

RAM

RATINGS

## CREDIT RATING RATIONALE

CLAIMS PAYING ABILITY – SRI LANKA

A wholly owned subsidiary of RAM Holdings Berhad

Asian Alliance Insurance PLC -  
Rating Review**Claims Paying Ability  
Rating:** BB+ (reaffirmed)**Rating Outlook:**  
Stable**Strengths:**

- Franchise in the life segment
- Conservative investment stance

**Weaknesses:**

- Small size
- Below average general insurance underwriting standards
- High overheads

**Principal Activities:**

Provision of general and life insurance coverage

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**Summary**

RAM Ratings Lanka has affirmed Asian Alliance Insurance PLC's ("AAI" or "the Company") claims paying ability rating of BB+ with a stable outlook. The rating is supported by the Company's life-insurance franchise and its conservative investment strategy. However, the rating continues to be pressured by AAI's small size and weak underwriting results from its general business.

AAI retained its position as the 7<sup>th</sup> largest composite insurance player, accounting for 2.46% of industry composite premiums as at FYE 31 December 2008 ("FY Dec 2008"). Owing to the harsh macroeconomic conditions witnessed in fiscal 2008, the Company's life segment expanded at a slower pace. It maintained its focus on a niche market of professionals, recording an average premium value of LKR 36,639, the highest in the industry. However, AAI's general business recorded a spike in growth boosted by an expanding branch network and sales force. The Company widened its branch network from 14 as at end-FY Dec 2007 to 21 as at end-FY Dec 2008.

However, without a clear strategy, AAI's branch expansion and rapid growth in the general segment, took its toll on the Company's claims and expense ratios. The Company's general business expense ratio jumped to 60.73% from 43.29% a year earlier, while the general business claims ratio also weakened to 75.42% as at end-FY Dec 2008 (end-FY Dec 2007: 73.33%). The motor segment, which spurred growth, was the most affected as claims from this sub-class deteriorated to 71.45% from 63.21% the previous year. Consequently, pre-tax losses from the general business widened to LKR 28.85 million (end-FY Dec 2007: LKR 0.81 million). Nonetheless, AAI's life business continues to support its overall financial performance, as profits augmented 14.60% to LKR 131.15 million.

The management has begun to address the overheads and high claims in the general segment. Low performing staff are being axed and recruitment halted; the Company has also reduced staff allowances. To improve underwriting results, the management has already tightened the screening process, and intends to increase premiums on loss-making contracts during renewal and refrain from underwriting certain classes of business. These actions are expected to have a positive impact beginning FY Dec 2010, as poorly underwritten contracts mature during FY Dec 2009.

Meanwhile, AAI continues to maintain a conservative stance regarding investments. Government securities take up the bulk of its investment portfolio, accounting for 81.82% of total investments as at end-FY Dec 2008. Furthermore, the bulk of corporate debt investments, which accounted for 12.57% of the Company's total investment portfolio, was in investment-grade companies.

## Outlook

The stable outlook is premised on our expectations that the management will rein in overheads and improve claims on its general business, while maintaining the underwriting standards for its life business.

However, downward pressure on AAI's ratings will be exerted if the Company does not reverse the deteriorating trend in expenses and claims in the general segment. The Company's ratings may also be revised downwards, should there be a significant deterioration in life insurance underwriting results or a loss of market share.

Although an upward revision of the ratings is unlikely in the medium term, it could materialise if the Company expands its market share while maintaining its underwriting results.

## Corporate Profile

Although AAI was established as a specialised general insurance company in 1999, its life business, established in 2000, accounts for 73% of premiums as at end-FY Dec 2008. The Company was listed on the Diri Savi Board in 2000. During the period under review, the Company had expanded its branch network from 14 to 21. In tandem, its staff count had also augmented from 243 to 375.

## Ownership Structure

AAI's ownership structure remains relatively unchanged, with Asia Capital Limited maintaining a combined direct and indirect stake of 51.08%. Asia Capital Limited is a diversified financial-service group with operations in investment banking, asset management, stock and commodities brokering, fixed income securities trading, and finance house operations. The Company's other major shareholders include Vallibel Investments Limited and Richard Pieris Group, who own 15% and 25% respectively.

## Competitive Position

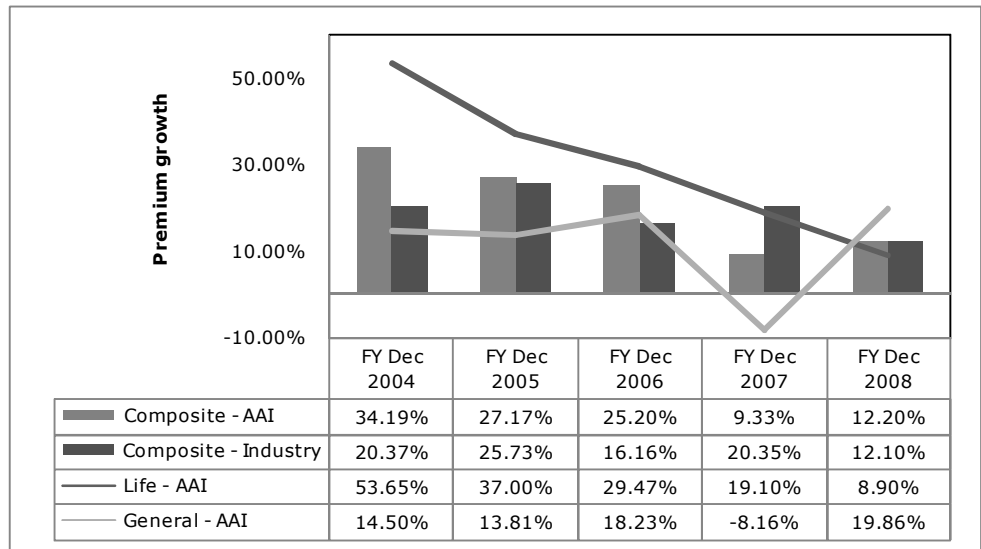
Although AAI's market share in the life industry dipped marginally during FY Dec 2008, this was offset by the increased market share of the general insurance business. Accordingly, it retained its position as the 7<sup>th</sup> largest insurer, accounting for 2.46% of the industry's composite premiums as at end-Dec 2008. AAI's life portfolio recorded a growth of 8.90%, its weakest result in 5 years (refer to Chart 1). Growth in the life segment had been hampered by the harsh economic climate witnessed during the period, and the departure of a large number of sales staff. Nonetheless, growth in the general segment reached new heights, boosted by an expanding branch network and the opening of a dedicated non-life centre in Kelaniya.

