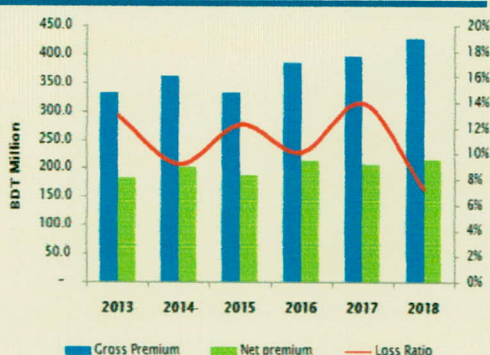
Short Term : ST-3

Outlook : Stable

Date of Rating : 25 July 2019

Valid Till : 30 June 2020

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



RATING BASED ON: Audited financial statements as of 31 December 2018 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 2018, the paid up capital of the Company reached BDT 401.76 million. Underwriting profit of the company was BDT 51.20 million in 2018. Currently TIIL has 39 branches. Mr. Md. Azizul Islam is the CEO of Takaful Islami Insurance Ltd. Head office of the Company is located at 42, Dilkusha Commercial Area, 7<sup>th</sup> Floor, Dhaka-1000.

Financial Highlights		
Year ended December 31		
Mil.BDT	2018	2017
Gross Premium	428.28	397.11
Net Premium	215.29	207.63
Paid up Capital	401.76	379.02
Underwriting profit	51.20	17.04
Loss Ratio (%)	7.33	14.02
Expense Ratio (%)	113.98	109.61
ROAA (%)	7.14	8.54
Underwriting Profit Margin (%)	23.78	8.21
Risk Retention (%)	50.27	52.28
Solvency (times)	11.30x	12.34x

### RATIONALE

Credit Rating Agency of Bangladesh Limited (CRAB) has assigned the long term rating of Takaful Islami Insurance Limited at "A<sub>2</sub>" (pronounced Single A two) and retained short term rating at "ST-3". CRAB performed the rating surveillance based on financial statements up to 31<sup>st</sup> December 2018 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 and profitability. However, high management expenditure along with low claim settlement ratio was the principal concern of TIIL.

**Adequate Solvency Margin:** The Company's solvency position remained well above the required level for the last five years (on an average 11.11 times for last five years). In 2018, available solvency was 11.30 times of required solvency.

**Better underwriting profit:** During 2018, underwriting profit of the Company grew by 200.0% reached BDT 51.20 million. Underwriting profit margin of the Company was 23.78% at the end of 2018 whereas underwriting profit margin was mainly dominated by the marine class of business.

**Reduced claim settlement :** TIIL's claim settlement ratio was 24.90% in 2018 which was much lower than average claim settlement ratio of the company during last 5 years. Top 10 outstanding claims of TIIL amount was BDT 88.0 million which was 80.4% of total outstanding claims in 2018.

**Reserve maintained:** TIIL has kept BDT 226.93 million as reserve for exceptional losses and BDT 2.36 million as general reserve. The proportion of reserve for exceptional losses was 1.1 times of net premium and 15.0 times of net claim. The Company also maintained BDT 86.26 million as reserve for unexpired risk as per regulatory requirement.

**High Cost Structure:** In 2018, the Company incurred BDT 245.38 million as management expenses. Expenses ratio of TIIL was 113.98% at the end of 2018 whereas combined ratio was 121.30% for the same duration reflects the company is paying out more money in expenses as well as claims than it is receiving from premiums

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

## ■ OPERATIONAL REVIEW

### Classes of Business & Charges

TIIL earned gross premium of BDT 428.3 million, of which 84.4% (BDT 361.4 million) was from direct business and 15.6% (BDT 66.8 million) was from govt. business. In 2018 after reinsurance ceded of BDT 213.0 million the retained premium of the Company reached at BDT 215.3 million. During 2018, net premium earnings of the Company enhanced by 3.7%.

Table 1

#### Segregation of Net Premium

Year ended December 31						
(Mil. BDT)	2018			2017		
	Amount	Total (%)	Growth (%)	Amount	Total (%)	Growth (%)
Fire	78.0	36.2	(2.6)	80.1	38.6	(16.9)
Marine	107.7	50.0	7.8	99.9	48.1	7.2
Motor	26.0	12.1	11.1	23.4	11.3	24.9
Misc.	3.6	1.7	(14.6)	4.2	2.0	(25.4)
<b>Total</b>	<b>215.3</b>	<b>100.0</b>	<b>3.7</b>	<b>207.6</b>	<b>100.0</b>	<b>(2.9)</b>

During 2018, net claim of the Company decreased by 45.8% to BDT 15.7 million on the back of high claim on miscellaneous segment of business. Of the total net claim, 40.2% net claim from miscellaneous insurance business followed by 30.2% was from fire insurance, followed by marine insurance (by 25.0% of total net claim) and motor insurance (by 4.5% of total) during 2018.



