RAM

CREDIT RATING RATIONALE

December 2011

NATIONAL INSURANCE TRUST FUND

- Claims-paying ability ratings

RAM Ratings (Lanka) Ltd

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RAM
RATINGS

CREDIT RATING RATIONALE

CLAIMS-PAYING ABILITY RATINGS

DECEMBER 2011

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Principal Activity:
Provision of general and re-insurance coverage

Ratings:
Long-term: AAA
[Reaffirmed]
Short-term: P1
[Reaffirmed]

Rating Outlook:
Stable

NATIONAL INSURANCE TRUST FUND – Rating Review

Summary

RAM Ratings Lanka has reaffirmed National Insurance Trust Fund's ("NITF" or "the Fund") long- and short- term claims-paying ability ratings, at a respective AAA and P1; the long-term rating has a stable outlook. NITF's ratings reflect its status as a statutory body of the Government of Sri Lanka ("GOSL" or "the State") and the Fund's systemic importance as the sole provider of health-insurance coverage to government servants (known as *Agrahara*); Strike, Riot and Civil Commotion and Terrorism cover ("SRCC & TR"), and reinsurance in Sri Lanka. The Fund's healthy underwriting performance, good liquidity and strong capitalisation lend further support to its ratings.

NITF was incorporated as a statutory body under the NITF Act No. 28 in 2006. The Fund reports directly to the Ministry of Finance ("MOF") and has been under the purview of the Insurance Board of Sri Lanka ("IBSL") since 2011. Almost all of NITF's gross written premiums ("GWPs") are generated from the captive businesses mentioned above. In addition, it is one of only 2 entities (the other being Sri Lanka Insurance Corporation ("SLIC"), that are allowed to offer insurance cover to government-owned enterprises (public circular PF/437). NITF contributes around LKR 2 billion annually to the State's Consolidated Fund, rendering it the fourth-largest contributor.

NITF's overall underwriting performance is deemed healthy. The Fund's overall claims, expense and combined ratios of a respective 33.45%, 12.42% and 45.87% as at end-FYE 31 December 2010 ("end-FY Dec 2010") were the best in the industry. Nevertheless, *Agrahara,* which amounted to approximately half of the Fund's total GWPs, reported high claims ratio of 103.68%. This was due to low premiums charged relative to its substantial risk exposure on *Agrahara* policies; NITF offers this policy as part of the GOSL's social obligation in uplifting the common well-being of civil servants. However, the GOSL makes a budgetary allocation to *Agrahara* every year, thereby reducing the risks in this segment. On the other hand, the Fund's SRCC & TR claims ratio remained low at 3.72% as at

end-FY Dec 2010. Going forward, we anticipate SRCC & TR premiums to dip as this is no longer a mandatory cover.

NITF's profitability is deemed healthy, with a gross underwriting margin of 64.55% as at end-December 2010 (end-December 2009: 60.62%). Meanwhile, we note that NITF's overheads have remained relatively unchanged as it still operates with the same 2 branches. On the other hand, its investment income has been depressed by the scenario of falling interest rates as its investments are solely in government securities. Furthermore, receding interest rates have affected its investment returns, as reflected by its weakening investment yield ratio, which declined from 14.24% to 7.83% y-o-y. As a result, the Fund's profits shrank from LKR 3.29 billion to LKR 2.72 billion over the same span.

NITF's liquidity position is deemed satisfactory, as underlined by its ratio on liquid assets to total assets of 0.82 times as at end-December 2010, i.e. stronger than those of most of its peers, The Fund maintains a conservative investment stance by maintaining almost all of its investments as government securities.

As a statutory body, NITF does not have any share capital. As such, its capitalisation is entirely made up of accumulated profits from inception, after offsetting payments made to the GOSL's Consolidated Fund. Its contribution to the Consolidated Fund amounted to LKR 2 billion in FY Dec 2010 (FY Dec 2009: LKR 2.25 billion). As at end-December 2010, the ratio of NITF's accumulated funds to total claims came up to 6 times. As such, the Fund's capitalisation is deemed strong. Effective January 2012, NITF will be required to report to the IBSL on solvency ratios, as required of all the entities regulated by the latter.

■ Fund Background

NITF is a statutory body of the GOSL, established in 2006 under the NITF Act No. 28. The Fund currently reports directly to the MOF. Come January 2011, however, it will fall under the regulatory ambit of the IBSL. Section 12 (1A) of the aforesaid Act requires NITF to conform to the IBSL's reporting guidelines.

NITF's insurance schemes primarily comprises 2 types of coverage – *Agrahara*, a health-insurance policy that primarily caters to the government sector and established by the Public Administration Circular No. 5/97 of 31 January 1977; and the SRCC & TR cover, established pursuant to the terms of the Cabinet's decision in November 1987. The NITF Act states that the amounts available and received under these schemes shall belong to NITF.

Agrahara insurance caters to the general insurance needs of civil servants and any group of needy persons identified by the MOF. At its outset, the *Agrahara* scheme had been offered by the Sri Lanka Insurance Corporation ("SLIC"); it had been handed over to NITF upon the former's privatisation. Premiums are partly paid by *Agrahara* members while a proportion – approved under and allocated through the national budget – is paid by the Treasury. The policy is available to approximately 60% of the public sector or about 1.3 million individuals, and represents a service provided on behalf of the GOSL, thus underscoring NITF's systemic importance.

