

RAM

RATINGS

CREDIT RATING RATIONALE

CLAIMS PAYING ABILITY – SRI LANKA

A wholly owned subsidiary of RAM Holdings Berhad – an affiliate of Standard & Poor's

Co-operative Insurance Company Ltd - Initial Rating

**Claims Paying Ability
Ratings: BB [Assigned]**
Rating Outlook:
Stable

Strength:

- Geographically dispersed Branch network
- Diversified retail portfolio

Weaknesses:

- Hefty overheads
- Weak reserving

Principal Activities:

Provision of general and life insurance

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Summary

RAM Ratings has assigned a claims-paying ability rating of BB (with a stable outlook) to Co-operative Insurance Company Limited ("CICL" or "the Company"). The rating has taken into account the Company's moderate competitive position and underwriting standards. However, the rating is pressured by hefty overheads, inadequate reserving and regular dividend requirements of its shareholders.

Established in 1999, CICL is a relatively new player providing both life and general insurance. Being a co-operative establishment has enabled the Company to leverage on the distribution network of other co-operative societies. Thus, even though the Company has a very small composite market share of 0.75% of industry premiums, it had established 35 branches and 45 service centres by July 2008. This is considered a very broad coverage for a small player and has enabled the Company to grow above industry levels over the past 3 years. Even though the Company does not aspire to become a large player, it is able to shield itself from competition, by virtue of its "co-operative" status and access to a distribution infrastructure that other players do not have. Nonetheless, RAM Ratings opines the Company's premiums are still inadequate to cover its escalating operational expenditure.

Due to its rural focus and ability to access these segments through tie-ups with other co-operatives, the Company has been able to exercise selective underwriting and maintain pricing discipline while garnering a diversified retail portfolio. This together with its stringent claims assessment has enabled the Company to maintain a claims ratio of around 50%, compared to the industry's 60%. Furthermore, it has been able to maintain its lapse ratio better than the industry average. Hence, RAM Ratings considers the Company's overall underwriting standards to be moderate.

Despite this however, the Company's financial performance is deemed weak as its expense ratio has remained high at around 60% over the past 3 years. The expense ratio rose due to inflation, the Company's expansion drive and the resultant increase in head count. Nonetheless, the Company has been able to post a positive bottom line due to investment income, bulk of which stemmed from government securities.

Apart from high overheads, the Company's general insurance reserving levels are deemed inadequate. Its ratio of technical reserves to net premium came in at a low 62.06% as at FY Dec 2007; this ratio has been on a weakening trend over the past 3 years. Further, RAM Ratings has observed that the Company does not reserve for unexpired or contingent risks, rendering its underwriting results fragile.

Furthermore, RAM Ratings notes that inadequate reserving tends to buoy profits. In addition, the Company has been declaring high dividends since FY Dec 2006 to appease its shareholders. CICL’s average dividend payout ratio over the past 2 years stood at a high 86.94%, further constraining internal capital generation and thus the Company’s capacity to absorb risks. RAM Ratings views this negatively.

Outlook

The stable outlook is premised on the expectation that CICL’s life underwriting results are maintained at current levels and its general insurance claims ratios remain better than industry.

The rating can be revised upwards should the Company demonstrate sustained premium growth that allows it to support its overheads adequately whilst improving its reserving levels. Concurrently, CICL will need to maintain its claims ratio better than industry levels.

The rating could come under pressure in the event claims and expense ratio rise, its exclusive tie-up with other co-operative societies are disrupted or should large players also foray into CICL’s market segments. In addition, regulatory contraventions can also exert a downward pressure on its rating.

Corporate Profile

CICL is a relatively new player in the Industry, incorporated in late 1999, formed under the Companies ACT No 17 of 1982. It presently comes under the regulatory purview of the Insurance Board of Sri Lanka (“IBSL”). The Company is principally involved in the provision of both general and life insurance. Pioneering the concept of mutual insurance, it was established by co-operative societies and most of its policyholders are the Co-operative Society members themselves. Moreover, CICL is an active member of the International Co-operative and Mutual Insurance Federation (ICMIF), which is based in the United Kingdom, and has 120 members in 65 countries. CICL, is also a member of the Asia and Oceania Association (AOA).

The Company is a small player within the industry having a 0.75% market share in terms of composite premiums. Considering its size, CICL has a broad reach through 35 branches and 45 service centres located across the Island. Service centres are essentially front office windows which are supervised by the branches.

Ownership Structure & Financial Flexibility

RAM Ratings deems CICL’s financial flexibility to be weak as approximately 99% of its shareholders are Co-operative Societies (refer to table 1). Most of these shareholders are co-operative rural banks which require regular returns on their investments as they themselves need to meet deposit liabilities. Hence, CICL is unlikely to gain shareholder support during times of stress.

Small player with an extensive network

Widely dispersed shareholdings
Regular dividend payments required

Regulatory compliance a challenge

Moderate competitive position

Negligible but niche market presence

Extensive network presence

New product offerings

Table 1: Major shareholders of CICL

Shareholders	% of total shares
Institutional shareholders (Co-Operative Societies)	99.27%
Individual Shareholders	0.73%
Total	100.00%

The regulator has proposed that the capital be shored-up in 2 stages, with an increase to LKR250 million for each line of business (Life and general by 2009) and LKR500 million for each line of business by 2010. Although, the shareholders have agreed to meet the first stage requirement of LKR250 million per business, RAM Ratings opines that the Company will be challenged to meet with the second stage requirement. This said, it should be noted that the proposals, though made in 2006, is yet to become mandatory.

Another proposed requirement is the listing of insurance companies by 2010. In this regard, CICL intends to fulfil this listing requirement 2010. However, despite this listing, the Company's existing shareholders will continue to retain their dominant stake.

Competitive Position

Despite CICL's miniscule market share, RAM Ratings considers its competitive position to be moderate due to its distribution network which has enabled the Company to shield itself from the keen price competition that the rest of the industry is engulfed in. In addition, RAM Ratings also takes account of the Company's above-average premium expansion over the last 3 years (in terms of gross premiums). Going forward, the agency expects some deceleration in premium expansion due to the high inflation in the country.

CICL is a relatively new player with a operating history spanning nearly a decade. The Company has been able to enlarge its composite premium market share to 0.75% as at FY Dec 2007(refer to table 2). It has been able to broaden its share as it leverages on co-operative society branches, a distribution network which the other players have little access to. As CICL is a co-operative establishment, it is able to tie-up with other co-operatives to sell its services.