## CRAB Non-Life Insurance Rating

Table 2

### Segregation of Net Claim

(Mil. BDT)	Year ended December 31								
	2018			2017			2016		
	Amount	Total (%)	Growth (%)	Amount	Total (%)	Growth (%)	Amount	Total (%)	Growth (%)
Fire	4.8	30.2	(81.6)	25.8	88.7	80.3	14.3	66.2	(19.1)
Marine	3.9	25.0	287.3	1.0	3.5	(61.7)	2.7	12.3	50.4
Motor	0.7	4.6	(67.4)	2.2	7.6	(49.6)	4.4	20.2	14.8
Misc.	6.3	40.2	9,377.7	0.1	0.2	(75.9)	0.3	1.3	943.9
Total	15.8	100.0	(45.8)	29.1	100.0	34.5	21.6	100.0	(7.2)

### Growth Analysis

In 2018, gross premium earnings of the Company grew marginally by 7.8% whereas net premium slightly enhanced by 3.7%. Nevertheless, underwriting profit of TIIL also notable increased (by 200.4%) to BDT 51.2 million. Furthermore, investment & other income also declined by 29.6% in 2018 compare to 2017.

Table 3

### Key Performance Indicators

(Mil. BDT)	Year ended December 31					
	2018		2017		2016	
	Amount	Growth (%)	Amount	Growth (%)	Amount	Growth (%)
Gross Premium	428.3	7.8	397.1	3.3	384.5	15.1
Net Premium	215.3	3.7	207.6	-2.9	213.9	13.1
Net Claim	15.8	-45.8	29.1	34.5	21.6	-7.2
Underwriting Profit	51.2	200.4	17.0	-53.3	36.5	4.5
Investment & Other Income	41.6	29.6	32.1	-20.0	40.1	-12.2
Net Profit (before tax)	69.7	-14.2	81.2	27.2	63.8	-10.8
Management Expense	245.4	7.8	227.6	12.4	202.4	7.0
Shareholder's Equity	683.7	3.1	662.9	9.4	605.9	7.8
Total Assets	1,001.2	5.3	951.1	6.9	889.4	11.8

Due to significant management expense during 2018 net profit (before tax) of the Company declined by 14.2% and became BDT 69.7 million which was BDT 81.2 million in 2017. Moreover, management expense of the Company was BDT 245.4 million which grew by 7.8% over last year. Total assets of the Company reached BDT 1,001.2 million registering a growth of 5.3% in the same period.

## FINANCIAL REVIEW

### Underwriting Quality

TIIL's loss ratio reduced by 6.7 percentage points mainly resulted from higher management expense during the year. Expense ratio of the Company increased by 4.4 percentage points resulted from lower net premium than management expense. As an overall effect, combined ratio of TIIL became 121.3% at the end of 2018. Proportion of net premium from marine segment was 50.0%, followed by fire segment (by 36.2%) and motor segment (by 12.1%). Rest of the portion was shared by miscellaneous business segment.

Table 4

### Underwriting Performance

%	--Year ended December 31--				
	2018	2017	2016	2015	2014
Loss Ratio	7.3	14.0	10.1	12.4	9.2
Fire	6.1	32.2	14.9	25.7	7.9
Marine	3.7	1.0	2.9	2.0	9.1
Motor	2.8	9.4	23.3	18.3	14.3



Misc.	-	1.6	5.0	1.6	1.7
Expense Ratio	114.0	109.6	94.6	100.1	92.3
Combined Ratio	121.3	123.6	104.8	112.5	101.5

### Management Expenses

During 2018 the Company incurred management expense of BDT 245.4 million registering a growth of 7.8% resulted from agency commission and management expenses. The management expense of TIIL comprises agency commission and management expenses which shown in the revenue account and in profit & loss account.