SRCC & TR was established in 1987, with the main objective of providing insurance cover in respect of strikes, riot, civil commotion and terrorism activities within Sri Lanka. It had been maintained by the MOF until being transferred to NITF in FY Dec 2007. The SRCC & TR cover premiums are primarily collected by registered insurance companies, which then remit the bulk of the premiums to NITF while retaining a 20% commission. The Fund also offers foreign employment cover, parliamentary member cover together with the other general covers such as motor, marine and fire. Nevertheless, such coverage is largely provided to government and government-linked entities. Together, the other types of general cover form a minor part of the Fund's GWPs.

Besides the provision of general insurance, NITF is also Sri Lanka's only re-insurer. It commenced the reinsurance of local insurance companies in 2007, as a result of the government's initiative to reduce the outflow of foreign currencies. The regulations of the Insurance Industry Act, No. 27 of 2007 require all registered insurance companies to cede between 20% and 50% of their reinsurance premiums to NITF. Nevertheless, the Fund has the discretion to accept or reject such re-insurance based on its risk appetite.

■ Industry & Business Assessment

Two large players dominate composite insurance industry

Sri Lanka's insurance sector only accounted for a minor 3.2% of the financial industry's total assets as at end-December 2010. The 5 largest players dominated both the life and general markets, and collectively accounted for 89.30% and 78.94% of the GWPs in the respective segments. From this, 5 players concentrate only on general insurance while another 2 are exclusively in the life business.

Fertile economic ground uplifts overall growth of insurance industry

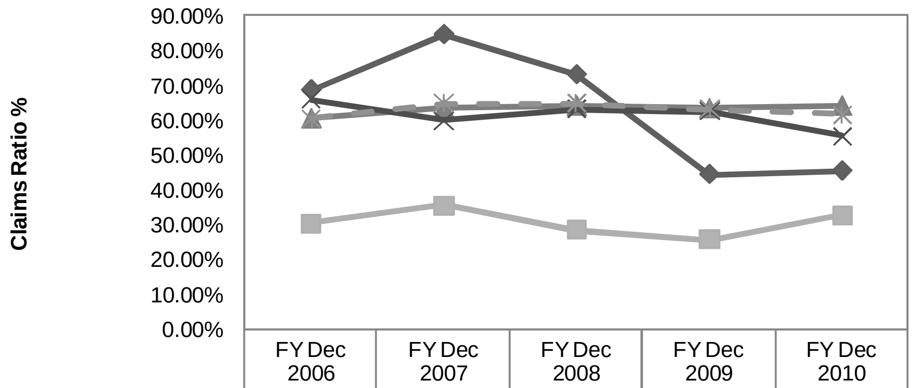
Better macroeconomic conditions have increased the purchasing power of the public as reflected by the growth in the overall financial sector in Sri Lanka. The insurance sector's composite premiums charted a 17.16% y-o-y growth rate in FY Dec 2010. The growth in premiums had mainly stemmed from the life segment, which expanded 30.52% y-o-y in comparison to the general segment's 8.47%. Moreover, we note that the insurance industry is pressured by intense competition, especially in the general segment where customers are price sensitive. Nevertheless, NITF remained largely insulated from price competition as most of its premiums (93.60%) were from products exclusively offered by the

Fund. With regard to the provision of general insurance to state-owned enterprises, it faces competition only from SLIC.

Health insurance has high claims ratio throughout industry

The industry's general claims ratio has been hovering around 65%. The main culprit in general claims has been the motor segment, which recorded a claims ratio of around 64% as at end-December 2010 and made up 75.53% of the total claims in the general segment (refer to Chart 1). This was closely followed by the miscellaneous segment, which includes health insurance, with 19.65%. Most of the players incur underwriting losses on health insurance due to the high claim levels. Nonetheless, insurers have been compelled to provide health insurance coverage at low premiums amid severe competition, to complement their other general insurance products and retain their market share. In the meantime, claims from the fire and marine segments have remained at less than 5% of total claims in recent years.

Chart 1: Industry's general claims ratio



	FY Dec 2006	FY Dec 2007	FY Dec 2008	FY Dec 2009	FY Dec 2010
Fire	68.81%	84.79%	73.20%	44.38%	45.39%
Marine	30.34%	35.56%	28.39%	25.58%	32.74%
Motor	60.44%	63.30%	64.07%	63.36%	64.17%
Miscellaneous	66.09%	59.87%	63.22%	62.57%	55.34%
Overall	60.64%	64.95%	64.92%	63.20%	61.75%

Source: IBSL

Steps taken to improve insurance industry standards

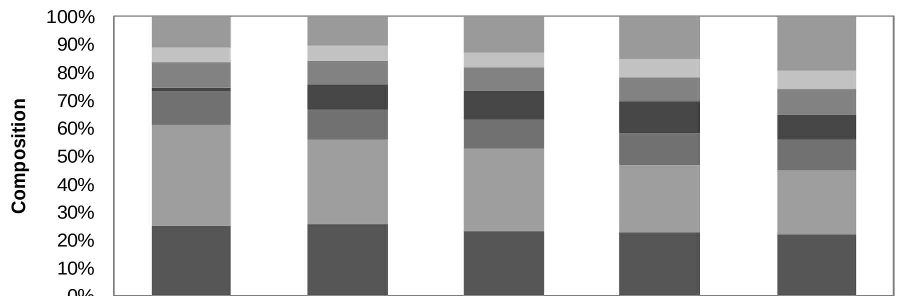
The IBSL has taken steps to tighten regulations, to ensure that the Sri Lankan insurance industry is more in line with international standards. In this regard, the composite insurance companies are required to their life and general businesses into separate legal entities. Listing on the Colombo Stock Exchange is mandatory within 3-5 years for all insurance companies. Computations of solvency margins will also be amended to a risk-based approach, to be more in line with international standards.