Table 2: Market shares of CICL

	FY Dec 03	FY Dec 04	FY Dec 05	FY Dec 06	FY Dec 07
Life	0.43%	0.42%	0.42%	0.43%	0.48%
General	1.06%	0.87%	0.79%	0.80%	0.93%
Composite market share	0.79%	0.68%	0.65%	0.65%	0.75%

Due to this unique advantage, CICL has been able to significantly expand its geographical network over the past 3 years, through 35 branches and 65 service centres covering most parts of the island. The branches function as distribution channels whilst providing back office support to the service centres. In the meantime service centres which are located in other co-operatives carry-out front office functions. Through this arrangement, CICL is able to approach its target rural and semi-urban market segments.

Going forward, CICL intends to grow its top line by broadening its network coverage and augmenting the features of its products. For instance, in the motor class, it has already introduced on-site assessment facilities, so as to improve customer service. Moreover, presently the Company intends to introduce

Has kept price competition at bay

medical insurance to its miscellaneous class of insurance. In life insurance sector, it plans to introduce new products to help augment its top line.

Even though the Company's top line is expected to grow, it intends to remain a small player focusing on its niche market segment to which the other large players have limited access. These attributes have enabled the Company to remain insulated from keen price competition that the industry is embroiled in.

However, despite these advantages CICL's customer service standards are weak. The management has already identified this deficiency and is in the process of rectifying it. Moreover, even though premiums have grown, they still remain inadequate to support the Company's overheads.

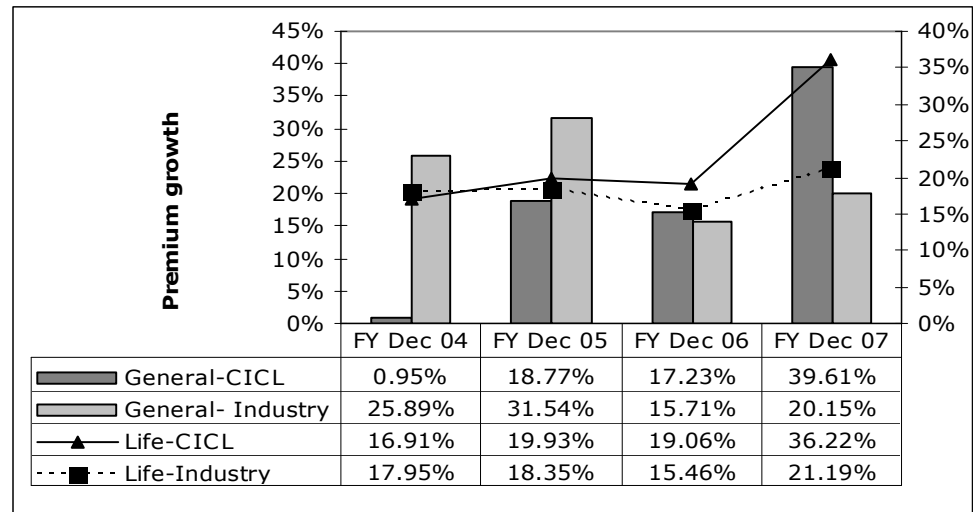
Retail focus

In the general insurance segment, CICL's gross premium came up to 0.93% of industry as at FY Dec 2007. The Company has been growing better than the overall industry due to the expanding branch network and agency force (refer to Chart 1). Further, CICL's portfolio growth had been led by the motor class, similar to that of the industry. In addition, most of the Company's customers are retail rather than corporates as a result of which the risks that CICL underwrites are somewhat modest.

Life insurance – a challenge

CICL has a very small 0.48% market share as at FY Dec 2007 in the life insurance industry, reflecting the challenges that the Company faces in pushing life insurance to its target market.

Chart 1: Trends in premium growth



Overall, RAM Ratings believes that CICL will be able to sustain its present niche and competitive position in the industry.

Management & Strategies

The senior management of the Company comprises 3 key individuals; the Managing Director (MD), the General Manager and the Finance Manager (FM). The MD, with the support of the GM and FM, leads the rest of the management team. However, from 1 October 2008, Mr TMS Nanayakkara assumed the helm and the former MD, Mr Upali Herath, relinquished his executive role but continues to be a board member. Mr Nanayakkara is an attorney-at-law and was the former Chairman of the National Insurance Corporation.

New MD at the helm

MIS still weak

CICL’s objective is to provide mutual insurance and offer a range of insurance services to the rural markets. To this end, the Company has priced its products keeping customer affordability in mind and has designed its distribution network to access its target segment.

However, the management information system (“MIS”) is still limited to broad premium statistics and financial information. In order to improve management decision making, the Company has purchased an IT system. Currently, the life insurance module has been installed while the general insurance module is expected to be deployed during early 2009.

Change in performance evaluation

The management of CICL have thus far succeeded in insulating the Company from other players in the market. Even though the current focus has been in expanding its premiums written, the management intends to focus on strengthening underwriting performance as well. Although these developments are positive, the Company will have to tread a fine line between expanding its premiums whilst remaining below the radar of larger players.

In the mean time, the Company intends to introduce medical insurance due to demand for this service from its existing customer. However, RAM Ratings notes that this segment has generally attracts hefty claims.

Modest ambitions

Prospectively, the management intends to capture 2% market share in terms of composite premiums by 2011. RAM Rating considers this to be an achievable target.

Corporate Governance

CICL’s board consists of 12 directors representing the majority institutional and individual shareholders. The board of directors meet on a monthly basis.

The board is assisted by 4 committees, audit, remuneration, fund management and tender. The audit committee comprises 3 non-executive directors and ensures the effectiveness of the internal controls and regulatory compliance and reviews the Company’s business risk. The fund management committee is chaired by 3 directors and 2 members from senior management. The Committee meets regularly to approve investments and review the performance of the portfolio.