Table 5

Class Wise Management Expenses					
--Year ended December 31--					
(Mil. BDT)	2018	2017	2016	2015	2014
Fire	87.8	88.7	78.8	67.9	74.3
Marine	57.5	58.5	45.6	53.0	44.7
Motor	11.5	12.2	8.4	9.9	10.1
Misc.	5.2	4.1	6.4	4.1	3.4
<b>Total</b>	<b>162.0</b>	<b>163.4</b>	<b>139.2</b>	<b>134.9</b>	<b>132.5</b>
Mgt. Expense (P/L Account)	29.2	11.9	11.9	10.0	6.5
Agency Commission	54.2	52.2	51.3	44.4	48.7
<b>Grand Total</b>	<b>245.4</b>	<b>227.6</b>	<b>202.4</b>	<b>189.3</b>	<b>187.7</b>

### Claim Settlement

In 2018, total claims were 211 in number amounting BDT 144.5 million from all classes of business. In the same duration 110 new claims amounting BDT 38.9 million was incurred. Settled claims were 141 in number amounting BDT 35.1 million. Top 10 settled claim of the Company consists 49.3% of total claim settlement. In 2018 claim settlement ratio reduced to 24.9% from 52.3% in 2017. On an average 34.0% of total claims were settled by TIIL during last five years. In 2018, no. of outstanding claim was 70 amounting BDT 109.4 million. Top 10 outstanding claims of TIIL amount was BDT 88.0 million which was 80.4% of total outstanding claims in 2018.

Table 6

Claim Settlement				
Year ended December 31				
(Month)	(12)			
(Amount in Mil. BDT)	2018	2017	2016	2015
1) Claims Outstanding at the Beginning of the Year	102.2	125.8	128.9	187.3
2) Claims Lodged during the Year	38.9	87.0	34.1	44.2
3) Total Claims (1+2)	141.0	213.6	162.9	231.6
4) Claims Paid during the Year	35.1	111.7	37.2	102.7
5) Claims Paid as % of Total Claims	24.9	52.3	22.8	44.4
6) Claims Repudiated during the Year	-	-	-	-
7) Claims Repudiated as % of Total Claims	-	-	-	-
8) Claims Settled during the Year (4+6)	35.1	111.7	37.2	102.7
9) Claims Settled as % of Total Claims	24.9	52.3	22.8	44.4
10) Claims Outstanding at the End of the Year (3-8)	106.0	102.2	125.8	128.9

### Profitability

Of the total revenue of the Company was dominated by both underwriting profit (shared 51.57% of total income) and investment income shared 48.43% of total. During 2018, underwriting profit of the Company enhanced significantly to BDT 51.2 million. Moreover, the underwriting profit margin of the Company enhanced 15.5 percentage points to 23.7%. During 2018, underwriting profit margin was mainly dominated by the marine class of business. Net profit (before tax) of TIIL reduced by 14.2% to BDT 69.7 million resulted from underwriting income from marine class of business and interest income on FDR. In 2018, return on assets was 7.0% which was 8.5% in 2017.



## CRAB Non-Life Insurance Rating

### Investment Portfolio

Investment portfolio of TIIL grew 0.47% to BDT 768.8 million. Of the total investment 73.3% was in fixed deposits with different banks, 23.4% in quoted shares of different companies and 3.3% invested in govt. securities. The market value of the quoted share was BDT 179.9 million against cost price of BDT 194.19 million at the end of 2018. The quoted shares investment includes Islami Bank Bangladesh Ltd., Al Arafah Islami Bank Ltd., Orion Pharma, Beacon Pharma etc. Provision has been made for shortfall amount of share price BDT 14.2 million in 2018.

Table 7

Investment Portfolio						
Month	Year ended December 31					
	2018		2017		2016	
(Mil. BDT)	Amount	Total (%)	Amount	Total (%)	Amount	Total (%)
Govt. Securities (NIB)	25.0	3.3	25.0	3.3	25.0	3.3
Shares	179.9	23.4	207.4	27.1	178.7	23.3
Quoted Shares	179.9	23.4	207.4	27.1	178.7	23.3
Un-quoted Shares	-	-	-	-	-	-
Debentures	-	-	-	-	-	-
Fixed Deposit	563.9	73.3	532.9	69.6	496.3	64.9
Total Investment	768.8	100.0	765.2	100.0	700.0	91.5

### Capital Adequacy

In 2018, paid up capital of TIIL grew by 6.0% and reached to BDT 401.76 million resulted from internal capital generation. TIIL's shareholders' equity to total assets ratio was 68.3% at the year end.

### Solvency Margin

TIIL's solvency margin remained well above the required level in 2018. TIIL's required solvency was BDT 53.9 million whereas the Company's available solvency was BDT 09.9 million which means the value of assets had been more than the liabilities. Thus during 2018 the available solvency was 11.3 times of required solvency.