*Listed player*

*Part of Asia  
Capital Group*

*Growth in general  
business outpaces  
life*

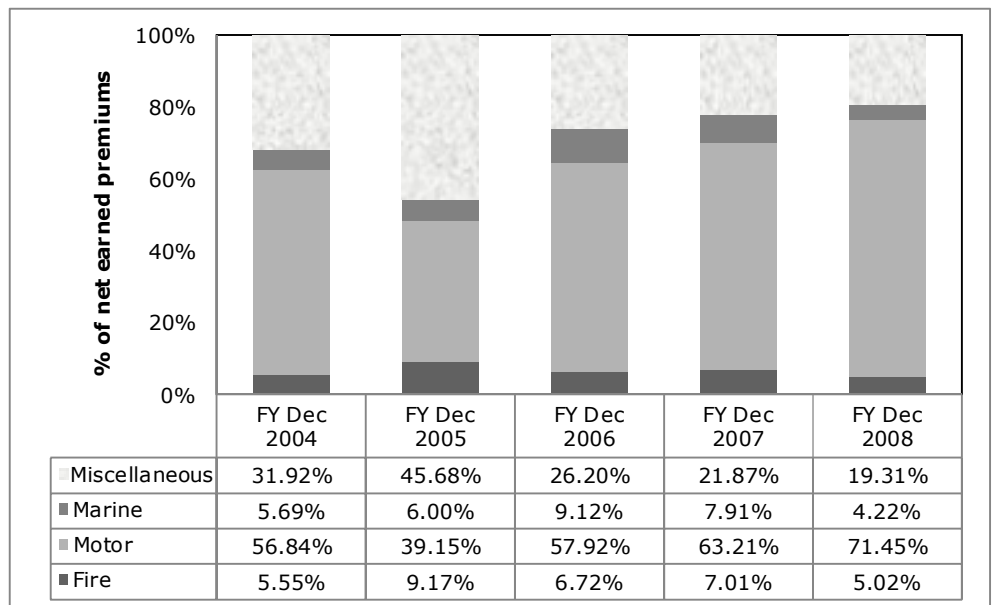
**Chart 1: Premium growth vs the industry**



**Motor segment shows strongest growth**

The expansion in AAI’s general portfolio was spearheaded by the motor segment, which accounted for 71.45% of net earned premiums (refer to Chart 2). The increase in the general premiums was supported by a wider branch network and a larger sales force; however, the influx of sales agents and uncontrolled growth led to a slide in underwriting standards, which in turn pushed up claims. The management is now in the process of rationalising the sales force and strengthening operational procedures.

**Chart 2: AAI's general premium composition**



**Life remains AAI's competitive strength**

Nevertheless, the life segment remained the Company’s key competitive strength. AAI continues its strategy of selling life insurance to a niche market of working professionals, allowing it to command an average premium value of LKR 36,639, the highest in the industry.

## Management & Strategies

AAI's management continues to be led by Mr Ramal Jasinghe, the Chief Executive Officer, who is supported by 4 divisional heads.

### ***Branch expansion***

During the period under review the Company had embarked on a branch expansion drive, increasing its branch count from 14 as at end-FY Dec 2007 to 21 as at end-FY Dec 2008. The new branches, primarily located in the western province, were opened in locations which the management felt possessed strong economic activity to tap into the higher echelons of society.

### ***Spike in staff costs***

However, as a result of the branch expansion, overheads escalated dramatically impinging on financial performance. The bulk of the overheads were related to staff expenses, as the management had recruited a large sales force to reduce its dependence on brokers. The management is now taking actions to control staff expenses by freezing recruitment, axing low-performing staff and reducing allowances.

### ***Increase contribution from general business***

With the intention of increasing contributions from general business, the management had opened a dedicated non-life branch in Kelaniya. However, the newer sales staff had introduced loss-making business to the Company, pushing up its claims ratio in the general segment. Going forward, the management intends to expand the contribution from the general segment to 35% of total premiums, up from 32% currently.

## Corporate Governance

### ***Change of Chairman***

The board, presently chaired by former deputy chairman Mr JHP Ratnayake, consists of 6 non-executive directors and 1 executive director. The post of chairman had changed twice during the review period; in November 2008, Dr S Yaddhige vacated the post and was replaced by Mr SH Amarasekera. By end-June 2009, however, Mr SH Amaresekera was replaced by Mr JHP Ratnayake, while Mr HLLM Nanayakkara, took over as deputy chairman and Mr Jasinghe was appointed to the board.

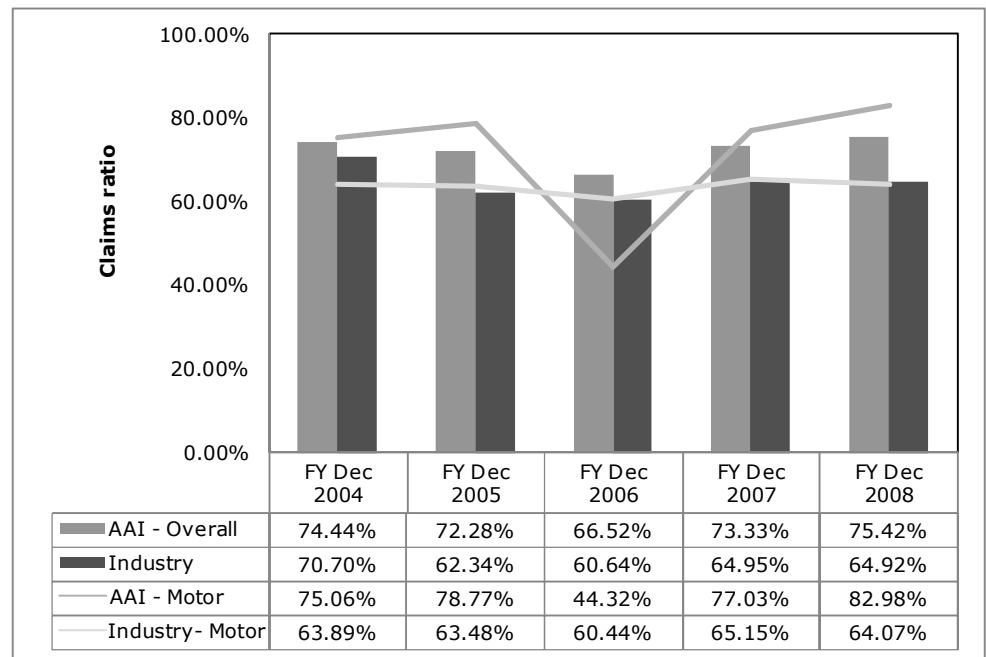
## Underwriting Quality & Risk Exposure

### **General Business**

### ***General underwriting deemed weak***

RAM Ratings Lanka considers AAI's general business underwriting standards to be weak, owing to the higher-than-industry claims ratio. The overall claims ratio deteriorated further to 75.42% as at end-FY Dec 2008 (end-FY Dec 2007: 73.33%) (refer to Chart 3). The escalation in claims had resulted from heftier claims in the motor sub-class. However, we acknowledge efforts by the management to rein in claims in this segment. Any further weakening of claims may result in downward pressure on the rating.

**Chart 3: AAI's claims ratio vs the Industry**



***Deterioration in motor portfolio***

The deterioration in the motor portfolio follows AAI's rapid expansion in general business. The motor segment increased its contribution to earned premiums from 63.21% as at end-FY Dec 2007 (refer to Chart 2) to 71.45% as at end-FY Dec 2008. Concurrently, retention in this segment had also increased from 84.28% to 90.85% over the same period. The growth in the motor class had been at the expense of underwriting standards and monitoring. However, having identified this, the management is taking appropriate action to curtail claims; premium rates will be revised upon renewal, certain categories of vehicles such as rent-a-cars will be avoided, and during vehicle inspection it is now mandatory to provide pictures of the vehicle from all 4 sides. Through these measures, the Company is expected to shed loss-making business. These actions are expected to have a positive impact in FY Dec 2010, since the Company still has poorly underwritten contracts in its portfolio.