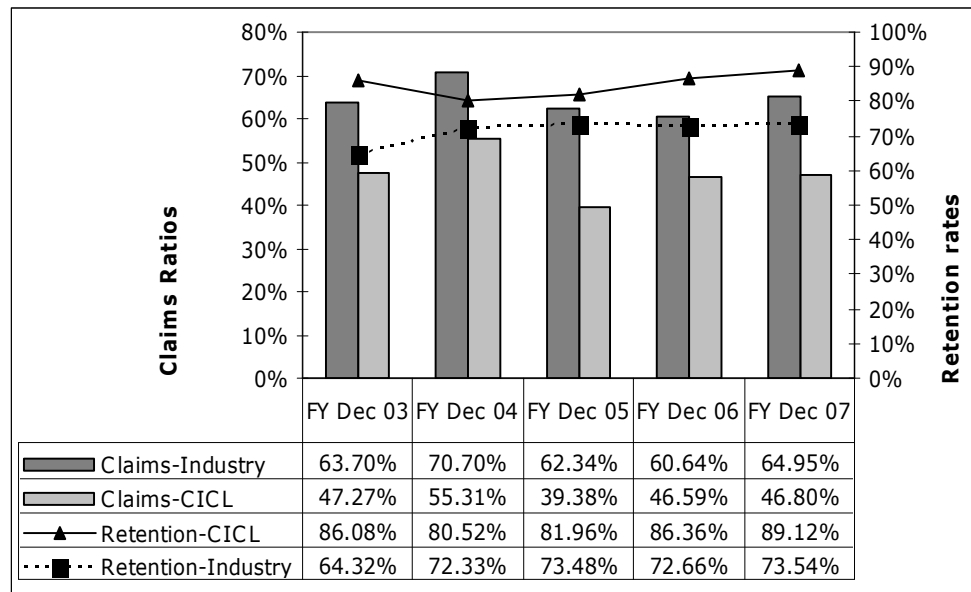
Underwriting Quality & Risk Exposure

General Insurance

Moderate underwriting standards

CICL’s underwriting standards in general segment are considered moderate. Even though the Company’s claims ratio has been better than industry over the past 5 years(refer to Chart 2), prospectively, RAM Ratings expects it claims ratio to worsen somewhat from current levels due to the introduction of medical insurance, which usually attracts high claims. In addition to good underwriting standards, the Company’s healthier than industry claims ratio is also influenced by the stringent claims processing procedure in place.

Chart 2: Trends in general claims ratio and retained premiums

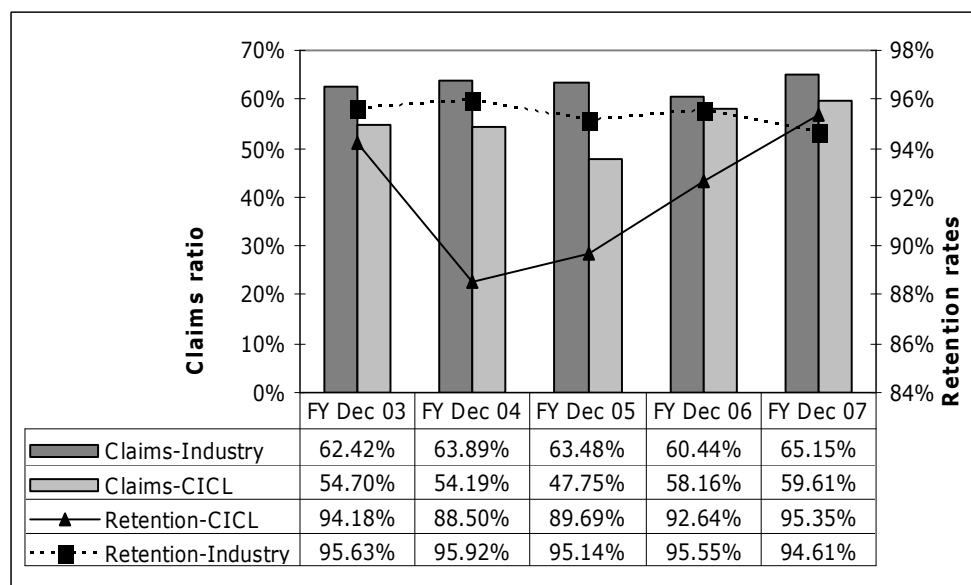


Motor Insurance

Moderate underwriting results in the Motor class

CICL’s underwriting in the motor class has been in par with industry standards. The Company’s claims ratio in the motor class has generally moved in tandem with the industry. RAM Ratings notes that the Company retains less risk than the industry as it retains about 92% compared to the industry’s 95% (average retention rate). Further, CICL has been able to maintain a better than industry claims ratio due to the segment it serves, the pricing discipline it maintains and stringent claim assessments (refer to Chart 3).

Chart 3: Trends in motor insurance claims and retained premiums

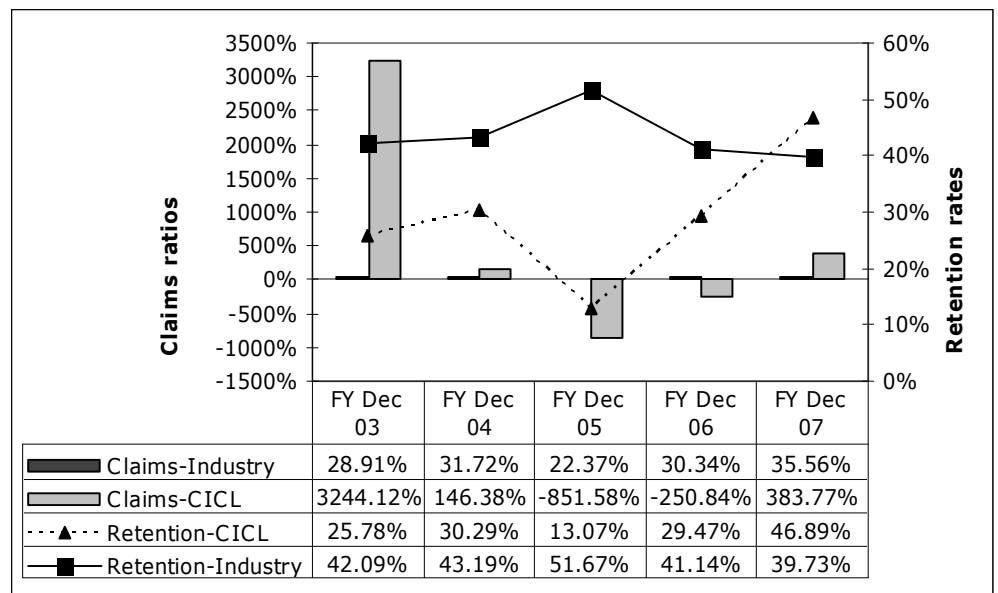


Few large claims undermine underwriting results

Marine Insurance

The Company’s underwriting standards in the marine segment is considered weak as its claims experience has been generally weaker than the industry’s despite prudent ceding (refer to Chart 4).The Company cedes about 70% (on average) to its re-insurers, compared to the industry’s 55%.Even though the Company retains less risk, the underwriting standards of marine segment is deemed to be weak due to high claims compared to the industry. In fact, the marine class has had the best claims ratio in the industry. However, in CICL’s case, lack of market share has resulted in poorer than industry claims ratio due to a few incidences of large claims. However, during FY Dec 2005 and FY Dec 2006, the Company was able to benefit from its re-insurers’ support. Going forward, as the government intends to mandate insurance for fishing boats, this class of business is poised to grow. Hence, CICL’s claims in this segment may ameliorate as the segment expands.

