

RAM

RATINGS

CREDIT RATING RATIONALE

CLAIMS-PAYING ABILITY – SRI LANKA

A wholly owned subsidiary of RAM Holdings Berhad

JANASHAKTHI INSURANCE PLC - Rating Review

**Claims-Paying Ability
Rating:** BBB+ [Reaffirmed]

Rating Outlook:
Stable

Strengths:
- Third-largest general-
insurance company
- Extensive branch network

Weakness:
- Limited investment
appraisal

Principal Activities:
Provision of general and life
insurance coverage

Analysts:
Prakash Jerome ACMA, ASCMA
(9411) 2503551
prakash@ram.com.lk

Khailash Weeralingam BSc
(9411) 2553089
khailash@ram.com.lk

Company Contact:
Adrian Perera
MBA, FCMA, FCCA, FSCMA, AIB
Chief Executive Officer
(9411) 2596099
adrian@ram.com.lk

Website: www.ram.com.lk

Summary

RAM Ratings Lanka has lifted the Rating Watch (with a negative outlook) on Janashakthi Insurance PLC ("Janashakthi" or "the Company"), and concurrently reaffirmed its claims-paying ability of BBB+, with a stable outlook. The reaffirmation of the Company's rating is reflective of its strong competitive position, improving underwriting results and enhanced investment portfolio.

Janashakthi had been placed on Rating Watch in May 2009, following the suspension of its licence by the Insurance Board of Sri Lanka ("IBSL") as the Company's solvency margins had dipped below the regulatory minimums. This had arisen because the IBSL had ceased to recognise certain assets as admissible, including mortgage-backed loans, unlisted or unguaranteed corporate debts, and non-interest-bearing bank deposits. The Rating Watch has now been lifted as Janashakthi has managed to raise its solvency margins above the regulatory floors, through a shift in its investment portfolio. Janashakthi's 3 week licence suspension, beginning from 12 May 2009, was resolved in 15 days (27 May).

Meanwhile, the Company has maintained its position as the fifth-largest insurance company in Sri Lanka, accounting for 9.22% of the industry's composite premiums as at the end of FYE 31 December 2008 ("FY Dec 2008"); the 2 largest insurance companies took up around 60%. Having entered the industry later than its peers, the Company has been expanding its market share through its general portfolio, by focusing on the motor sub-segment. At the same time, Janashakthi has retained its third ranking within the general-insurance market. However, premium growth has taken a back-seat in the last 2 years as the Company has instead focused on profitability.

Janashakthi has also concentrated on improving its underwriting results; these efforts are reflected in its better composite claims ratio, which eased from 60.99% as at end-FY Dec 2005 to 51.95% as at end-FY Dec 2008. The Company's life and general technical committees meet on a monthly basis, continuing to refine the pricing and terms of its policies. In tandem with this, its performance has also been charting an improving trend, as reflected in its combined ratio that ameliorated from 120.26% as at end-FY Dec 2004 to 101.97% as at end-FY Dec 2008.

Janashakthi's healthier financial performance, along with a share issue led to the advancement of its capitalisation; its capital was raised to LKR 2.36 billion as at end-FY Dec 2008 (end-FY Dec 2007: LKR 1.70 billion). Concurrently, its ratio of shareholders' funds to total assets climbed up to 23.63%, comparing favourably against those of its peers. Part of the proceeds from the Company's share issue had been used to retire its repo obligations and other borrowings, thus bolstering its balance sheet.

Following the suspension of its licence after the dip in its solvency margins, Janashakthi has revamped its investment portfolio. As at end-June 2009, most of the Company's holdings of corporate debt securities were either listed or bank-guaranteed. Furthermore, Janashakthi has increased its exposure to less risky investments such as government securities and fixed deposits with banks. Going forward, the Company expects to further increase its investments in low-risk treasury assets and bank deposits.

Outlook

The stable rating outlook reflects Janashakthi's strong competitive position and improving underwriting results.

The rating may be revised upwards upon demonstration that the Company can maintain the improvement in its underwriting performance while augmenting its market share. Concurrently, the Company should beef up its risk management framework.

Conversely, there may be downward pressure on the rating should there be a reversal in Janashakthi's underlying performance, or a deterioration in the asset quality of its investment portfolio. Any breach of regulations will also lead to a negative rating action.