***Miscellaneous claims improve***

On the other hand, claims from the miscellaneous segment, which was the second largest contributor to premiums (refer to Chart 2), improved to 75.84% as at end-FY Dec 2008 (end-FY Dec 2007: 92.07%) (refer to Table 1). Nonetheless, this remained weaker than the industry average of 71.85% as at the same date. Hospitalisation premiums accounted for 58.15% of gross written premiums from the miscellaneous segment.

**Table 1: AAI's claims ratios vs the industry**

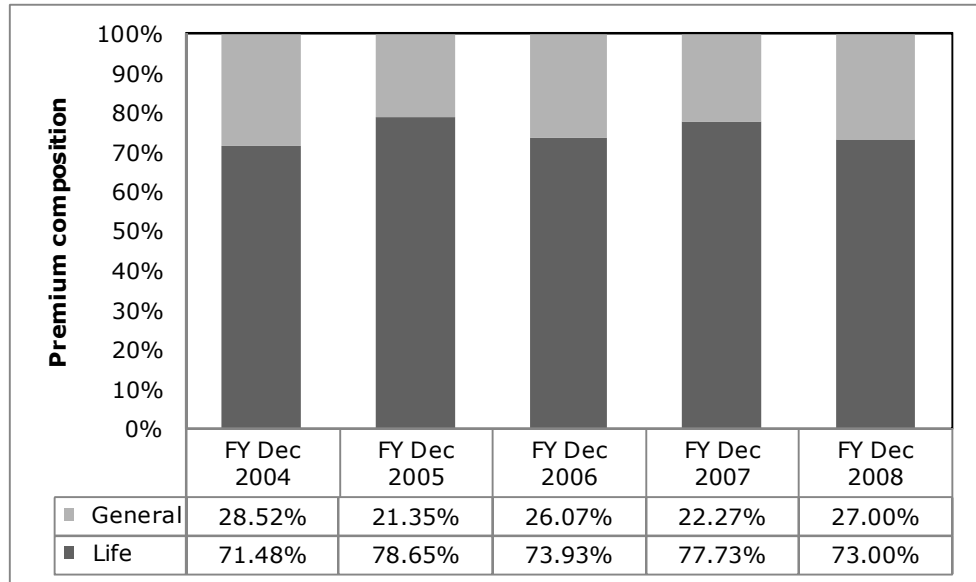
	AAI		Industry	
	FY Dec 2007	FY Dec 2008	FY Dec 2007	FY Dec 2008
Fire - Claims	45.54%	44.37%	84.79%	73.20%
Fire - Retention	12.41%	15.92%	24.06%	12.64%
Marine - Claims	25.42%	20.88%	35.56%	28.39%
Marine - Retention	41.27%	24.62%	39.73%	36.13%
Miscellaneous - Claims	92.07%	75.84%	63.94%	71.85%
Miscellaneous - Retention	66.36%	74.62%	70.46%	67.62%

**Life underwriting adequate**

**Life Business**

Although AAI’s claims ratio in the life business is benign, RAM Ratings Lanka has not formed an opinion on the Company’s life underwriting standards owing to its short operating span. AAI’s composite premiums continue to be dominated by the life business (refer to Chart 4).

**Chart 4: AAI's net premium composition**



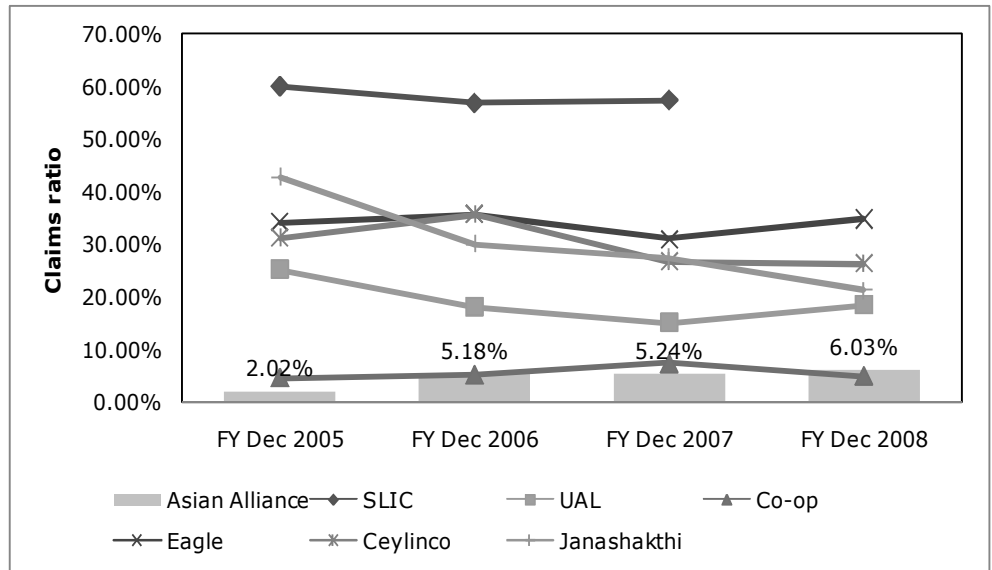
**Follows Munich Re’s standards**

AAI’s underwriting is supported by Munich Re’s underwriting standards. The Company has imbued Munich Re’s underwriting standards through the Munich Re Internet Risk Assessor (“MIRA”) model. Owing to the Company’s low claims, Munich Re has allowed the Company to increase the limits of health benefits on its life insurance policies.

**Claims ratio weakens marginally**

However, AAI’s life claims ratio weakened marginally from 5.24% as at end-FY Dec 2007 to 6.03% as at end-FY Dec 2008, owing to policy maturities and surrenders; nonetheless, it remained better than most peers (refer to Chart 5). Maturity payments had augmented to LKR 2.50 million as at end-FY Dec 2008 from LKR 0.97 million the previous year. In addition, surrender rates nudged up to 0.72% (end-FY Dec 2007: 0.37%), in view of the harsh economic conditions. The Company’s lapse rates had also increased to 27.77% (end-FY Dec 2007: 24.02%). Going forward, the Company’s life claims ratio is expected to weaken as its portfolio matures.

**Chart 5: AAI's life claims ratio vs peers**



**Conservative investment strategy**

AAI continued to broad-base its investments while maintaining a conservative strategy. Government securities continue to dominate the Company's investment portfolio, taking up 81.82% of total investments as at end-FY Dec 2008 (refer to Chart 6). In the meantime, its exposure to corporate debt had increased to 12.57% as at the same date compared to 6.20% a year earlier. Concurrently, the Company had augmented its investments in equity; equity accounted for 3.81% of total investments by end-FY Dec 2008 (end-FY Dec 2007: 1.48%).