Chart 4: Trends in marine insurance claims and retained premiums



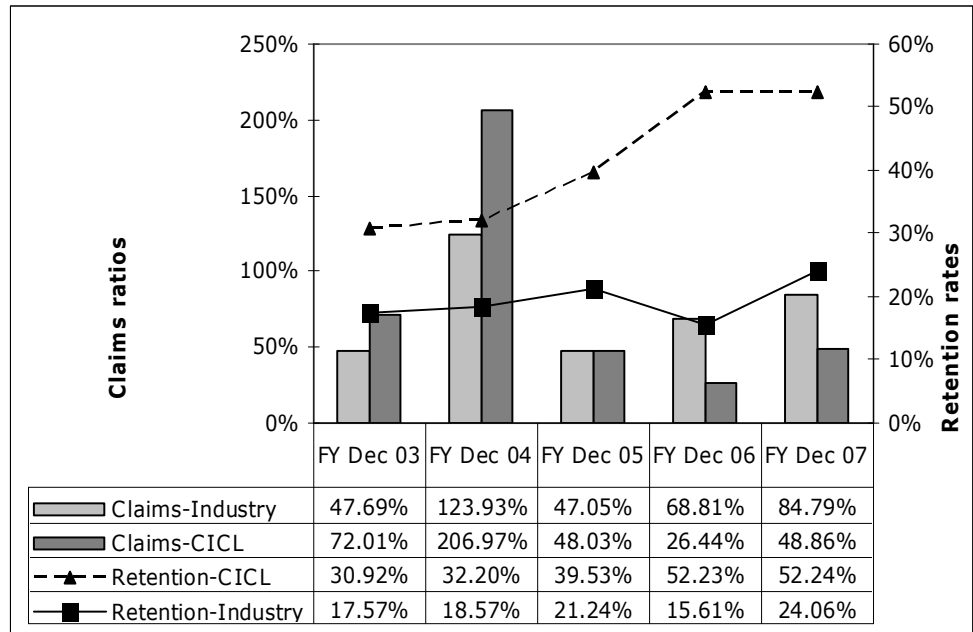
Moderate underwriting standards in the fire class

Fire Insurance

In the fire class, the Company’s underwriting standards are deemed to be moderate, as its claims experience has been benign over the past 3 years (refer to Chart 5). However, the Company’s claims ratio between FY Dec 03 and FY Dec 04 had shown a weaker experience compared to the Industry. On a positive note, the Company was able to experience a relatively lower claims ratio, despite the industry’s escalating fire insurance claims over the last 2 years. Prospectively, RAM Ratings believes that there may be more frequent, but less severe, claims owing to increased incidences of flooding (due to global climatic changes taking place) that could elevate its claims ratio. However, CICL’s claims ratio is expected to remain better than the overall industry mainly due to the geographical diversity that the Company’s portfolio possesses.

Moderate at present but poised to increase

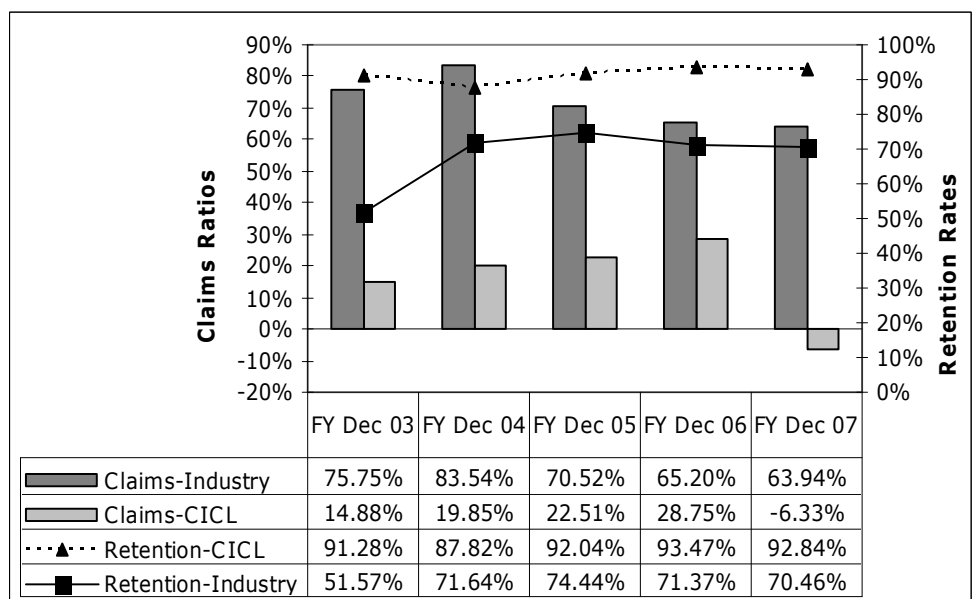
Chart 5: Trends in fire insurance claims and retained premiums



Miscellaneous Insurance

This category broadly includes personal accident, cash in transit, workmen’s compensation, travel insurance etc. The Company’s underwriting standards in the miscellaneous segment is also considered moderate as its claims experience has been generally better than the industry’s over past 5 years(refer to Chart 6). RAM Ratings has noted that the Company retains more risk than the industry as it cedes only about 9% compared to the industry’s 32%. However, RAM Ratings notes that the industry includes medical insurance, which tends to worsen the claims ratio. Going forward, as CICL also intends to introduce medical insurance, RAM Ratings expects claims ratio to worsen somewhat from its current levels.

Chart 6: Trends in miscellaneous insurance claims and retained premiums



Moderate life underwriting standards

Better than industry lapse ratio

Conservative investment strategy

Life Insurance

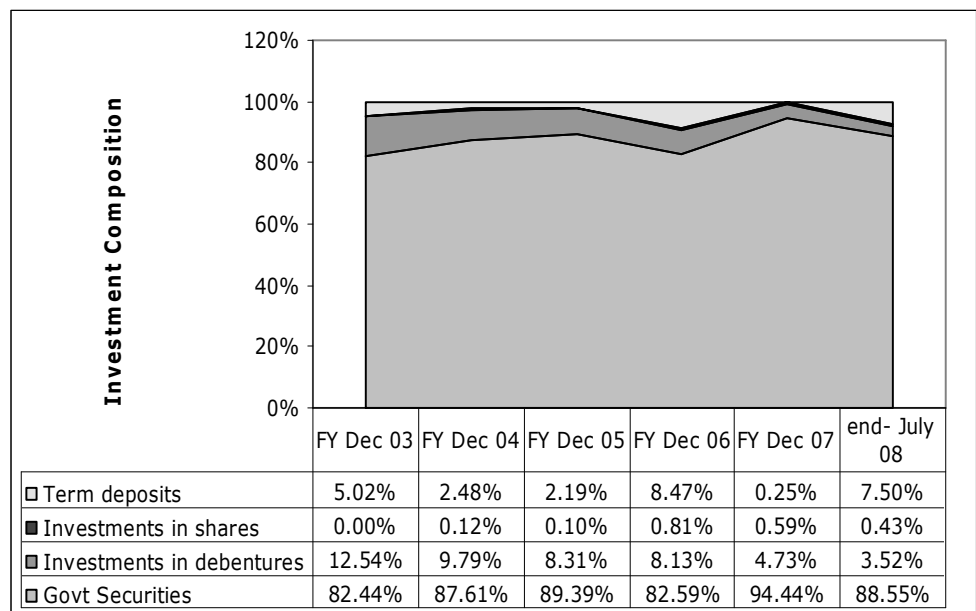
RAM Ratings considers CICL’s life insurance underwriting standards to be moderate owing to benign lapses and claims experience. CICL has 5 long term insurance products of which one is an endowment plan. The other offerings comprise a term policy for groups of at least 25 individuals, a pension policy, a child protection plan and a loan protection plan.