Corporate Profile

Incorporated in 1992, Janashakthi is registered under the Insurance Industry Act No. 43 of 2000, coming under the purview of the IBSL. The Company commenced operations as Sri Lanka's first specialised life insurer in 1994; its general business operations started a year later. Over its comparatively short history, the Company - through its focus on motor insurance - has become the third-largest player in general insurance. Within this span, it has built up an extensive geographical presence through 99 branches, supported by more than 2000 staff as of end-June 2009. In addition, the Company listed its shares on the Colombo stock exchange in June 2008, and is 1 of 7 listed insurance companies.

Ownership Structure

Despite being a listed entity, Janashakthi remains a closely held concern of the Schaffter family. The Company had been founded by Mr CTA Schaffter, its current deputy chairman. Mr CTA Schaffter has over 55 years experience in the insurance industry, and is considered a doyen in the insurance sector. The Company is directly owned by Janashakthi Limited, an investment-holding company, which has a 81.80% stake. The remainder is spread among institutional and retail investors.

***Third-largest
general-insurance
company***

***Closely held family
concern***

Strong competitive position

Decelerating growth as profitability takes precedence

Life business continues healthy growth momentum

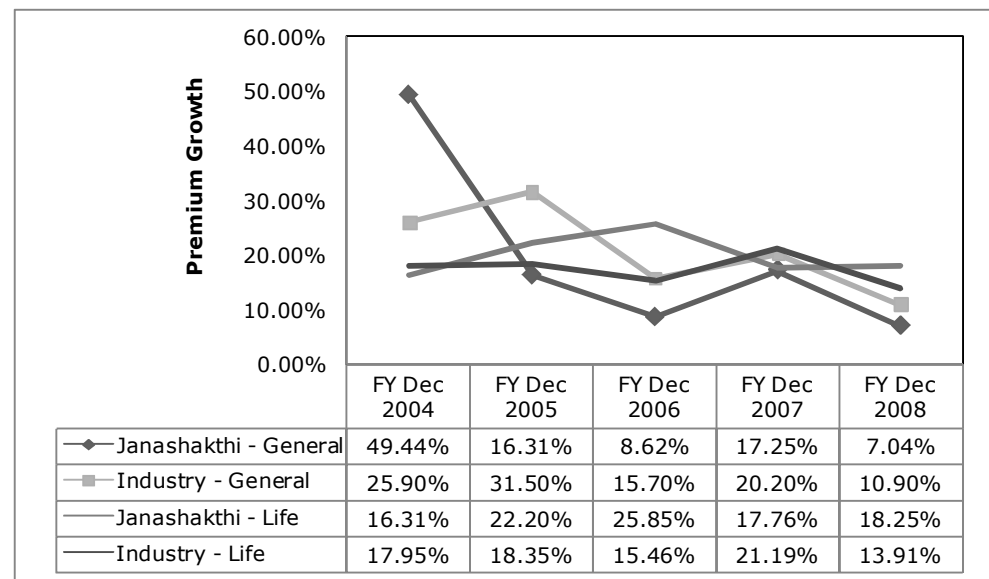
Extensive geographic reach underpins competitive position

Competitive Position

Janashakthi's competitive position remains strong; it has retained its position as the fifth-largest "composite" insurance company in the country, accounting for 9.22% of the premiums in an industry where the 2 largest players account for 57.05%. The Company is the third-largest general insurance provider making up 11.39% of the industry's gross written premiums as at end-FY Dec 2008 (end-FY Dec 2007: 11.81%). Janashakthi has entrenched its market position through an extensive and geographically dispersed branch network, along with a strong franchise.

The growth in the Company's general insurance premiums slowed in FY Dec 2008, due to a combination of external macro economic factors and internal focus on profitability. The growth momentum of general insurance premiums receded to 7.04% last year (FY Dec 2007: +17.25%) (refer to Chart 1), partly due to the prevalent non-conducive economic environment. Moreover, the Company has shifted emphasis from top-line growth to profitability; it continues to refine its pricing strategies in selected segments. These efforts are reflected in the Company's improving underwriting results.

Chart 1: Janshakthi's premium growth vs the industry



Meanwhile, the Company's life business has been posting healthy growth; gross life premiums advanced 18.25% to LKR 1.43 billion in fiscal 2008 (FY Dec 2007: +17.76%). Janashakthi has a range of life products targeting a wide market, from urban upcoming professionals to the low-income segments. Besides the Company's main life products, i.e. *Life Unlimited* and *Lakshmi*, its growth has been driven by a new endowment product, *Life Investment Account*. Going forward, the Company expects to further increase contributions from its life business; we note that the life-insurance segment is less prone to price competition due to product complexity.