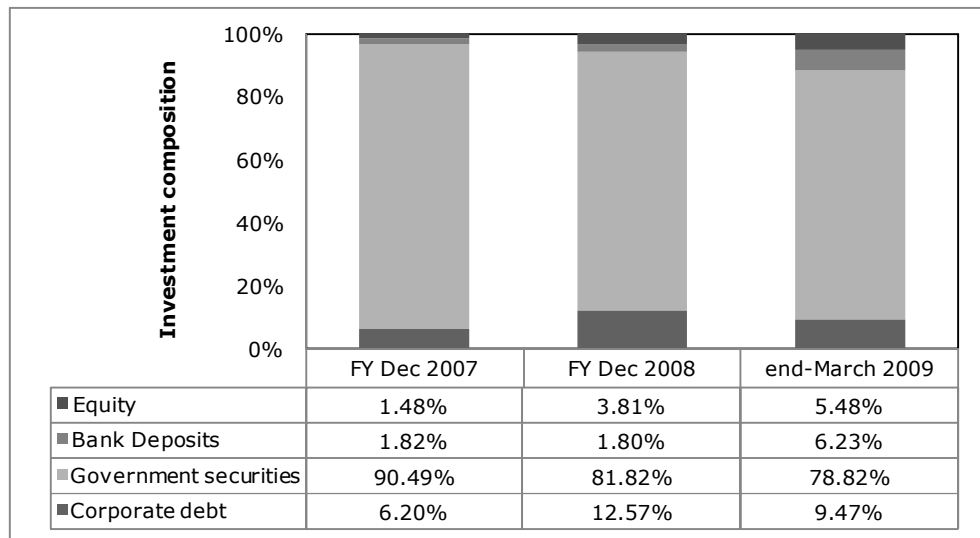
**Increase in bank deposits**

However, we note that by end-March 2009 the investment portfolio had altered, with exposure to corporate debt receding as most debt matured. Proceeds had been channelled to bank deposits, which augmented from LKR 32.24 million as at end-FY Dec 2007 to LKR 119.79 million as at end-March 2009. We also note that all remaining corporate debt investments have been placed with investment-grade companies.

**Equity exposure remains low**

AAI's exposure to equity remained low, taking up 5.48% of total investments as at end-March 2009 (end-FY Dec 2008: 3.81%). Management of the equity portfolio had been transferred to Asia Securities Limited (a related party), with a limit of LKR 100 million being imposed. However, portfolio management reverted to the Company; the investment committee was also reconstituted and it now comprises the chairman, CEO and a director.

**Chart 6: AAI's investment composition**



**Improved investment income**

Meanwhile, AAI's investment yield improved to 14.28% as at end-FY Dec 2008 (end-FY Dec 2007: 13.06%), on the back of high interest rates. As its investments in equities had increased while equity market conditions were depressed, the Company suffered an unrealised loss of LKR 36.99 million. Nonetheless, this was more than offset by income from higher-yielding government securities and corporate debt, which augmented from LKR 153.02 million as at end-FY Dec 2007 to LKR 259.168 million as at end-FY Dec 2008. Going forward, however, proceeds from fixed-income securities are expected to ease in line with the reducing interest rates.

**Cashflow pressured by higher claims**

Meanwhile, cashflow has been pressured by increased claims payments. Net cashflow from operating activities declined from LKR 561.40 million during FY Dec 2007 to LKR 387.44 million during FY Dec 2008, as claims paid augmented 59% to LKR 622.04 million (FY Dec 2007: LKR 390.67 million).

**Strength of Capitalisation**

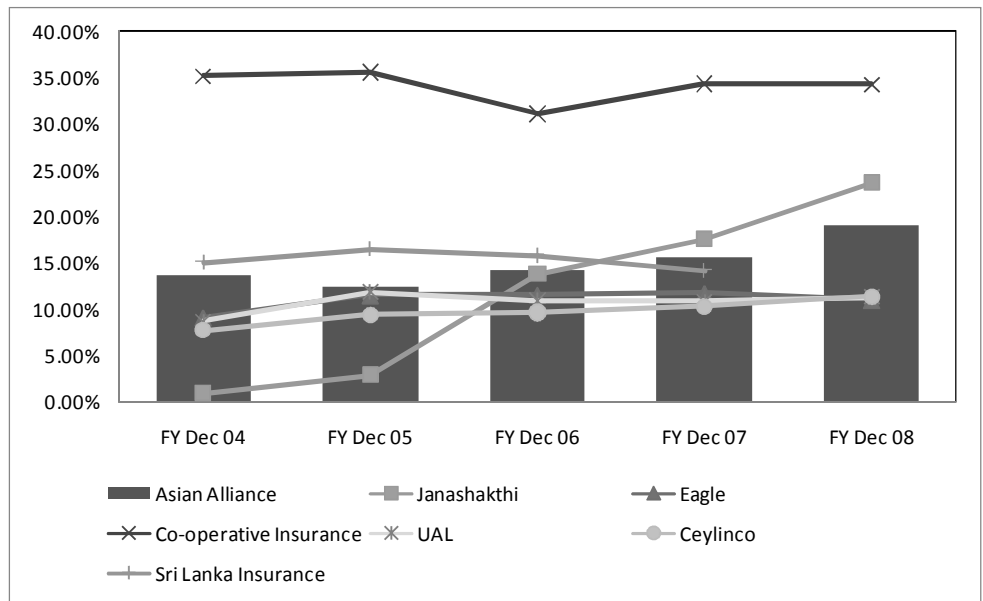
**Moderate capitalisation**

AAI's capitalisation continues to be moderate, as its ratio of shareholders' funds to total assets is better than most peers (refer to Chart 7). The Company grew its capital base 66.49% to reach LKR 404.06 million as at end-FY Dec 2008 (end-FY Dec 2007: LKR 268.66 million). It achieved this through retained earnings. However, by end-June 2009 we note that the Company had made a dividend payment of LKR 31.30 million.

**Temporary dip in solvency margins**

However, we note that the Company's solvency margin for the life business dipped below the regulatory minimum, owing to a misclassification in admissible assets. As at end-March 2009, the Company reported a life solvency margin of 1.24 times. However, the Company had included rated corporate debt investment under admissible assets, which the regulation does not permit (the regulation only allows quoted or bank-guaranteed debt). Nonetheless, the Company had taken immediate corrective action to liquidate debt and increase holdings in government securities; as such, no regulatory repercussions are expected. The solvency margin for the life business stood at 5.80 times as at end-March 2009.

**Chart 7: AAI's ratio on shareholders' funds to total assets vs peers**



**Challenged to meet regulatory requirement**

AAI's paid-up capital, which stood at LKR 250 million as at end-FY Dec 2008, was short of the regulatory requirement of LKR 500 million which must be met by 2010. However, we note that this regulation has yet to be gazetted. The Company intends to bridge the gap with a rights issue.