The Company derives its life underwriting standards from its reinsurer, Hannover Ruckversicherung (Rated A+ by S&P). Moreover, even though policy lapses are high, they compare more favourably than the industry average. CICL’s policy lapse rate was 27.17% as at FY Dec 2007, whereas the industry’s is estimated at around 44%. The Company is able to maintain a better than industry lapse ratio as its agents follow-up on the collection of premiums. In addition, the Company issues a premium register to its policy holder so that they themselves can keep a track of the premiums they remit.

Investment Portfolio

RAM Ratings considers the Company’s investment policy to be conservative as bulk of CICL’s investments is in government securities. Investments amounted to LKR423.28 million as at end-FY Dec 2007. Over the past 5 years, about 88% of its investments have been in government securities, followed by debentures and term deposits (refer to Chart 8).

Chart 8: CICL’s Investment composition



Despite the conservative investment strategy CICL had deposited LKR 20 million with Pramuka Savings and Investment Bank (“PSIB”), which had subsequently become insolvent. However, the government has now established Sri Lanka Savings Bank (a licensed specialised bank) that assumed the assets and liabilities of the now defunct PSIB. CICL presently earns a 5% interest on its LKR 20 million debentures.

Regulatory compliance

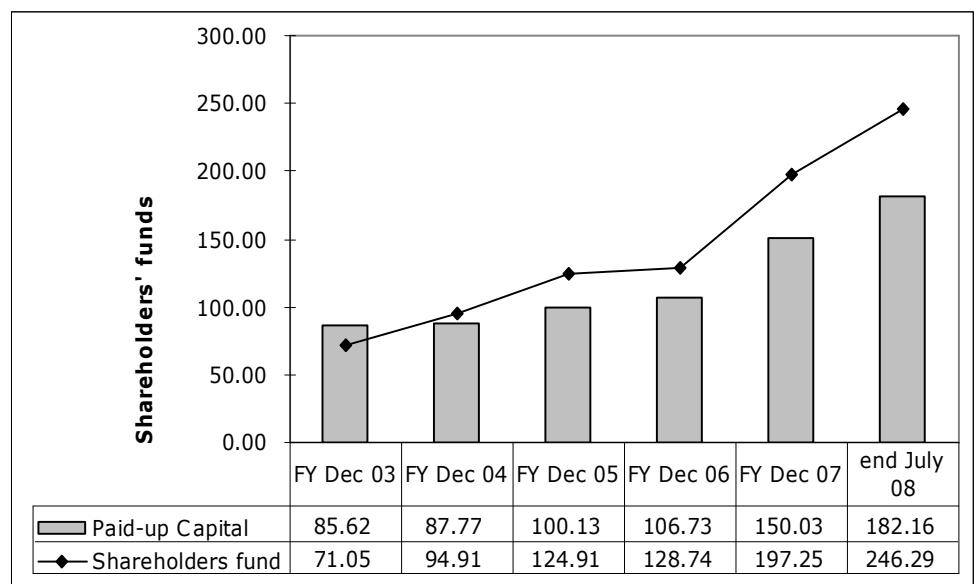
Like many other insurance companies, the investment committee of CICAL reviews the interest rates and abides by regulatory guidelines when investing. IBSL requires all insurance companies to invest a respective 20% and 30% of their general and life insurance funds on government securities. Prospectively, RAM Ratings expects the Company to broaden its investments in fixed deposits and debentures even further. Once again, the Investment committee is expected to comply with the regulatory requirements.

Moderate liquidity levels

Liquidity levels are considered moderate as the Company's cash flow has been improving with premium growth. In addition, healthier claims and liquid investments have assisted the Company in meeting its liabilities. However, these positives are offset by the Company's increased overhead costs.

Strength of Capitalisation**Moderate capital strength**

CICAL's capitalisation position is considered moderate as it is compliant with solvency requirements, however this positive could be negated by the regulatory challenges that may arise in the future. CICAL had raised its paid up capital to LKR 182.16 million as at end- July 2007(refer to Chart 9).Furthermore, the Company intends to raise its paid-up capital to LKR 500 million by 2009.

Chart 9: CICAL's shareholders fund

In addition, the Company has been declaring dividends since FY Dec 2006 to appease its shareholder who in turn required regular returns to meet their requirements (refer to ownership). CICAL's average dividend payout ratio over the past 2 years came to 86.94%, further restraining the Company's capacity to absorb risk.

Moreover, CICAL has been able to maintain its gearing ratio at a healthier level compared to its peers as it has maintained sufficient liquidity. Even though the Company has a healthy gearing ratio, short term overdrafts had increased from LKR 3.21 million (FY Dec 2004) to 4.56 million (FY Dec 2007), however by July 2007, borrowings had ameliorated to LKR0.57 million. Prospectively, borrowings can increase in the event of any catastrophe; nonetheless the agency does not envisage gearing levels to rise beyond 4% over the medium term.

On a rather dim note, CICL had been unable to meet with solvency requirement in FY Dec 2006, a weakness that it had been able to overcome subsequently (refer to table 3).