SRCC & TR to decline in long run

NITF's overall GWPs amounted to LKR 3.84 billion in FY Dec 2010, accounting for 9.33% of the general insurance industry's GWPs for the same period (refer to

Chart 2). The Fund's GWPs declined 14.33% in FY Dec 2010 while the general insurance industry's expanded 8.46%. The drop is largely attributable to SRCC&TR, which posted a 22.54% fall in its GWPs. This was due to the reduction of premiums on terrorism coverage by a steep 75% effective April 2010, while the SRCC & TR cover was made optional as the threat of terrorism eased with the ending of the country's civil conflict in May 2009. GWPs from *Agrahara* and SRCC & TR amounted to 27.03% and 48.67%, respectively, while general insurance and re-insurance constituted the remainder. Despite the dip in GWPs in FY Dec 2010, NITF extended the *Agrahara* policy to several government-related institutions in 1H FY Dec 2011. We note that SRCC & TR premiums are anticipated to face a gradual decline as the policy is no longer mandatory.

Chart 2: NITF's market share vs the large general insurance players



	FY Dec 2006	FY Dec 2007	FY Dec 2008	FY Dec 2009	FY Dec 2010
Others	10.57%	10.50%	12.82%	14.89%	19.09%
ANDB	5.59%	5.45%	5.36%	6.59%	6.91%
UA	9.09%	8.22%	8.26%	8.45%	8.91%
NITF	1.21%	9.06%	10.33%	11.81%	9.33%
LIC	11.82%	10.74%	10.22%	11.25%	10.86%
CIC	36.42%	30.21%	29.29%	23.92%	22.40%
SLIC	25.30%	25.83%	23.72%	23.08%	22.50%

Source: Company annual reports, IBSL
CIC = Ceylinco Insurance PLC; JIC = Janashakthi Insurance PLC; UA = Union Assurance PLC; ANDB = Aviva NDB Insurance PLC; SLIC = Sri Lanka Insurance Corporation

Insurance still confined to government sector

In FY Dec 2010, almost all of the Fund's GWPs were generated from captive covers provided to government-related entities. The management does not intend to venture into the competitive general market segments outside of its captive businesses, as it intends to expand its government-related and reinsurance operations.

Very high retention rate in line with state policy

In line with the national policy of reducing foreign-exchange outflows, NITF maintained a high retention ratio of 98.10% as at end-FY Dec 2010 (end-FY Dec 2009: 87.87%). To minimise counterparty risk, the Fund only does business with reinsurers with credit ratings of BBB- or higher on the international scale.

Underwriting & Risk Management

Insurance

Healthy overall underwriting; low claims in SRCC & TR moderated by Agrahara's high claims

NITF's overall underwriting performance is deemed healthy. Its overall claims, expense and combined ratios of a respective 33.45%, 12.42% and 45.87% as at end-FY Dec 2010 were the best in the industry. Notably, the high claims ratio for *Agrahara* is due to the low premiums charged relative to the high-risk exposures arising from this policy, as NITF offers this policy as part of the state's social obligation. The hefty claims under this product are balanced by the low claims of the SRCC & TR segments.

***Low claims ratio in SRCC & TR offset by high claims under* Agrahara**

NITF's overall claims ratio remains lower than most of its peers' (refer to Chart 3) as very minimal claims have arisen from the SRCC & TR fund, based on less unrest after the ending of the country's civil war. Nevertheless, the lower claims ratio for SRCC & TR was moderated by escalated claims from the *Agrahara* health-insurance scheme. However, it should be noted that the high claims ratio is a result of *Agrahara* being offered at a very nominal fee of LKR 75 per month, as part of state's social obligations.

Chart 3: NITF's claims ratio vs peers' general claims

	FY Dec 2006	FY Dec 2007	FY Dec 2008	FY Dec 2009	FY Dec 2010
AAI	66.52%	73.33%	75.42%	88.16%	88.66%
JIC	62.38%	67.00%	65.52%	64.39%	69.53%
ANDB	73.11%	71.52%	82.77%	70.97%	79.14%
UAL	66.67%	71.36%	72.50%	74.58%	72.20%
Ceylinco	57.82%	56.37%	56.44%	60.81%	59.87%
SLIC	87.05%	73.48%	74.39%	81.59%	47.82%
NITF	76.03%	40.99%	39.43%	39.22%	33.45%

Source: Company annual reports, NITF

Soaring* Agrahara *claims due to low premiums relative to risks

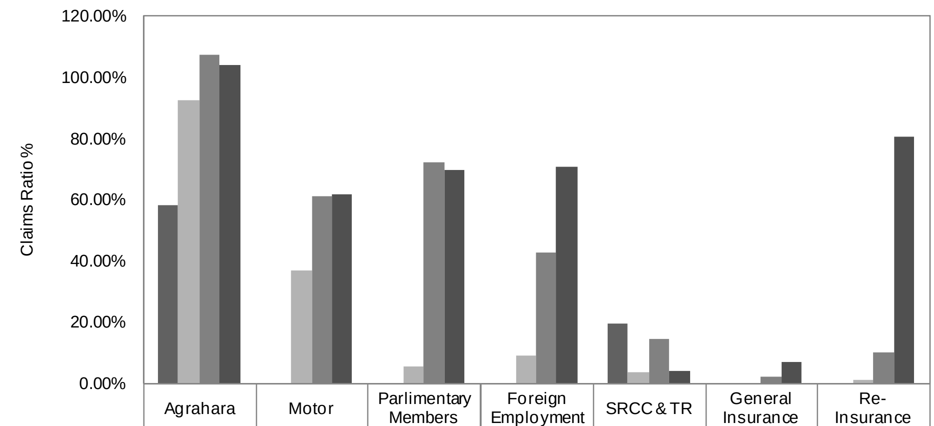
NITF's *Agrahara* claims have historically been rather high, partly because it is a health-cover policy. Health coverage has turned out to have very high claims across the industry. As at end-FY Dec 2010, the policy's claims ratio stood at 103.68%, marginally lower than the 107.04% of a year earlier. Claims from this scheme accounted for 65.35% of total claims for the year; of these, hospital charges amounted to a bulky 46.21% (end-FY Dec 2009: 41.38%).