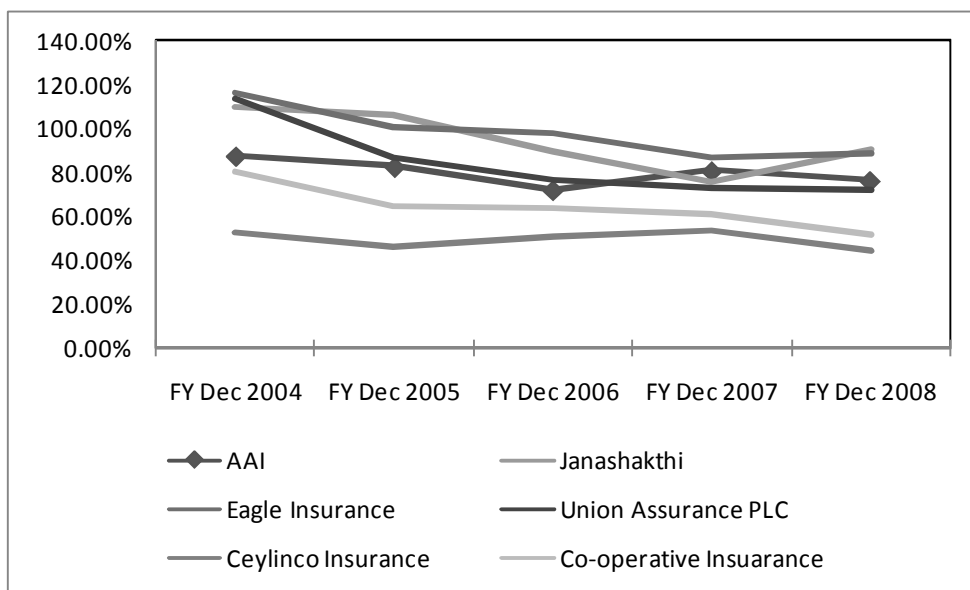
**Adequate reserving**

**Adequacy of Reserving**

AAI's reserving remains adequate, as both its reserves were in line with actuarial recommendations. We note that the Company carries out an independent valuation of its incurred-but-not-reported ("IBNR") reserves, which we view positively. In this regard, AAI had provided LKR 10.33 million for its IBNR reserves, which was deemed adequate by its actuarial consultants, Messer KA Pandit. Although the Company's reserve adequacy ratio<sup>1</sup> had dipped from 80.47% as at end-FY Dec 2007 to 75.87% as at end-FY Dec 2008, it was in line with larger industry peers (refer to Chart 8). AAI's life reserves have also been deemed adequate by its actuaries Messer Actuarial & Management Consultants Limited.

<sup>1</sup> Technical reserves on net written premiums

Chart 8: AAI's reserve adequacy ratio vs peers



**Reinsurance considered adequate**

**Reinsurance**

AAI's reinsurance arrangements are considered adequate as all reinsurers meet the regulatory requirement which stipulates all reinsurers must be either state-backed or rated investment grade (refer to Table 2). However, we note that due to delays in the submission of information to reinsurers, reinsurance balances are long outstanding; 58.14% of reinsurance receivable is more than 6 months past due. In addition, by end-June 2009 the management had made reinsurance provisions of LKR 11 million, negatively impacting financial performance. Such shortcomings in reinsurance highlight the operational weaknesses. However, going forward, the management intends to streamline documentation to improve reinsurance claims processing. RAM Ratings Lanka will closely monitor developments in this regard.

Table 2: AAI's reinsurers and their ratings

Name of Reinsurer	Financial Strength Rating	Agency	Date Affirmed
BEST Re	A-	A.M. Best	18-Aug-08
General Insurance Corporation of India	A-	A.M. Best	24-Feb-09
Milli Reasurans Turk Anonim Sirketi	B++ (Good)	A.M. Best	06-Aug-08
African Reinsurance Coporation	A-	A.M. Best	03-Jun-09
Mitsui Sumitomo Reinsurance	AA	S & P	30-Jun-09
Korean Reinsurance	A-	A.M. Best	23-Jan-09
Asia Reinsurance Corporation	B++ (Good)	A.M. Best	26-Mar-08
Lloyd's of London	A+	A.M. Best	13-Jul-09
Munich Re	A+	A.M. Best	20-Jul-09
National Insurance Trust Fund*	-	-	-

\*government backed Sri Lankan reinsurance

**Profitability remains moderate**

**General business losses widen owing to overheads and claims**

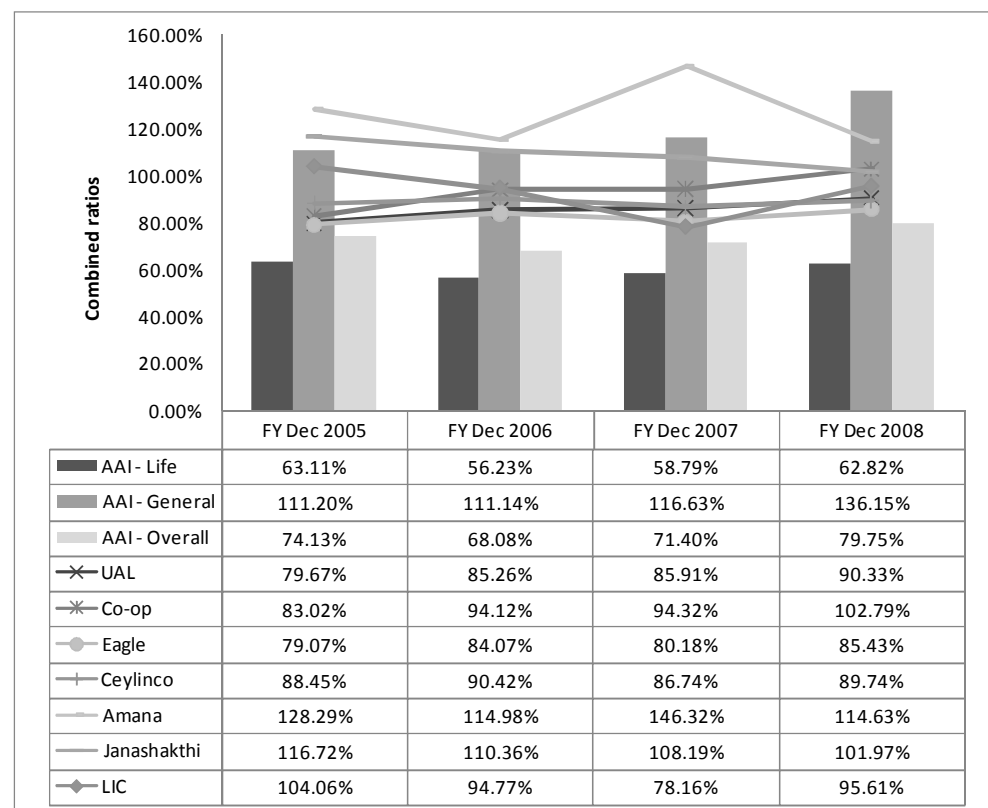
**Overall performance supported by life surpluses**

## Profitability

AAI's financial performance remains moderate, as improvements in the performance of its life business were offset by hefty overheads and claims from the general segment. Despite the increase in absolute profits to LKR 135.40 million as at end-FY Dec 2008 (end-FY Dec 2007: LKR 113.30 million), return-on-equity waned to 33.51% (end-FY Dec 2007: 42.17%) due to an enlarged shareholders' funds base. Furthermore, the Company's returns-on-assets had weakened to 23.39% from 29.58% over the same period, pressured by steeper losses from the general business.

Notwithstanding the 17.64% increase in earned premiums, pre-tax losses from the general business widened from LKR 0.81 million as at end-FY Dec 2007 to LKR 28.85 million as at end-FY Dec 2008, owing to higher overheads and claims. AAI's branch expansion has taken a toll on its general business expense ratio, which rose to 60.73% from 43.29% the previous year. Most of the overheads stemmed from administrative and staff costs, which increased 49.69% to LKR 140.53 million (end-FY Dec 2007: LKR 93.88 million). Moreover, the Company's claims ratio weakened to 75.42% as at end-FY Dec 2008 from 73.33% as at end-FY Dec 2007. Claims paid out expanded from LKR 197.93 million as at end-FY Dec 2007 to LKR 237.42 million as at end-FY Dec 2008. In tandem, the general segment combined ratio climbed to 136.15% as at end-FY Dec 2008 (end-FY Dec 2007: 116.63%) (refer to Chart 9).