Table 8

Solvency						
	--Year ended December 31--					
(Mil. BDT)	2018	2017	2016	2015	2014	2013
Available Solvency (AS)	609.9	597.6	551.3	503.1	449.7	440.6
Required Solvency (RS)	53.9	48.4	46.9	42.6	46.2	43.0
Solvency Margin (times)	11.3	12.3	11.8	11.8	9.7	10.3

### Liquidity Position

TIIL's current assets increased by 11.2% mainly resulted from increased FDRs, amount due from other bodies carrying insurance business. Moreover, current liabilities of the Company also increased by 13.04% compared to previous year. In 2018 current assets was 3.4 times of current liabilities. In the same duration, TIIL's liquid assets to net claims enhanced to 40.4 times (2017: 20.8 times) on the back higher claim settlement. Of the total liability in 2018, 72.8% was shared by current liabilities. Out of the total assets, 61.2% was shared by cash & bank balance during the same duration. TIIL's net cash flow from operating activity decreased to BDT 82.7 million in 2018 from BDT 40.5 million in 2017.

### Re-insurance Utilization

Sadharan Bima Corporation (SBC) and overseas Reinsurers provides treaty reinsurance protection to TIIL. Each year SBC and foreign Reinsurers revise the treaty retention capacity of all private general insurance companies. The retention capability for 1st April 2019 to 31st March 2020 was: Fire BDT 8.00 million; Marine Cargo BDT 3.75 million, Marine Hull BDT 3.00 million; Miscellaneous: BDT 2.00 million for all business, BDT 0.50 million for personal accident; and Motor: BDT 1.0 million. Usually high retention level signals inadequate reinsurance



protection while low retention level hampers profitability. Risk retention ratio of TIIL in motor class business was high in 2018. Risk retention of the Company decreased by 2.0 percentage points to 50.3% from 52.3% in 2017.

Table 9

Risk Retention Ratio						
--Year ended December 31--						
(%)	2018	2017	2016	2015	2014	2013
Fire	37.3	40.7	48.1	44.5	43.5	43.9
Marine	73.6	69.9	72.0	73.6	76.3	74.6
Motor	93.2	83.4	83.3	88.6	94.5	96.9
Misc.	8.0	14.3	17.4	7.2	6.5	7.4
Total	50.3	52.3	55.6	56.6	56.2	55.1

### Reserve Adequacy

In 2018, TIIL kept BDT 226.9 million for exceptional losses which increased by 10.5% from the previous year. The proportion of reserve for exceptional losses was 1.1 times of net premium and 15.0 times of net claim. During 2018, the Company's general reserve reduced to BDT 2.3 million from previous year. In 2018, TIIL's reserve to total assets was 23.6%. In addition, TIIL has the reserve for unexpired risk which was BDT 86.2 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 31<sup>st</sup> December 2018, the paid up capital of TIIL was BDT 401.7 million consisting 36,097,389 ordinary shares and 1,804,869 bonus shares allotted in 2016. 34.8% shares were held by the Sponsor Directors, 65.2% held by the General Public and Institutional Investors. TIIL recommended 6.0% stock dividends and 5.0% cash dividend for the financial year 2018.

### Board of Directors

Mr. Anwar Hossain Khan is the Chairman of the Board. The Board of TIIL has 20 members (including 2 Independent Directors) and most of them have entrepreneurial experiences. During 2018, the Board held 06 board meetings. The Directors attended in aggregate 87.0% 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 2018, Executive Committee held 12 meetings. Claims Committee comprising 6 members conducted 08 meetings and Audit Committee having 04 members arranged 05 meetings. There is a Management Committee comprised of 05 members and the committee conducted 06 meetings in 2018.

## ■ MANAGEMENT

### Senior Management

Mr. Md. Azizul Islam, is the CEO of Takaful Islami Insurance Ltd. Mr. Islam has more than 31 years of experience in insurance sector and joined TIIL in 2017. Prior to joining TIIL Mr. Islam served in 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.



**Senior Management**

Mr. Abul Kalam Azad

Mr. Moinul Ahsan Chowdhury

Mr. Mohammad Selim

Asst. Managing Director &amp; Company Secretary

Asst. Managing Director &amp; CFO

General Manager &amp; Head of Claim and Re-Insurance Dept.

**Human Resource**

As on 31<sup>st</sup> December 2018 TIIL had total 1,136 employees. The Company has total 39 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 scrutinizes the applications and calls 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 has made progress in improving the use of 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. Integrated Insurance Business Solution (IIBS) was jointly developed to save working time in preparing different documents and generate MIS reports. WAN is established between head office and all the branches situated all over the country. All the operational process and functionalities are included in ERP applications IIBS.

**External Auditor of 2018**

Huda Hossain &amp; Co.