Janashakthi's wide geographical presence and staff strength have helped maintain its competitive edge. With a 99-strong branch network as of end-June 2009, it is surpassed only by the largest insurance company, Ceylinco Insurance PLC. Janashakthi augmented its full-time sales force to 1,012 staff as at end-FY Dec 2008 (end-FY Dec 2007: 884).

Product diversity

In addition, Janashakthi introduced several new products to both its general and life businesses last year, e.g. “passport insurance”, which provides coverage against lost passports; we note that no other player offers such a product. The Company has also launched a unique stand-alone policy for children’s illnesses. Such endeavours underline the Company’s efforts to diversify its product range.

Profitability remains key concern

Management & Strategies

Janashakthi’s management continues to be led by Mr Prakash Schaffter, the managing director. He is supported by a team of well-experienced senior managers.

The management’s focus remains on improving profitability. This is to be achieved by concentrating on improving underwriting results and reining in overheads. The Company’s technical committees, which meet on a monthly basis, continue to refine its policy terms and pricing to better reflect the underwritten risks. They intend to expand only into profitable classes of insurance business; as a result, composite premium growth has slowed. Meanwhile, the management has made efforts to identify and close unprofitable branches. During the period under review, Janashakthi had closed 13 branches and 2 area-development offices (“ADOs”). Although an ADO is classified as a branch, it is managed and operated by a third party, akin to a franchise agreement.

Expanding premium sources

Furthermore, the Company intends to diversify its premium sources. Even though the management is not overly concerned about the Company’s reliance on the motor sub-segment (due to its granularity, numerous sub-classes within the portfolio, and geographical diversification), they still intend to broad base its premium sources. As at end-June 2009, the Company had expanded its health portfolio to access other classes of insurance business from its customers. Moreover, the management aims to increase contributions from the life business.

Apex body supported by several sub-committees

Corporate Governance

Janashakthi’s board comprises 9 directors, 5 of whom are independent including the chairman. The apex body is assisted by several sub committees (refer to Table 1).

Table 1: Janashakthi’s sub-committees

Committee	Purpose
Board audit committee	Headed by the chairman, this consists of 3 independent directors. The committee met 5 times in 2008.
General management committee	This has administrative, financial and operational control over the Company’s activities. Committee members comprise the managing director and senior management personnel. The members of this committee also chair the business-development committee, which meets every alternate week to analyse key performance areas as well as variances from monthly targets and goals.

Technical committee	Both the life and general businesses are supported by technical committees. These committees meet on a monthly basis to refine policy terms, and to ensure that Janashakthi's pricing is in line with industry norms.
Investment committee	Chaired by Mr Ramesh Schaffter, a director, this committee sets guidelines for the Company's investments, and ensures regulatory compliance. Nonetheless, RAM Ratings Lanka opines that there is room for further improvement in its investment decision making process. On a positive note, the committee has decided to avoid derivative-based investments.
Quality-management review committee	Meets every quarter to monitor the Company's quality-management procedures with respect to operations, and makes recommendations in the event of possible shortfalls.
Strategic plan review and implementation committee	Responsible for the implementation of the Company's strategic plan for 2008–2012. Quarterly meetings are held to ensure goals are achieved.
Safety committee	Monitors safety standards throughout Janashakthi.

Related-party transactions

In terms of related-party transactions, the Company had underwritten LKR 24.58 million as at end-FY Dec 2008, while net claims incurred amounted to LKR 13.40 million. In addition, RAM Rating Lanka notes that the Company has extended loans to two related parties; directors are related via consanguinity. As at end-June 2009, corporate debt investments in these entities summed up to LKR 696.00 million. Meanwhile, reimbursement expenses to the holding company declined from LKR 60.00 million as at end-FY Dec 2007 to LKR 24.00 million as at end-FY Dec 2008 and is expected to be nil in FY Dec 2009.