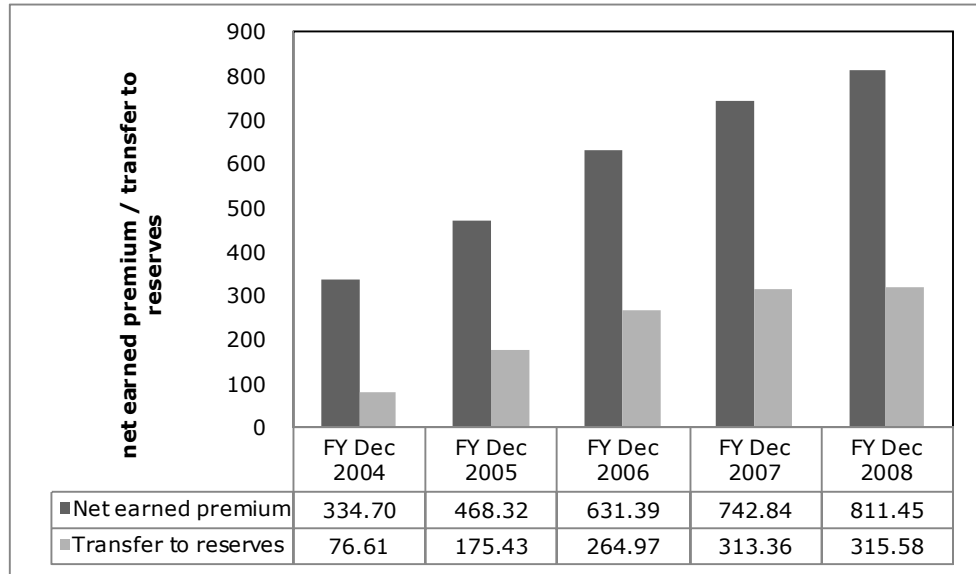
**Chart 9: AAI's combined ratios vs peers**



On the other hand, overall pre-tax profits improved, supported by a higher underwriting surplus from the life business. Transfers to shareholders' funds from the life business ameliorated to LKR 160 million as at end-FY Dec 2008 from LKR 115.24 million the previous year. The expansion in life premiums translated to an increase in the bottom line as transfers to life reserves

remained relatively unchanged (refer to Chart 10). Life operations were also supported by a growth in investment income; the investment income ratio rose from 16.49% as at end-FY Dec 2007 to 21.43% as at end-FY Dec 2008. The improvement in underwriting results and investment income more than compensated for the increase in overheads, as the expense ratio weakened from 56.80% to 53.55% over the same period. Although the Company’s combined ratio waned to 79.75% (end-FY Dec 2007: 71.40%), it remains better than most peers (refer to Chart 9).

**Chart 10: AAI's net earned premiums and transfers to reserves**



Over the short term, RAM Ratings Lanka expects the Company’s performance to be constrained by high overheads and claims from the general business. Nonetheless, the management’s efforts to restrain overheads and claims from this segment are envisaged to bear fruit in the medium term. Investment yields are also expected to ease in line with the reducing interest rates.

### Industry overview

Sri Lanka’s Gross Domestic Product (“GDP”) expanded 1.5% in the first quarter of 2009. Although this pales in comparison to the 6.2% of the previous corresponding period, the slower growth must be regarded in the context of the global downturn. Not surprisingly, all 3 major sectors of the domestic economy have been hit by the global turmoil.

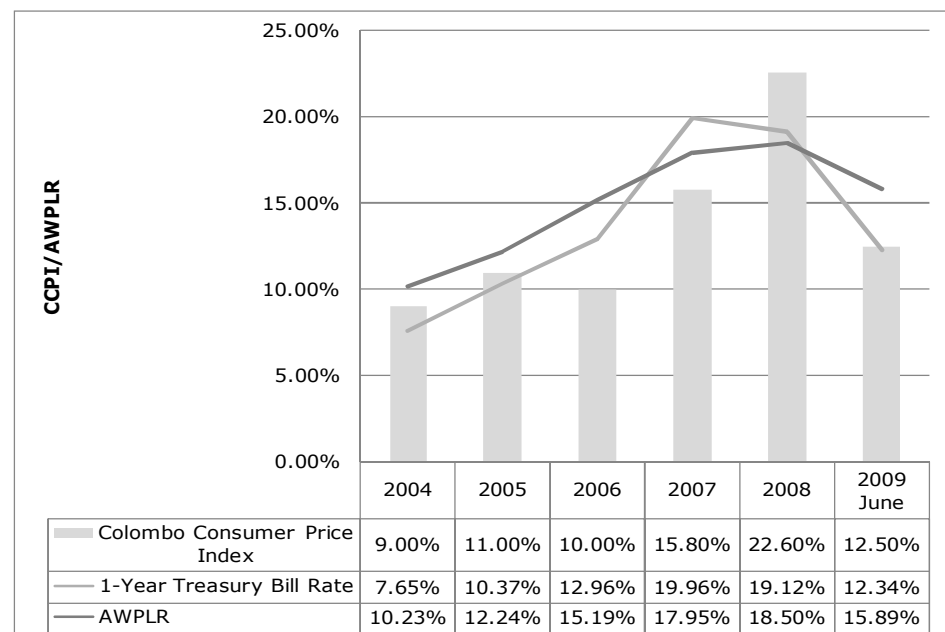
The performance of the primary sectors (agriculture, forestry and fishing) had been dented by the steep fall in tea prices, drought and slumping demand. Although value addition in tea declined 40.9%, this was partially cushioned by the expansion of other food items, including fishing. However, virtually all sub-segments within the industrial and services sectors advanced at a slower pace last year, principally due to weaker export demand (refer to Table 3).

**Table 3: Overall and sectoral GDP growth in 1Q 2008 and 1Q 2009**

Sector	1Q 2008	1Q 2009
Agriculture, Forestry and Fishing	5.9%	3.0%
Industry	6.0%	1.9%
Services	6.4%	1.0%
GDP	6.2%	1.5%

On a more positive note, the end of the 25-year war against the separatist Tamil Tigers has spawned renewed hope for the country. Additionally, the country’s long-awaited USD 2.5 billion standby facility from the International Monetary Fund is expected to elevate the nation’s sorely depleted foreign-exchange reserves. Moreover, both inflation (as measured by the Colombo Consumer Price Index) and interest rates, which peaked in 2008, have been easing consistently since early 2009 (refer to Chart 11). While this augurs well for the domestic economy, sluggish export demand is still a concern. The tapering interest rates follow the Central Bank’s reversal of its tight monetary policy.