Table 3: Solvency ratio of CICL (Life & General)

General Insurance		FY Dec 06	FY Dec 07	end June 08
1	Value of admissible assets (Rs million)	158.27	262.90	395.87
2	Policy Liabilities	137.17	193.52	298.90
3	Value of admissible assets-Liabilities (1-2)	21.09	69.37	96.97
4	Required Solvency Margin	50.00	51.64	50.00
	Solvency Ratio (3/4)	0.42	1.34	1.94

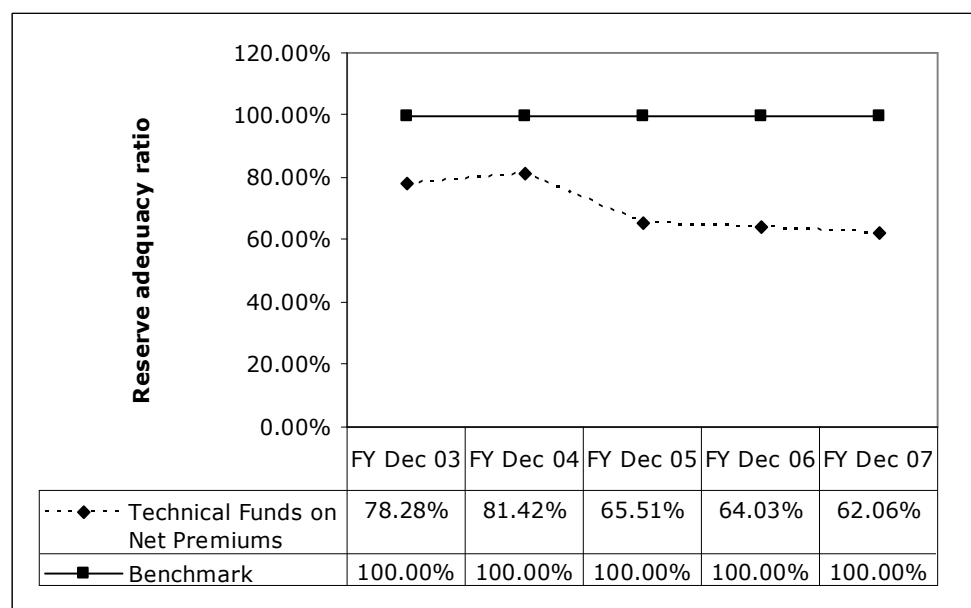
Life Insurance		FY Dec 06	FY Dec 07	end June 08
1	Value of admissible assets (Rs million)	151.58	200.28	223.43
2	Policy Liabilities	122.12	163.41	179.70
3	Other Liabilities	12.87	16.50	24.12
4	Value of admissible assets-Liabilities (1-(2+3))	16.58	20.37	19.61
5	Factor	0.05	0.05	0.05
6	Required Solvency Margin	6.11	8.17	8.98
	Solvency Ratio (4/6)	2.72	2.49	2.18

Weak reserving in the general insurance segment

Adequacy of Reserving

Even though CICL's claims ratio has been rather stable, RAM Ratings considers the reserving levels to be inadequate as its ratio of technical reserves to net premiums fell short of the agency's benchmark. The Company's reserves are made up of unexpired risks and incurred but not reported claims (IBNR). These reserves are largely based on the management's estimations. RAM Ratings notes that its technical funds on net premiums has shown a weakening trend over the last few years, and fell short of the 100% benchmark as at FY Dec 2007 (refer to Chart 10). Further, the Company does not maintain a contingency fund nor an unexpired risk reserve. This can exert pressure, should claims rise.

Chart 10: Trends in reserve adequacy ratio



CICL's life funds are deemed adequate. The Company relies on an external actuary to determine the adequacy of its life funds. The

**Moderate
reinsurance
arrangements**

Company's actuarial requirements are fulfilled by Messer Actuarial & Management Consultants (Pvt) Ltd, who have certified that CICL's overall life funds adequately meet future commitments.

Reinsurance

The reinsurance arrangements of CICL are considered moderate due to its reinsurance utilisation ratio compared to its peers. In addition, its reinsurers comply with regulatory requirements, which stipulates that only reinsurers rated BBB or above, or reinsurers who are sovereign backed can be engaged (refer to table 4). In this respect, General Insurance Company ("GIC") India is the Company's main reinsurer. Furthermore, the Company's reinsurance arrangements are carried out by a reinsurance broker Messer JB Boda and Co.

Table 4: Reinsurers and their ratings

Reinsurers	Rating
Hannover Re- Germany	A+
GIC India	A-
Best Re Malaysia	BBB
African Reinsurance Corporation- Mauritius	BBB+
Asian reinsurance Corporation-Thailand	State backed
Malaysian Reinsurance Berhad	A-

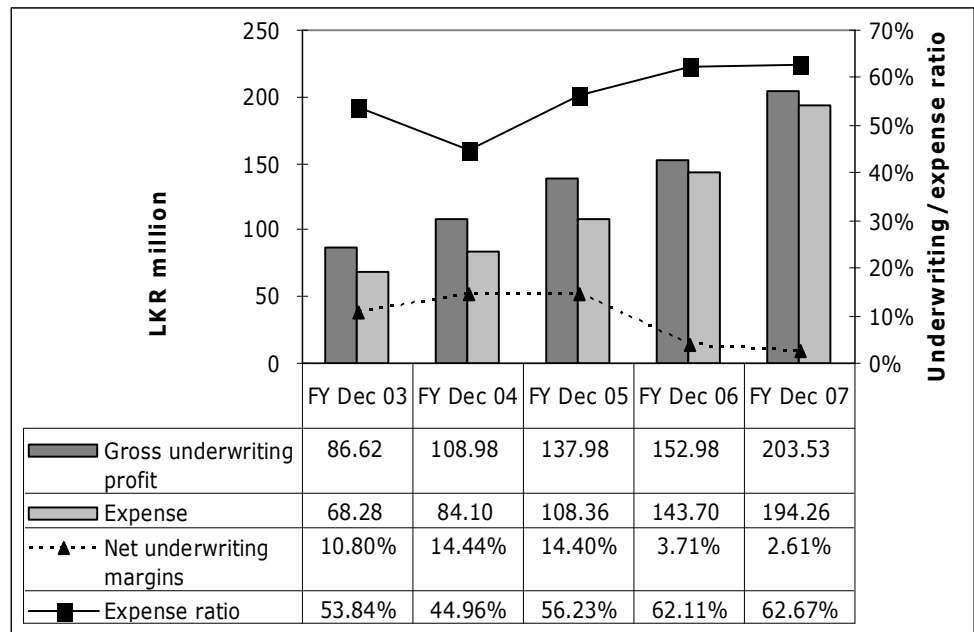
Weak profitability**Profitability**

The financial performance of CICL is considered weak, owing to its underwriting losses resulting from hefty overheads. Until FY Dec 2005, the Company was able to make net underwriting profits in the general business. However, since 2006 the Company has been incurring losses from general underwriting due to escalating overhead expenses. Over the short to medium term RAM Ratings expects the Company's core financial performance to be constrained by high inflation and rising distribution costs as the Company enlarges its network.

Rising overheads

As the Company continues to broaden its network coverage it has taken a toll on its expense ratio, which has been worsening from 53.84% in FY Dec 2003 to 62.76% in FY Dec 2007(refer to Chart 11). Most of its expenses stemmed from staff salaries, marketing and other operating expenses. Hence, prospectively, owing to its branch expansion and staff recruitments, the Company's core business performance is expected to remain somewhat subdued.