Underwriting Quality & Risk Exposure

General Business

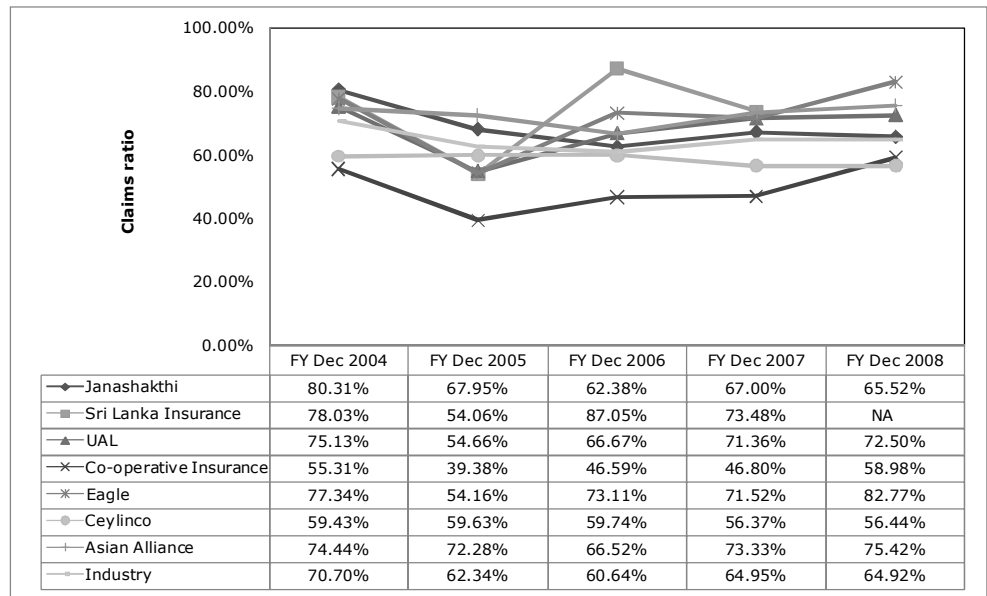
RAM Ratings Lanka considers Janashakthi's underwriting standards in the general business to be moderate – albeit improving. The Company has managed to improve its claims experience to industry levels. Furthermore, its active technical committee meets regularly to continuously refine its existing products.

Moderate general underwriting standards

Premiums dominated by general business

Janashakthi's composite premiums remained dominated by the general insurance business, which accounted for 70.39% of its composite net premiums as at end-FY Dec 2008 (end-FY Dec 2007: 72.57%). The Company's prowess in the motor segment, which accounted for bulk (83.99%) of net premiums in the general business, helped keep its overall claims experience better than similar sized peers (refer to Chart 2). Underwriting is supported by the technical committee, which meets on a monthly basis. This committee keeps track of market information and trends, providing pricing assistance for the Company's products.

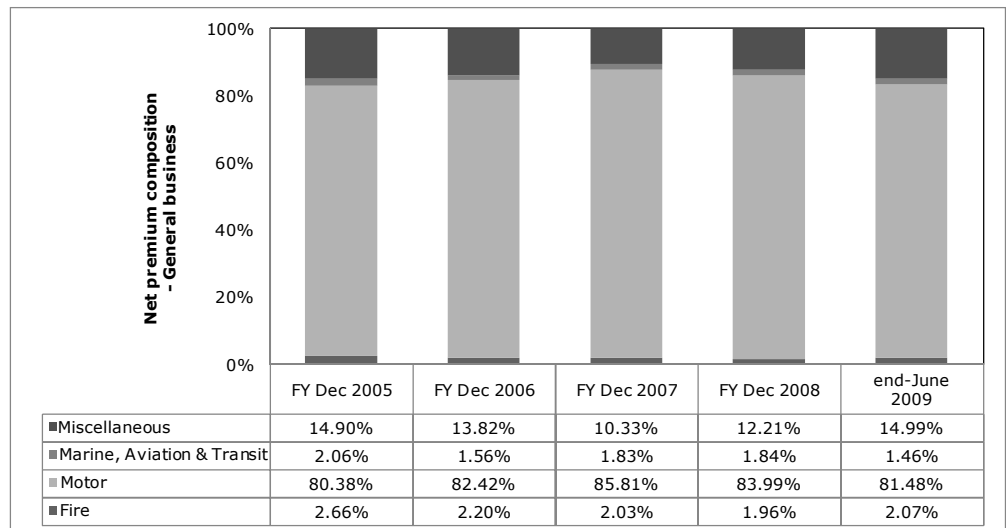
Chart 2: Janashakthi's claims ratio in the general segment vs peers



General premiums skewed towards motor sub-class

Janashakthi's general business is still driven by the motor sub-segment, which took up 83.99% of the net premiums. As expected, the claims ratio for this sub-segment had improved slightly to 62.01% by end-FY Dec 2008 (end-FY Dec 2007: 64.74%), i.e. better than the industry average of 64.07%. However, we note that contributions from the motor sub-segment had declined marginally as of end-June 2009 (to 81.48%) (refer to Chart 3), with the miscellaneous sub-segment (which includes health) increasing its share. This is in line with the management's intention of raising contributions from the non-motor segment.