**ANNEXURE 1**
**TABLE 1.1 : DETAILS OF SHAREHOLDING AS OF 31 DECEMBER 2018**

SL No.	Name of Directors	% of total no. of paid up shares
1	Mr. Anwar Hossain Khan	2.08
2	Mr. Emdadul Haque Chowdhury	2.00
3	Mr. Anwar Hossain Chowdhury	2.00
4	Mr. Md. Abul Hashem	2.00
5	Engr. Khondaker Mesbahuddin Ahmed	3.00
6	Mr. Md. Humayun Kabir Patwary	3.00
7	Mr. Shamsul Arefin Khaled	2.00
8	Mrs. Farzana Rahman	3.00
9	Mrs. Nasreen Haque	2.11
10	Mr. Abul Hashem	3.00
11	Mr. Md. Moshir Rahman Chak	2.00
12	Mrs. Shahnaz Parvin	3.60
13	Dr. Mohammad Osman Ghani	2.45
14	Mr. Masudul Haque	2.77
15	Mr. AFM Motassem Belal	2.00
16	Mr. Md. Hafiz Uddin	0.07
17	Mr. Khorshed Alam Khan	2.00
18	Mrs. Tahmina Afroz	2.00
19	Mr. Md. Mohiuddin	2.36
20	Alhaj Tofazzol Hossain	1.33
21	Mr. Waliul Huq	0.67
22	Mrs. Monowara Sultana	0.33
23	Mrs. Amena Shaheen	0.33
24	Mr. A.K.M Aminul Islam	-
25	Mr. Md. Nurun Nabi Bhuiyan	-



## CRAB Non-Life Insurance Rating

### ANNEXURE 2

TABLE 2.1 : INCOME SEGREGATION

#### Segregation of Investment & Other Income

(Mil. BDT)	Year ended December 31					
	2018		2017		2016	
	Amount	Total (%)	Amount	Total (%)	Amount	Total (%)
Profit on TDR	27.5	57.2	19.0	23.9	22.5	52.6
Interest Income	9.7	20.2	8.2	10.3	9.1	21.3
Dividend Received	4.2	8.7	4.8	6.0	8.4	19.7
Gain on Sales of Share	6.5	13.5	47.4	59.6	2.6	6.1
Other Income	0.2	0.4	0.1	0.2	0.1	0.3
<b>Total</b>	<b>48.1</b>	<b>100.0</b>	<b>79.5</b>	<b>100.0</b>	<b>42.8</b>	<b>100.0</b>

### ANNEXURE 3

TABLE 3.1 : RATING HISTORY

Date of Rating	Long Term	Short Term	Outlook
19 July 2018	A <sub>2</sub>	ST-3	Stable
15 June 2017	A <sub>2</sub>	ST-3	Stable
23 June 2016	A <sub>3</sub>	ST-3	Stable
06 August 2015	A <sub>3</sub>	ST-3	Stable
02 July 2014	A <sub>3</sub>	ST-3	Stable
30 June 2013	BBB <sub>1</sub>	ST-3	Stable
19 July 2012	BBB <sub>2</sub>	ST-3	Stable
14 August 2011	BBB <sub>2</sub>	ST-3	Stable
28 September 2010	BBB <sub>3</sub>	ST-3	Stable
22 December 2009	BBB <sub>3</sub>	ST-3	Stable
21 December 2008	BBB <sub>3</sub>	ST-3	Stable



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

<b>RATING</b>	<b>DEFINITION</b>
<b>AAA</b> 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.
<b>AA<sub>1</sub>, AA<sub>2</sub>, AA<sub>3</sub>*</b> Double A (Very Strong Financial Security)	Insurance Companies rated 'AA' have VERY STRONG financial security characteristics, differing only slightly from those rated higher.
<b>A<sub>1</sub>, A<sub>2</sub>, A<sub>3</sub></b> 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.
<b>BBB<sub>1</sub>, BBB<sub>2</sub>, BBB<sub>3</sub></b> 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.
<b>BB<sub>1</sub>, BB<sub>2</sub>, BB<sub>3</sub></b> 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>B<sub>1</sub>, B<sub>2</sub>, B<sub>3</sub></b> 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.
<b>CCC<sub>1</sub>, CCC<sub>2</sub>, CCC<sub>3</sub></b> 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.
<b>CC</b> 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.
<b>C</b> 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.
<b>D</b> (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 <b>STRONG</b> 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 <b>GOOD</b> 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 <b>ADEQUATE</b> 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 <b>VULNERABLE</b> 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 <b>CURRENTLY VULNERABLE</b> 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 <b>DEFAULT</b> 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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