Chart 11: Trends in expense ratio



Investment income drives profit performance

That said, CIKL has been able to post modest profits due to investment income and weak reserving levels. Investment income has helped the Company to convert its core business losses to an overall profit. CIKL recorded a pre-tax profit of LKR22.86 million as at FY Dec 2007, owing to its investment income. The bulk of the investment income stemmed from interest income on government securities and term deposits. RAM Ratings notes that CIKL has been able to derive profits (net underwriting profits) from its life business over last 5 years, however, this may be due the overhead apportioning method (60% of overheads to general and 40% to life division) employed by the Company.

Overall, RAM Ratings opines that CIKL’s profitability will continue to depend on its investments income and life surpluses.

Prospects

Marginal prospects

CICL's prospects in the industry are considered marginal. RAM Ratings opines that the Company's niche focus will enable it to sustain its competitive position. In addition, RAM Ratings also believes that the Company's current strategy will enable it to shield itself from keen price competition. On the longer term, CICL needs expand its premiums whilst establishing a robust customer relations management framework to measure customer satisfaction and minimise defections.

Niche focus, selective underwriting and stringent claims assessments all combined are expected to assist the Company to maintain a healthier than industry claims ratio. That said, the introduction of medical insurance together with sparse reserving levels could lead to elevated claims. Even though the Company had been able to meet tsunami claims due to reinsurance support, RAM Ratings notes that the Company's resilience still remains largely untested.

Despite better than industry underwriting results, the Company's profitability is also expected to remain moderate owing to high overheads. High overheads together with regular dividend payment requirements are envisaged to keep capital generation and risk absorption capacity at marginal levels.

In the regulatory front, CICL, like many other players in the industry, is opposing the regulator's proposal to legally separate life and general insurance businesses. RAM Ratings understands that this proposal may be shelved due to the opposing industry view. However, should this proposal become mandatory, CICL will be challenged to meet the requirement and this may pressurise its rating.

Corporate Information

Date of Incorporation:	March 1999			
Commencement of Business:	March 1999			
Major Shareholders:	Central Province Co-Op Rural Banks union Ltd	5.13%		
	Beliatta MPCs Ltd	4.83%		
	Homagama MPCs Ltd	4.78%		
	Colombo District Co-Operative Rural Banks Union Ltd	4.63%		
	Meerigama MPCs Ltd	4.63%		
Directors:	Mr W Lalith A Peiris	Chairman		
	Mr TMS Nanayakkara	Managing Director		
	Mr Upali Herath	Director		
	Mr PMC Bandara	Director		
	Mr SA Wickramapala	Director		
	Mr Bandu Ranawaka	Director		
	Mr A Dahanayake	Director		
	Mr W H Jayasiri	Director		
	Mr Lionel Samarasinghe	Director		
	Mr K Liyanage	Director		
	Mr VL Wanigasinghe	Director		
	Mr A Mathararachchi	Director		
	Mr DP Amaradewa	Director		
Auditor:	P E Mathew & Company			
Listing:	Not listed			
Key Management:	Mr TMS Nanayakkara	Managing Director		
	Mr G Thalagala	General Manager		
	Mr Aruna Thebuwana	Finance Manager		
Major Subsidiaries and Associates:	None			
Capital History:	Year	Remarks	Amount (Rs '000)	Cumulative Total (Rs '000)
	2001	Share issues	-	83.54
	2002	Share issues	.75	84.30
	2003	Share issues	1.31	85.61
	2004	Share issues	2.14	87.76
	2005	Share issues	12.36	100.12
	2006	Share issues	6.59	106.72
	2007	Share issues	43.30	150.03
	2008	Share issues	32.13	182.16

Financial Summary - Company

Un -audited

BALANCE SHEET (LKR Million)	31-Dec-04	31-Dec-05	31-Dec-06	31-Dec-07	31-Jul-08
ASSETS					
Cash and Bank Balances	9.05	26.97	25.91	9.04	14.00
Investments					
Properties	0.00	0.00	0.00	0.00	0.00
Fixed Income Securities	179.03	215.34	279.04	419.73	535.60
Unit Trust	0.00	0.00	0.00	0.00	0.00
Equity Securities	0.25	0.25	2.50	2.50	2.50
Fixed and Call Deposits	25.07	25.26	26.06	1.05	43.63
Investment-Linked Investments	0.00	0.00	0.00	0.00	0.00
Net Loans	1.50	3.15	0.22	6.14	0.00
Outstanding Premium from agents/brokers	0.00	14.77	17.60	36.80	0.00
Amount Due from reinsurers/ceding company	0.00	12.46	10.92	7.41	0.00
Investments in Subsidiaries/Associates	0.00	0.00	0.00	0.00	0.00
Other Assets	37.63	35.31	27.77	43.78	102.27
Property, Plant & Equipment	17.70	17.78	23.75	48.10	62.69
TOTAL ASSETS	270.23	351.29	413.76	574.53	760.70
LIABILITIES					
Provision for outstanding claims:					
Admitted/estimated but not yet paid & IBNR	43.48	27.84	29.57	30.64	34.58
Reserve for Unexpired Risks (General Insurance)	54.22	67.20	85.17	129.59	205.17
Actuarial Liabilities (Life Insurance)	63.26	92.21	127.44	165.10	184.53
Bonus & Unallocated surplus carried forward	0.00	0.00	0.00	0.00	0.00
TOTAL INSURANCE FUNDS	160.96	187.26	242.17	325.34	424.28
Amount Due to Agent, Brokers & Reinsurers	(5.57)	11.05	12.79	10.30	0.00
Accrued expenses & Trade and Other Creditors	16.72	25.17	10.09	17.02	89.56
Amount due to Related Companies	0.00	0.00	0.00	0.00	0.00
Bank Overdraft & Other bank borrowings	3.21	2.91	3.29	4.56	0.57
Investment-linked Liabilities	0.00	0.00	0.00	0.00	0.00
Provision for Taxation/Deferred Tax Liabilities	0.00	0.00	6.72	16.37	0.00
Provision for Dividends	0.00	0.00	9.96	3.68	0.00
TOTAL LIABILITIES	175.33	226.38	285.03	377.28	514.40
Paid-up Capital	87.77	100.13	106.73	150.03	182.16
Irredeemable Hybrid Capital	0.00	0.00	0.00	15.33	33.92
Share Premium & Other Reserves	0.00	0.00	0.00	3.04	3.04
Retained Profits/(Accumulated Losses)	7.14	24.78	22.00	28.85	27.17
Minority Interest	0.00	0.00	0.00	0.00	0.00
TOTAL SHAREHOLDERS' FUNDS	94.91	124.91	128.74	197.25	246.29
TOTAL LIABILITIES & SHAREHOLDERS' FUNDS	270.23	351.29	413.76	574.53	760.70