RAM RATINGS

Agrahara premiums to see rapid growth but claims also expected to escalate

In 1H FY Dec 2011, approximately 100,000 members were added to the scheme from tea smallholders and the Sri Lanka Ports Authority, thereby elevating the *Agrahara* policy count. While GWPs from this scheme are anticipated to grow faster, we expect claims to also expand in tandem.

Chart 4: NITF's claims ratio by policy



	Agrahara	Motor	Parlimentary Members	Foreign Employment	SRCC & TR	General Insurance	Re-Insurance
FY Dec 2007	58.10%	0.00%	0.00%	0.00%	19.52%	0.00%	0.00%
FY Dec 2008	92.32%	36.86%	5.25%	8.78%	3.42%	0.00%	1.01%
FY Dec 2009	107.04%	61.15%	72.12%	42.86%	14.45%	1.98%	9.79%
FY Dec 2010	103.68%	61.61%	69.51%	70.43%	3.72%	7.07%	80.52%

Source: Company annual reports, NITF

Calmer conditions reduce SRCC &TR claims

Claims for SRCC & TR reduced to 3.72% in FY Dec 2011, from 14.45% the previous year, against the dawn of peace on the island. Other sub-classes - excluding SRCC&TR, *Agrahara* and re-insurance - in aggregate accounted for only 16.60% of total premiums earned in FY Dec 2010 (FY Dec 2009: 10.55%) while the claims ratio of these segments stood at around 52.12% in FY Dec 2010 (refer to Chart 4).

Minimal overheads keeps NITF's cost-to-income ratio the lowest among peers

As at end-December 2010, NITF's expense ratio of 12.42% was the best among its peers. This was largely due to the collection and submission of *Agrahara* & SRCC & TR premiums to NITF, thereby not requiring any overheads in this regard. As a result, despite the high claims ratio incurred in *Agrahara* segment, NITF's combined ratio of 45.87%was also the best among its peers. Going forward, when income from SRCC & TR declines while its cost structure remains similar, we expect expense and, thereby, combined ratios to weaken.

➢ Reinsurance

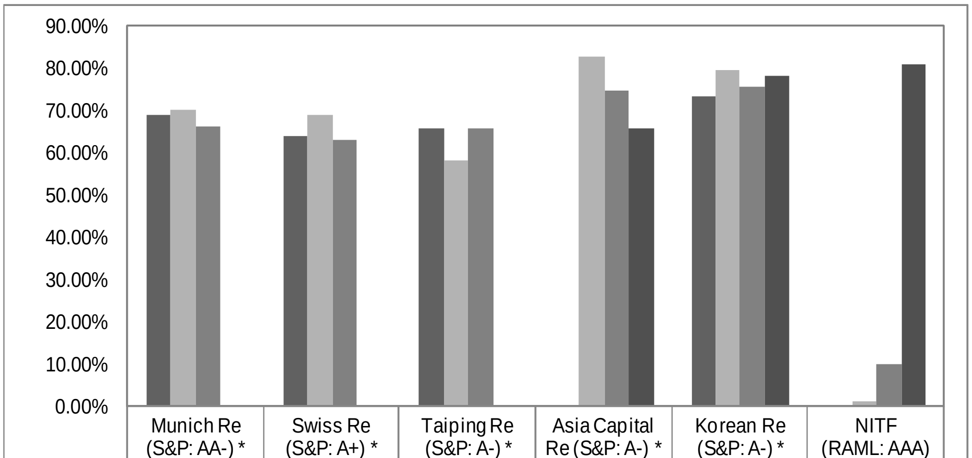
Reinsurance segment remains risk averse

NITF commenced reinsurance in FY Dec 2007, in line with the GOSL's objective of reducing foreign-exchange outflows. All domestic insurance companies are required to obtain 20%-50% of their general reinsurance requirements from NITF. However, as NITF filters out policies that fall beyond its risk appetite, the Fund only accounted for 3.24% of all re-insurance ceded by insurers in FY Dec 2010 (FY Dec 2009: 5.18%). In FY Dec 2010, premiums received from re-insurance amounted to 7.71% of total premiums earned (fiscal 2009: 10.85%).

Large claims spike reinsurance claims

While premiums from reinsurance dipped last year, claims more than quadrupled to LKR 238.39 million. This was primarily due to a large claim of nearly LKR 130 million from a local insurer in relation to a hotel fire. The large claim aside, other claims also went up more than LKR 100 million last year. The reinsurance arm thus recorded a much higher claims ratio of 80.52% as at end-FY Dec 2010 (end-FY Dec 2009: 9.79%). We note that the sudden spike in the ratio is partly due to its short operating history. Nevertheless, its reinsurance claims ratio in FY Dec 2010 is weaker than those of international re-insurers (refer to Chart 5).