**Chart 11: Inflation and interest rates**

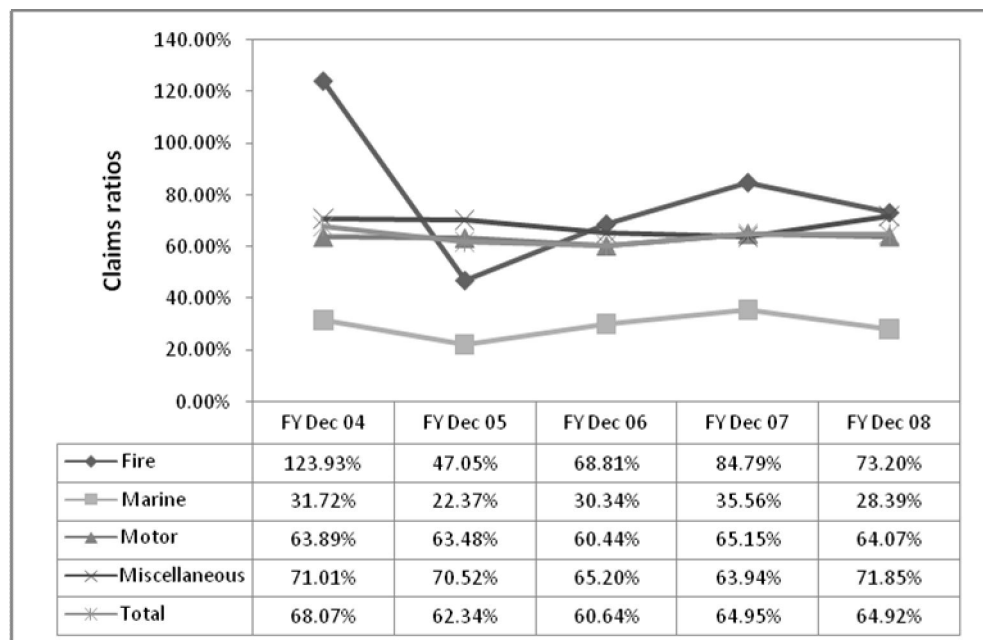


Against this macroeconomic backdrop, the domestic insurance sector made up 3.2% of the financial industry’s total assets as at end-December 2008. The industry is composed of 16 players, 2 of which are engaged in only life business while another 3 are only in general insurance; the rest are involved in both general and life insurance. However, the 2 largest players in the Sri Lankan insurance market commanded 57% of the industry’s GWPs while the top 5 accounted for about 90% as at end-December 2008.

Owing to the heightened inflation, the Central Bank’s tight monetary policy and the gloomy business climate, the industry’s overall GWPs increased at a slower pace of 12.10% to LKR 58.16 billion in 2008 (2007: 20.56%). The overall industry’s growth had been mainly driven by the general insurance segment, which posted a 10.90% expansion. Within this segment, the key growth driver had been the motor sub-class. We note that there is more potential for growth in life insurance as the penetration level (as a percentage of the country’s population) was still rather low at 10.4% as at end-December 2008.

In the last 5 years, the average claims ratio in general insurance has hovered at around 65%, which is in line with international norms. While RAM Ratings Lanka notes that claims in marine insurance, while relatively few, can be large, this sub-class has by far been the best performer - with an average 5-year claims ratio of about 30%. Although we note that the claims ratio for the fire sub-class has improved compared to 2004, it was still high at 73.20% as at end-December 2008 (refer to Chart 12). The miscellaneous sub-class includes a variety of insurance products vis-a-vis burglary, travel and medical purposes. This wide class has generally been prone to high claims incidences. Generally, the medical sub-class has been cited as the main reason. Here, insurers generally face hefty claims and only underwrite such policies to retain clients.

**Chart 12: Industry claims ratios (by product)**



The investments of domestic insurers are generally conservative; about 42% of their investments comprised government securities as at end-December 2008. Thanks to the environment of high interest rates, most insurers depend on investment income for their bottom-line performance. In view of easing interest

rates, however, the industry is expected to explore other avenues of investment. As mentioned earlier, investment income has offset most insurers' weak core business performance in the past few years. However, RAM Ratings notes that this trend is not sustainable, especially in light of the current trend in interest rates. A factor for the weak core business performance is insurers' hefty overheads. The industry has been seeking to reduce its heavy overheads by broadening its channels of delivery. Currently, the 2 primary channels of delivery are insurance agents and brokers. However, the IBSL has amended regulations to allow institutional delivery channels, which could help lower acquisition costs. This aside, expense ratios are likely to remain lofty due to lack of automation.

In the context of regulation, the IBSL has been building its supervisory capacity over the past 5 years. The regulator requires insurers to send quarterly and annual returns, and has commenced an on-site study. Apart from these developments, the IBSL has also proposed a gradual increase in insurance companies' paid-up capital, to LKR 250 million in respect of each business by end-2009. Furthermore, the regulator has proposed a risk-based capital framework, the legal separation of each insurance business and the listing of insurance companies. These initiatives will encourage the industry to improve its risk-management framework and promote risk-based premiums. Prospectively, larger and more efficient players are expected to benefit from these changes.

## Corporate Information

<b>Date of Incorporation:</b>	April 1999			
<b>Commencement of Business:</b>	April 1999			
<b>Major Shareholders:</b>	Asia Capital Ltd	29.15%		
	Asia Fort Sri Lanka Direct Investment Fund	22.03%		
	Valibel Investments (Pvt) Ltd	15.00%		
	Richard Pieris & Co Ltd	15.00%		
	Richard Pieris Distributors Ltd	10.00%		
	Mr KDD Perera	2.94%		
	Vallibel Leisure (Pvt) Ltd	1.58%		
	Asia Fort Asset Management	1.55%		
<b>Directors:</b>	Mr J H P Ratnayake	Chairman		
	Mr HLLM Nanayakkara	Deputy Chairman		
	Prof Lakshman R Watawala	Director		
	Mr LN De S Wijeyeratne	Director		
	Mr Asanga Seneviratne	Director		
	Mr Dhammika Perera	Director		
	Mr RG Jasinghe	Director / CEO		
	Mr Nimal H Perera	Director		
<b>Auditor:</b>	KPMG Ford, Rhodes, Thornton & Co			
<b>Listing:</b>	Diri Savi board of the Colombo Stock Exchange			
<b>Key Management:</b>	Mr Ramal Jasinghe	Director / CEO		
	Mr Siri Jayasinghe	General Manager- Life Technical		
	Mr Chula Hettiarachchi	General Manager - Sales & Distribution		
	Mr Saliya Wickremasinghe	General Manager – Finance		
	Mr Victor Colombage	Deputy General Manager – Claims & Recoveries		
<b>Major Subsidiaries and Associates:</b>	None			
<b>Capital History:</b>	Year	Remarks	Amount (LKR million)	Cumulative Total (LKR million )
	2000	Issue of shares	200	200
	2003	Issue of shares	50	250