Financial Summary - Company

Un -audited

INCOME STATEMENT (LKR Million)	31-Dec-04	31-Dec-05	31-Dec-06	31-Dec-07	31-Jul-08
Net Premiums	172.33	205.64	249.92	355.66	336.50
Less: Provision for Reserves for Unexpired Risks	14.71	(12.92)	(18.55)	(45.67)	(78.35)
Earned Premiums	187.04	192.72	231.36	309.99	258.15
Less: Claims Incurred and Claims Admitted	(78.06)	(54.74)	(78.38)	(106.46)	(112.16)
Gross Underwriting Surplus/(Deficit)	108.98	137.98	152.98	203.53	145.99
less: Underwriting Expenses (of the Funds)	(84.10)	(105.26)	(139.38)	(185.92)	(157.15)
Net Underwriting Surplus/(Deficit)	24.88	32.72	13.60	17.61	(11.17)
Investment Income	13.51	16.59	29.76	45.93	56.11
Other Income	4.12	0.38	4.47	5.32	1.60
Surplus / (deficit) transferred from Revenue Account					
- General Insurance	21.71	22.36	12.60	29.62	24.81
- Life Insurance	0.00	(1.62)	0.00	1.57	2.31
Company's Operating Turnover	21.71	20.74	12.60	31.20	27.12
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	21.71	20.74	12.60	31.20	27.12
Less: Depreciation and Amortisation	0.00	0.00	0.00	0.00	0.00
Operating Profit Before Interest and Tax	21.71	20.74	12.60	31.20	27.12
Less: Interest and Finance Charges	0.00	0.00	0.00	0.00	0.00
Operating Profit Before Tax	21.71	20.74	12.60	31.20	27.12
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	21.71	20.74	12.60	31.20	27.12
Less: Tax	0.00	(3.09)	(4.32)	(8.34)	0.00
Adjusted Profit/(Loss) After Tax	21.71	17.64	8.28	22.86	27.12
Less: Minority Interests	0.00	0.00	0.00	0.00	0.00
Less: Dividends	0.00	0.00	(11.06)	(16.01)	0.00
Retained Profit For The Year	21.71	17.64	(2.78)	6.85	27.12

Financial Ratio - Company

	Un -audited				
KEY FINANCIAL RATIOS (%)	31-Dec-04	31-Dec-05	31-Dec-06	31-Dec-07	31-Jul-08
PROFITABILITY (%)					
Gross Underwriting Margin	63.24%	67.10%	61.21%	57.23%	43.38%
Net Underwriting Margin	14.44%	15.91%	5.44%	4.95%	(3.32%)
Pre-tax Operating Margin	24.67%	24.16%	19.14%	19.36%	13.83%
Pre-tax Return on Assets (av.)	17.11%	15.99%	12.50%	13.94%	11.95%
Investment Yield (av.)	13.11%	12.41%	12.41%	13.91%	19.57%
After Tax Return on Equity	22.87%	14.13%	6.43%	11.59%	18.87%
Return on Capital Employed	22.16%	16.24%	9.56%	15.73%	18.87%
Claims Ratio	41.74%	28.40%	33.88%	34.34%	43.45%
Expense Ratio	44.96%	54.62%	60.24%	59.98%	60.88%
Combined Ratio	86.70%	83.02%	94.12%	94.32%	104.33%
Investment Income Ratio	10.23%	8.25%	13.70%	14.41%	17.15%
Operating Ratio	76.47%	74.77%	80.43%	79.91%	87.18%
CAPITALISATION / SOLVENCY					
Gearing Ratio	3.38%	2.33%	2.56%	2.31%	0.23%
Operating Profit Debt Coverage Ratio	1527.81%	1967.02%	1475.31%	1524.34% *	16767.99%
Insurance Fund Liability Ratio	1.70	1.50	1.88	1.65	1.72
Total Surplus Assets Coverage	0.54	0.55	0.45	0.52	0.48
LIQUIDITY					
Total Liquid Assets / Total Insurance Funds	1.27	1.29	1.27	1.30	1.37
Total Liquid Assets / Total Assets	0.76	0.69	0.74	0.74	0.76
OTHER PERFORMANCE RATIOS					
Retention Ratio	85.26%	85.72%	88.88%	91.18%	0.00%

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.

RAM RATINGS' CREDIT RATING DEFINITIONS

(Claims-Paying Ability)

RAM Ratings' rating of an insurance company is an assessment and current opinion on the strength and performance of the rated institution.

LONG-TERM RATINGS

- AAA** Insurance companies rated AAA are judged to be of the best quality and offer the highest claims-paying ability.
- AA+**
AA
AA- High claims-paying ability. Protection factors are strong. Risk is low but may vary slightly over time, due to underwriting and/or economic conditions. The signs plus (+), flat and minus (-) indicate that the financial institution ranks at the higher, mid or lower end within this generic rating category respectively.
- A+**
A
A- Adequate claims-paying ability. More susceptible to changes in underwriting and/or economic conditions than insurers in higher-rated categories. The signs plus (+), flat and minus (-) indicate that the financial institution ranks at the higher, mid or lower end within this generic rating category respectively.
- BBB+**
BBB
BBB- Moderate claims-paying ability. Changes in underwriting and/or economic conditions are more likely to weaken capacity to meet obligations to policyholders, compared to insurers in higher-rated categories. The signs plus (+), flat and minus (-) indicate that the financial institution ranks at the higher, mid or lower end within this generic rating category respectively.
- BB+**
BB
BB- Claims-paying ability is uncertain and not well-assured. Changes in underwriting and/or economic conditions are likely to substantially weaken capacity to meet obligations to policyholders. The signs plus (+), flat and minus (-) indicate that the financial institution ranks at the higher, mid or lower end within this generic rating category respectively.
- B+**
B
B- Poor claims-paying ability. Adverse underwriting or economic conditions would lead to lack of ability on the part of the insurer to meet obligations to policyholders. The signs plus (+), flat and minus (-) indicate that the financial institution ranks at the higher, mid or lower end within this generic rating category respectively.
- C+**
C
C- Very high risk that obligations to policyholders will not be paid when due. Factors present cause claims-paying ability to be vulnerable to default. Timely payment of obligations to policyholders possible only if favourable underwriting and economic conditions emerge. The signs plus (+), flat and minus (-) indicate that the financial institution ranks at the higher, mid or lower end within this generic rating category respectively.
- D** Insurance companies rated in this category are either currently in default or expected to be in default of obligations to policyholders. Such companies are likely to come under regulatory action and will need immediate external support of a higher order to avoid receivership, liquidation or any other action that reflects regulatory concern about the companies' financial conditions.

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