Chart 5: NITF's re-insurance claims ratio vs peers'



	Munich Re (S&P: AA-) *	Swiss Re (S&P: A+) *	Taiping Re (S&P: A-) *	Asia Capital Re (S&P: A-) *	Korean Re (S&P: A-) *	NITF (RAML: AAA)
2007	68.40%	63.50%	65.50%	N/A	73.20%	N/A
2008	70.10%	68.60%	57.80%	82.60%	79.30%	1.01%
2009	66.10%	62.60%	65.30%	74.40%	75.50%	9.79%
2010	N/A	N/A	N/A	65.50%	77.90%	80.52%

Source: Standard & Poors, NITF
** On international scale*

Management and Corporate Strategy

Internal controls and risk management require attention

NITF is spearheaded by Chairman Senaka Abeygoonasekera. The Fund has a flat management structure, with minimal senior management. Mr Abeygoonasekera is vastly experienced in the insurance sector, and had previously been the chairman of ABC Insurance Ltd.

Exclusive health facilities for Agrahara policyholders

Meanwhile, plans are afoot to provide exclusive heath facilities in government hospitals to *Agrahara* policyholders. Currently, hospitalisation charges, which form the largest portion of *Agrahara* claims, arise from private hospitals where most of the patients are treated. The proposed move is anticipated to reduce claims costs as government health facilities are cheaper than private institutions. The management estimates that LKR 1 billion will be spent on this project over the medium term.

Plans to offer flood coverage

To address declining SRCC & TR premiums, the management intends to lobby for a mandatory flood cover, to be offered in conjunction with motor and other general policies. Furthermore, NITF also plans to expand its horizons by entering the re-insurance sectors in South Asian Association for Regional Cooperation ("SAARC") countries. As a first step, it intends to establish a presence in the Maldives. The Fund intends to carry out these plans over the medium term.

Corporate Governance

Board appointed by Minister of Finance under NITF Act

NITF's board composition complies with the provisions of the NITF Act; members are appointed by the Minister of Finance. The Fund is led by a 7-member board chaired by Senaka Abeygoonasekara. The Act requires the chairman to be supported by directors from the MOF, the Ministry of Public Administration and also from the fields of banking, insurance and management or law. The board is supported by 3 committees – an internal audit committee, a claims panel and an investment committee.

Investment Strategy and Liquidity

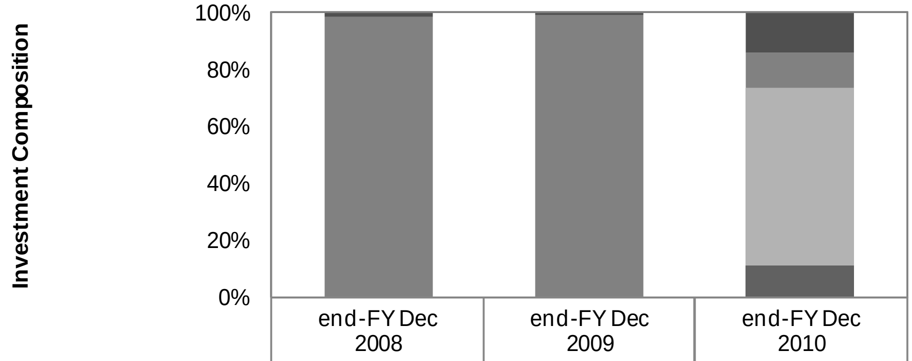
Act necessitates conservative investment strategy

NITF's investment portfolio has remained conservative, with almost all of its funds invested in government securities as at end-December 2010 (refer to Chart 6). NITF's investment framework is governed by the NITF Act, which requires investments be made only in government securities or the equity of any company focused on upgrading health-based institutions. Cabinet approval has to be obtained for any other type of investment.

Receding interest rates suppress investment income

The Fund's overall investments increased 7% or LKR 595.34 million in FY Dec 2010. Its deposits entirely comprised government securities or deposits in government-related entities, in line with the NITF Act. On the back of receding interest rates, however, the Fund's investment performance was adversely affected in fiscal 2010, with interest income tumbling 41.81% to LKR 784.61 million. At the same time, its investment yield was slashed from 16.57% to 8.91%. Given that policy rates are anticipated to remain unchanged in the short run, investment income is only anticipated to rise in line with the increased investments in the same period.

Chart 6: NITF's investment portfolio



	end-FY Dec 2008	end-FY Dec 2009	end-FY Dec 2010
Investements with state institutions	1.70%	1.02%	13.77%
Treasury Bonds	98.30%	98.98%	12.51%
Short term investments	0.00%	0.00%	62.36%
Loans to state owned institutions	0.00%	0.00%	11.36%

Source: NITF

Recovery procedure underway for soft loans

In 1996, NITF granted soft loans (through the Bank of Ceylon) at a nominal interest rate of 1% to buildings affected by a terrorist attack. Ceylinco Insurance PLC and Galadari Hotels (Lanka) PLC had been the largest recipients. As at end-December 2010, LKR 1.15 billion remained outstanding; Letters of demand have been sent to the recipients of these loans. In the event of default, the management of NITF has demanded equity stakes in the respective entities or the commencement of foreclosure procedures on the affected properties. We note that the recovery process is ongoing.

Liquidity boosted by investments in government securities

NITF's liquidity position is deemed good. As the Fund maintains most of its investments as government securities, its ratio on liquid assets to total assets of 0.82 times as at end-December 2010 compared well against its peers' (end-December 2009: 0.79 times).

■ Financial Performance

Dip in SRCC & TR premiums compresses GWPs

NITF's overall profitability is deemed healthy, with a gross underwriting margin of 64.55% in FY Dec 2010 (FY Dec 2009: 60.62%) that was better than most of its peers'. In April 2010, terrorism premiums were slashed by 75%, to commensurate with lower risk levels since the end of the civil war in May 2009. As such, the Fund's gross underwriting profit declined 7.58% to LKR 2.43 billion in FY Dec 2010. Of this, SRCC & TR underwriting profits amounted to LKR 2.12 billion while losses from *Agrahara* summed up to LKR 38.77 million.