## Financial Summary - Company

BALANCE SHEET (LKR Million)	31-Dec-05	31-Dec-06	31-Dec-07	31-Dec-08	30-Jun-09
<b>ASSETS</b>					
Cash and Bank Balances	37.54	38.97	38.01	32.80	23.99
Investments					
Properties	0.00	0.00	0.00	0.00	0.00
Fixed Income Securities	540.97	888.49	1,409.48	1,686.73	2,032.46
Unit Trust	0.00	0.00	0.00	0.00	0.00
Equity Securities	0.54	4.54	21.61	68.03	0.00
Fixed and Call Deposits	22.54	31.68	26.58	32.24	0.00
Investment-Linked Investments	0.00	0.00	0.00	0.00	0.00
Net Loans	1.32	1.88	6.66	13.92	23.52
Outstanding Premium from agents/brokers	58.56	96.27	78.08	105.93	132.17
Amount Due from reinsurers/ceding company	30.14	34.24	24.22	27.49	174.16
Investments in Subsidiaries/Associates	0.00	0.00	0.00	0.00	0.00
Other Assets	62.65	52.86	75.10	101.12	88.47
Property, Plant & Equipment	34.46	30.25	33.95	54.14	66.57
<b>TOTAL ASSETS</b>	<b>788.70</b>	<b>1,179.17</b>	<b>1,713.68</b>	<b>2,122.41</b>	<b>2,541.34</b>
<b>LIABILITIES</b>					
Provision for outstanding claims:					
Admitted/estimated but not yet paid & IBNR	58.02	83.73	101.27	101.72	400.70
Reserve for Unexpired Risks (General Insurance)	73.42	117.73	125.28	177.04	0.00
Actuarial Liabilities (Life Insurance)	310.06	575.03	888.39	1,203.97	1,453.62
Bonus & Unallocated surplus carried forward	0.00	0.00	0.00	0.00	0.00
<b>TOTAL INSURANCE FUNDS</b>	<b>441.50</b>	<b>776.49</b>	<b>1,114.94</b>	<b>1,482.73</b>	<b>1,854.32</b>
Amount Due to Agent, Brokers & Reinsurers	107.64	96.91	117.29	99.85	123.57
Accrued expenses & Trade and Other Creditors	109.26	122.18	194.61	120.32	235.89
Amount due to Related Companies	13.93	2.45	1.88	2.98	3.01
Bank Overdraft & Other bank borrowings	19.28	13.28	16.30	12.48	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
<b>TOTAL LIABILITIES</b>	<b>691.61</b>	<b>1,011.31</b>	<b>1,445.02</b>	<b>1,718.35</b>	<b>2,216.79</b>
Paid-up Capital	250.00	250.00	250.00	250.00	250.00
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)	(152.91)	(82.14)	18.66	154.06	74.54
Minority Interest	0.00	0.00	0.00	0.00	0.00
<b>TOTAL SHAREHOLDERS' FUNDS</b>	<b>97.09</b>	<b>167.86</b>	<b>268.66</b>	<b>404.06</b>	<b>324.54</b>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' FUNDS</b>	<b>788.70</b>	<b>1,179.17</b>	<b>1,713.68</b>	<b>2,122.41</b>	<b>2,541.34</b>

## Financial Summary - Company

INCOME STATEMENT (LKR Million)	31-Dec-05	31-Dec-06	31-Dec-07	31-Dec-08	30-Jun-09
<b>Net Premiums</b>	<b>595.42</b>	<b>853.98</b>	<b>955.64</b>	<b>1,111.55</b>	<b>577.61</b>
Less: Provision for Reserves for Unexpired Risks	12.06	(48.70)	(5.72)	(56.49)	(39.84)
<b>Earned Premiums</b>	<b>607.48</b>	<b>805.28</b>	<b>949.93</b>	<b>1,055.06</b>	<b>537.77</b>
Less: Claims Incurred and Claims Admitted	(110.03)	(148.40)	(190.81)	(232.64)	(171.02)
<b>Gross Underwriting Surplus/(Deficit)</b>	<b>497.45</b>	<b>656.88</b>	<b>759.12</b>	<b>822.43</b>	<b>366.74</b>
less: Underwriting Expenses (of the Funds)	(340.28)	(399.86)	(487.44)	(608.82)	(361.69)
<b>Net Underwriting Surplus/(Deficit)</b>	<b>157.18</b>	<b>257.02</b>	<b>271.68</b>	<b>213.61</b>	<b>5.05</b>
Investment Income	33.81	69.88	153.66	229.77	196.38
Other Income	12.73	6.27	2.46	3.34	0.00
Surplus / (deficit) transferred from Revenue Account					
- General Insurance	8.28	2.11	(0.81)	(28.85)	(48.22)
- Life Insurance	20.00	66.09	115.24	160.00	0.00
<b>Company's Operating Turnover</b>	<b>28.28</b>	<b>68.20</b>	<b>114.44</b>	<b>131.15</b>	<b>(48.22)</b>
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
<b>Operating Profit Before Depn., Interest and Tax</b>	<b>28.28</b>	<b>68.20</b>	<b>114.44</b>	<b>131.15</b>	<b>(48.22)</b>
Less: Depreciation and Amortisation	0.00	0.00	0.00	0.00	0.00
<b>Operating Profit Before Interest and Tax</b>	<b>28.28</b>	<b>68.20</b>	<b>114.44</b>	<b>131.15</b>	<b>(48.22)</b>
Less: Interest and Finance Charges	0.00	0.00	0.00	0.00	0.00
<b>Operating Profit Before Tax</b>	<b>28.28</b>	<b>68.20</b>	<b>114.44</b>	<b>131.15</b>	<b>(48.22)</b>
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
<b>Adjusted Profit/(Loss) Before Tax</b>	<b>28.28</b>	<b>68.20</b>	<b>114.44</b>	<b>131.15</b>	<b>(48.22)</b>
Less: Tax & Zakat	(2.57)	2.57	(1.14)	4.26	0.00
<b>Adjusted Profit/(Loss) After Tax</b>	<b>25.71</b>	<b>70.77</b>	<b>113.30</b>	<b>135.40</b>	<b>(48.22)</b>
Less: Minority Interests	0.00	0.00	0.00	0.00	0.00
Less: Dividends	0.00	0.00	(12.50)	0.00	0.00
<b>Retained Profit For The Year</b>	<b>25.71</b>	<b>70.77</b>	<b>100.80</b>	<b>135.40</b>	<b>(48.22)</b>

## Financial Ratio - Company

KEY FINANCIAL RATIOS (%)	31-Dec-05	31-Dec-06	31-Dec-07	31-Dec-08	30-Jun-09
<b>PROFITABILITY (%)</b>					
Gross Underwriting Margin	83.55%	76.92%	79.44%	73.99%	63.49%
Net Underwriting Margin	26.40%	30.10%	28.43%	19.22%	0.87%
Pre-tax Operating Margin	34.21%	39.01%	44.77%	40.19%	34.87%
Pre-tax Return on Assets (av.)	31.09%	33.86%	29.58%	23.29%	17.28%
Investment Yield (av.)	12.83%	10.21%	13.06%	14.28%	20.37%
After Tax Return on Equity	26.48%	42.16%	42.17%	33.51%	(29.71%)
Return on Capital Employed	24.76%	37.77%	40.30%	31.65%	-29.71%
Claims Ratio	18.11%	18.43%	20.09%	22.05%	31.80%
Expense Ratio	56.01%	49.65%	51.31%	57.70%	67.26%
Combined Ratio	74.13%	68.08%	71.40%	79.75%	99.06%
Investment Income Ratio	7.81%	8.92%	16.34%	20.97%	34.00%
Operating Ratio	66.31%	59.17%	55.06%	58.78%	65.06%
<b>CAPITALISATION / SOLVENCY</b>					
Gearing Ratio	0.20	0.08	0.06	0.03	0.00
Operating Profit Debt Coverage Ratio	11.66	26.48	26.58	36.18	NA
Insurance Fund Liability Ratio	4.55	4.63	4.15	3.67	5.71
Total Surplus Assets Coverage	0.14	0.17	0.19	0.24	0.15
<b>LIQUIDITY</b>					
Total Liquid Assets / Total Insurance Funds	1.28	1.19	1.31	1.21	1.10
Total Liquid Assets / Total Assets	0.72	0.78	0.85	0.84	0.80
<b>OTHER PERFORMANCE RATIOS</b>					
Retention Ratio	63.96%	73.26%	74.99%	77.74%	75.42%

**Notes:**

\* *annualised*

NA = Not available / Not applicable

## Financial Ratios- Company

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)

A Claims-Paying Ability Rating (“CPA”) is RAM Ratings’ 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 into account the expressed terms and conditions of any specific policy/contract.

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### Long-Term Ratings

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- 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.
- 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 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.
- 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.

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