Net underwriting margin upheld by SRCC &TR

The Fund's overall net underwriting margin improved to 51.39% in FY Dec 2010 (FY Dec 2009: 49.41%), significantly better than its insurance peers'. On this note, fewer claims in the SRCC & TR segment had boosted underwriting profits. NITF's gross underwriting margin for *Agrahara* and SRCC & TR clocked in at -3.74% and 94.31%, respectively, in FY Dec 2010 (FY Dec 2009: -7.05% and 92.00%). Going forward, we anticipate the SRCC & TR margins to hold while *Agrahara* margins remain thin or even in the red.

Overheads largely unchanged

We note that NITF's overheads have relatively unchanged y-o-y because it still operates with the same 2 branches. As such, its expense ratio remained at a low 12.42% as at end-December 2010, i.e. lower than those of its insurance peers. NITF does not rely on marketing efforts as SRCC & TR premiums are collected by other insunrance companies while *Agrahara* premiums are deducted from the salaries of the beneficiaries. Going forward, we anticipate these levels to rise over the medium term, along with the management's plans to expand the Fund's operations to the other SAARC countries and to extend exclusive health facilities to *Agrahara* policyholders (refer to Management and Strategies).

Receding interest rates affected NITF's investment income

On a separate note, NITF's investment income has been weighed down by receding interest rates, as reflected by its weakening investment-yield ratio, which stood at 7.83% as at end-FY Dec 2010 (end-FY Dec 2009: 14.24%). RAM Ratings Lanka notes that the Fund's investment yields have been the lowest among its peers because it invests almost entirely in government securities. Given the high claims of the *Agrahara* segment and thinning returns from investments, NITF is prone to the risk of both its premiums and investment income falling short of the amounts claimed. Nevertheless, adequate accumulated funds (which cover the *Agrahara* claims in fiscal 2010 by 1.07 times) and the financial flexibility derived from the GOSL (as the *Agrahara* programme operates to fulfil the state's objective of uplifting the well-being of its members) is deemed to mitigate such a risk.

■ Capital Adequacy

Capital deemed strong

As a statutory body, the Fund does not have any share capital. NITF's capitalisation of LKR 10.08 billion as at end-December 2010 was made up of accumulated profits since inception, after deducting the annual payments made to the GOSL. As at end-December 2010, the ratio on accumulated funds to total claims stood at 5.96 times. We therefore perceive NITF's capitalisation to be satisfactory. Effective January 2012, NITF will be required to report to the IBSL on solvency ratios, as is required of all the entities regulated by the latter.

■ Information – National Insurance Trust Fund

Date of Establishment:	2005	
Commencement of Business:	2005	
Major Shareholders (as at 31 March 2011):	N/A	
Directors:	Mr SD Abeygoonasekara	Chairman
	Mr WH Piyadasa	Working Director
	Mr J Daddellage	Director
	Mr KAD Hemarathne	Director
	Mr AK Senevirathne	Director
	Dr L Samarawickrama	Director
Auditor:	Auditor General	
Listing:	Not listed	
Key Management:	Mr SD Abeygoonasekara	Chairman
	Ms D Weerakoon	Finance Manager
	Ms N Perera	Manager Revenue
Capital History:	N/A	

FINANCIAL SUMMARY
National Insurance Trust Fund

BALANCE SHEET (LKR Million)	31-Dec-06	31-Dec-07	31-Dec-08	31-Dec-09	31-Dec-10
ASSETS					
Cash and Bank Balances	13.36	153.65	85.04	53.83	53.88
Investments					
Properties	0.00	0.00	0.00	0.00	0.00
Fixed Income Securities	0.00	5,855.95	7,940.34	8,519.24	9,114.58
Unit Trust	0.00	0.00	0.00	0.00	0.00
Equity Securities	0.00	0.00	0.00	0.00	0.00
Fixed and Call Deposits	0.00	0.00	0.00	0.00	0.00
Investment-Linked Investments	0.00	0.00	0.00	0.00	0.00
Net Loans	0.00	1,557.82	1,423.76	1,273.52	1,159.23
Outstanding Premium from agents/brokers	511.84	614.85	570.43	580.92	533.46
Amount Due from reinsurers/ceding company	0.00	0.00	0.00	0.00	0.00
Investments in Subsidiaries/Associates	0.00	0.00	0.00	0.00	0.00
Other Assets	0.00	49.29	40.37	297.58	224.01
Property, Plant & Equipment	1.46	25.24	46.55	42.31	36.03
TOTAL ASSETS	526.66	8,256.80	10,106.48	10,767.40	11,121.19
LIABILITIES					
Provision for outstanding claims:					
Admitted/estimated but not yet paid & IBNR	0.00	0.00	0.00	0.00	0.00
Reserve for Unexpired Risks (General Insurance)	0.00	0.00	0.00	0.00	0.00
Actuarial Liabilities (Life Insurance)	0.00	0.00	0.00	0.00	0.00
Bonus & Unallocated surplus carried forward	0.00	0.00	0.00	0.00	0.00
TOTAL INSURANCE FUNDS	0.00	0.00	0.00	0.00	0.00
Amount Due to Agent, Brokers & Reinsurers	0.00	903.02	1,060.98	969.13	844.42
Accrued expenses & Trade and Other Creditors	432.56	770.27	586.21	340.36	189.50
Amount due to Related Companies	0.00	0.00	0.00	0.00	0.00
Bank Overdraft & Other bank borrowings	0.00	0.00	0.00	0.00	0.00
Investment-linked Liabilities	0.00	0.00	0.00	0.00	0.00
Provision for Taxation/Deferred Tax Liabilities	0.00	0.00	0.00	0.00	0.00
Provision for Dividends	0.00	0.00	0.00	0.00	0.00
TOTAL LIABILITIES	432.56	1,673.29	1,647.19	1,309.49	1,033.92
Paid-up Capital	94.10	6,583.51	8,459.29	9,457.91	10,087.27
Irredeemable Hybrid Capital	0.00	0.00	0.00	0.00	0.00
Share Premium & Other Reserves	0.00	0.00	0.00	0.00	0.00
Retained Profits/(Accumulated Losses)	0.00	0.00	0.00	0.00	0.00
Minority Interest	0.00	0.00	0.00	0.00	0.00
TOTAL SHAREHOLDERS' FUNDS	94.10	6,583.51	8,459.29	9,457.91	10,087.27
TOTAL LIABILITIES & SHAREHOLDERS' FUNDS	526.66	8,256.80	10,106.48	10,767.40	11,121.19

FINANCIAL SUMMARY
National Insurance Trust Fund

INCOME STATEMENT (LKR Million)	31-Dec-06	31-Dec-07	31-Dec-08	31-Dec-09	31-Dec-10
Net Premiums	318.90	2,780.51	3,577.53	3,941.47	3,769.81
Less: Provision for Reserves for Unexpired Risks	0.00	(125.61)	(185.62)	16.49	225.26
Earned Premiums	318.90	2,654.90	3,391.91	3,957.97	3,995.07
Less: Claims Incurred and Claims Admitted	(242.47)	(962.71)	(1,151.79)	(1,568.74)	(1,561.77)
Gross Underwriting Surplus/(Deficit)	76.44	1,692.19	2,240.13	2,389.22	2,433.30
less: Underwriting Expenses (of the Funds)	(2.98)	(489.36)	(617.27)	(441.61)	(496.04)
Net Underwriting Surplus/(Deficit)	73.46	1,202.83	1,622.85	1,947.62	1,937.26
Investment Income	0.00	566.98	1,233.18	1,348.38	784.61
Other Income	0.00	0.00	0.68	15.17	0.57
Surplus / (deficit) transferred from Revenue Account					
- General Insurance	0.00	0.00	0.00	0.00	0.00
- Life Insurance	0.00	0.00	0.00	0.00	0.00
Company's Operating Turnover	0.00	0.00	0.00	0.00	0.00
Less: (Management expenses)	0.00	0.00	0.00	0.00	0.00
(Other expenses)	0.00	0.00	0.00	0.00	0.00
Add: Investment Income	0.00	0.00	0.00	0.00	0.00
Other Income	0.00	0.00	0.00	0.00	0.00
Operating Profit Before Depn., Interest and Tax	73.46	1,769.81	2,856.04	3,295.99	2,721.87
Less: Depreciation and Amortisation	0.00	0.00	0.00	0.00	0.00
Operating Profit Before Interest and Tax	73.46	1,769.81	2,856.04	3,295.99	2,721.87
Less: Interest and Finance Charges	0.00	0.00	0.00	0.00	0.00
Operating Profit Before Tax	73.46	1,769.81	2,856.04	3,295.99	2,721.87
Prior Year Adjustments	0.00	0.00	0.00	0.00	0.00
Extraordinary/Exceptional Items	0.00	0.00	0.00	0.00	0.00
Share of Associates Profit/(Loss)	0.00	0.00	0.00	0.00	0.00
Adjusted Profit/(Loss) Before Tax	73.46	1,769.81	2,856.04	3,295.99	2,721.87
Less: Tax & Zakat	0.00	0.00	0.00	0.00	0.00
Adjusted Profit/(Loss) After Tax	73.46	1,769.81	2,856.04	3,295.99	2,721.87
Less: Minority Interests	0.00	0.00	0.00	0.00	0.00
Less: Dividends	0.00	0.00	0.00	0.00	0.00
Retained Profit For The Year	73.46	1,769.81	2,856.04	3,295.99	2,721.87

FINANCIAL RATIOS
National Insurance Trust Fund

KEY FINANCIAL RATIOS (%)	31-Dec-06	31-Dec-07	31-Dec-08	31-Dec-09	31-Dec-10
PROFITABILITY (%)					
Gross Underwriting Margin	23.97%	60.86%	62.62%	60.62%	64.55%
Net Underwriting Margin	23.03%	43.26%	45.36%	49.41%	51.39%
Pre-tax Operating Margin	23.03%	63.65%	79.85%	84.01%	72.22%
Pre-tax Return on Assets (av.)	13.95%	40.30%	31.11%	31.73%	24.88%
Investment Yield (av.)	NA	15.59%	14.71%	14.24%	7.83%
After Tax Return on Equity	78.06%	26.88%	33.77%	35.01%	26.99%
Return on Capital Employed	78.06%	26.88%	33.77%	35.01%	26.99%
Claims Ratio	76.03%	40.99%	39.43%	39.22%	33.45%
Expense Ratio	0.93%	18.43%	18.20%	11.16%	12.42%
Combined Ratio	76.97%	59.43%	57.63%	50.38%	45.87%
Investment Income Ratio	0.00%	20.39%	34.49%	34.59%	20.83%
Operating Ratio	76.97%	39.03%	23.14%	15.78%	25.04%
CAPITALISATION / SOLVENCY					
Gearing Ratio (times)	0.00	0.00	0.00	0.00	0.00
Operating Profit Debt Coverage Ratio (times)	NA	NA	NA	NA	NA
Insurance Fund Liability Ratio	0.00	0.00	0.00	0.00	0.00
Total Surplus Assets Coverage	0.22	3.93	5.14	7.22	9.76
LIQUIDITY					
Total Liquid Assets / Total Insurance Funds	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Total Liquid Assets / Total Assets	0.00	0.71	0.79	0.79	0.82
OTHER PERFORMANCE RATIOS					
Retention Ratio	100.00%	89.60%	89.91%	87.87%	98.10%

FINANCIAL RATIOS
National Insurance Trust Fund

Ratio Definition:-	
Gross Underwriting Margin	Gross Underwriting Profit / Net Premiums
Net Underwriting Margin	Net Underwriting Profit / Net Premiums
Pre-tax Operating Margin	Operating Profit Before Tax / Net Premiums
Pre-tax Return on Assets (av.)	Operating Profit Before Tax / Total Asset (av.)
Investment Yield (av.)	(Interest income + Dividend Income) / Total Liquid Assets/Investments (av.)
After Tax Return on Equity	Adjusted Profit After Tax / (Shareholders' Funds + Minority Interests)
Return on Capital Employed	(Pre-tax Profit + Interest) / (Total Debt + Shareholders' Funds + Minority Interests)
Claims Ratio	(Claims Paid + Changes in Provision for Outstanding Claims) / Earned Premiums
Expense Ratio	(Commission + Management Expenses + General and Administrative Expenses + Other Expenses) / Earned Premiums
Combined Ratio	Claims Ratio + Expenses Ratio
Investment Income Ratio	Investment Income / Net Premiums
Operating Ratio	Combined Ratio - Investment Income Ratio
Gearing Ratio	Total Debt / (Shareholders' Funds + Minority Interest)
Operating Profit Debt Coverage Ratio	Operating Profit Before Depreciation Interest and Tax / Total Debt
Insurance Fund Liability Ratio	Total Insurance Funds / (Shareholders' Funds + Minority Interest)
Total Surplus Assets Coverage	(Total Assets - Total Liabilities) / Total Liabilities
Retention Ratio	Net Premium / Gross Premium

The above ratios have been computed based on information from the company and published accounts. Where applicable, some items have been reclassified according to RAM's definition to facilitate meaningful comparisons between companies.

CREDIT RATING DEFINITIONS

Claims-Paying Ability Ratings

A Claims-Paying Ability ("CPA") is RAM Ratings Lanka's current opinion on the overall capacity of an insurance company to meet its financial obligations to policy/contract holders. The opinion is not specific to any particular policy/contract, as it does not take in to account the expressed terms and conditions of any specific policy/contract.

Long-Term Ratings

AAA	An insurance company rated AAA has a superior capacity to meet its financial obligations to policy/contract holders. This is the highest long-term CPA assigned by RAM Ratings Lanka.
AA	An insurance company rated AA has a strong capacity to meet its financial obligations to policy/contract holders. The insurance company is resilient against adverse changes in circumstances, economic conditions and/or operating environments.
A	An insurance company rated A has a strong capacity to meet its financial obligations to policy/contract holders. The insurance company is resilient against adverse changes in circumstances, economic conditions and/or operating environments.
BBB	An insurance company rated BBB has a moderate capacity to meet its financial obligations to policy/contract holders. The insurance company is more likely to be weakened by adverse changes in circumstances, economic conditions and/or operating environments than those in higher-rated categories. This is the lowest investment-grade category.
BB	An insurance company rated BB has a weak capacity to meet its financial obligations to policy/contract holders. The insurance company is highly vulnerable to adverse changes in circumstances, economic conditions and/or operating environments.
B	An insurance company rated B has a very weak capacity to meet its financial obligations to policy/contract holders. The insurance company has limited ability to withstand adverse changes in circumstances, economic conditions and/or operating environments.
C	An insurance company rated C has a high likelihood of defaulting on its financial obligations to policy/contract holders. The insurance company is highly dependent on favourable changes in circumstances, economic conditions and/or operating environments, the lack of which would likely result in it defaulting on its financial obligations to policy/contract holders.
D	An insurance company rated D is currently in default on either all or a substantial portion of its financial obligations to policy/contract holders, whether or not formally declared. The D rating may also reflect the filing of bankruptcy and/or other actions pertaining to the insurance company that could jeopardise the payment of financial obligations to policy/contract holders.

Short-Term Ratings

P1	An insurance company rated P1 has a strong capacity to meet its short-term financial obligations to policy/contract holders. This is the highest short-term CPA assigned by RAM Ratings Lanka.
P2	An insurance company rated P2 has an adequate capacity to meet its short-term financial obligations to policy/contract holders. The insurance company is more susceptible to the effect of deteriorating circumstances than those in the highest-rated category.
P3	An insurance company rated P3 has a moderate capacity to meet its short-term financial obligations to policy/contract holders. The insurance company is more likely to be weakened by the effects of deteriorating circumstances than those in the higher-rated category. This is the lowest investment-grade category.
NP	An insurance company rated NP has doubtful capacity to meet its short-term financial obligations to policy/contract holders. The insurance company faces major uncertainties that could compromise its capacity for payment of financial obligations.
D	An insurance company rated D is currently in default on either all or a substantial portion of its financial obligations to policy/contract holders, whether or not formally declared. The D rating may also reflect the filing of bankruptcy and/or other actions pertaining to the insurane company could jeopardise the payment of financial obligations to policy/contract holders

For long-term ratings, RAM Ratings Lanka applies signs plus (+), flat or minus (-) in each category from AA to C. The sign plus (+) indicates that the insurance company ranks at the higher end of its generic rating category; the sign flat indicates a mid-ranking; and the sign minus (-) indicates that the insurance company ranks at the lower end of its generic rating category.

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