Chart 3: Janashakthi's net premium composition



Less claims from miscellaneous segment

Claims from the miscellaneous sub-segment have been improving, albeit still weaker than the industry average. This sub-class made up 12.21% of the Company's general net premiums as at end-FY Dec 2008 (end-June 2009: 14.99%). The claims ratio of this sub-segment eased to 83.08% as at the same date (end-FY Dec 2007: 86.81%), albeit weaker than the industry average of 71.85%. Meanwhile, the Company's retention ratio stood at 83.70% as at end-FY Dec 2008, i.e. higher than the industry's 67.62% (refer to Table 2), owing to its higher exposure to the motor segment.

Table 2: Janashakthi's claims and retention ratios vs the industry

	Janashakthi			Industry		
	2007	2008	% of net premium (2008)	2007	2008	% of net premium (2008)
Motor - Claims	64.74%	62.01%	83.99%	65.15%	64.07%	73.03%
Motor - Retention	96.70%	95.91%		94.61%	95.03%	
Fire - Claims	73.88%	140.50%	1.96%	84.79%	73.20%	3.36%
Fire - Retention	17.05%	14.67%		24.06%	12.64%	
Marine - Claims	33.83%	52.82%	1.84%	35.56%	28.39%	2.71%
Marine - Retention	41.31%	56.47%		39.73%	36.13%	
Miscellaneous - Claims	86.81%	83.08%	12.21%	63.94%	71.85%	20.90%
Miscellaneous - Retention	77.92%	83.70%		70.46%	67.62%	

Life Business

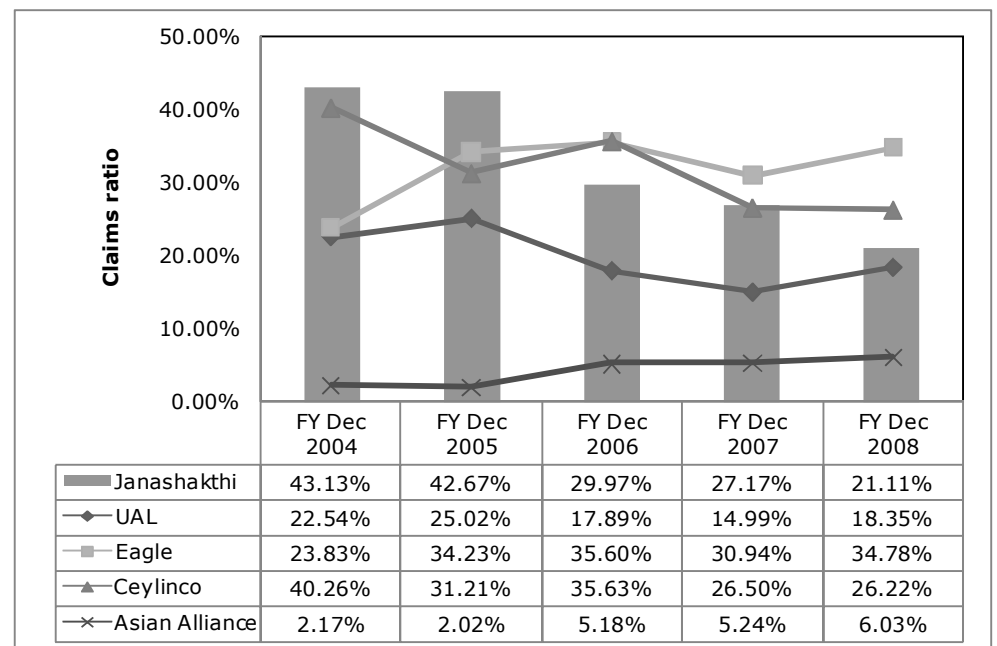
Moderate underwriting for life business

RAM Ratings Lanka considers Janashakthi's life underwriting standards to be moderate, underpinned by its improving claims experience and diverse range of products. The Company has introduced 2 new life products, i.e. a policy on children's benefits and an investment endowment plan; it now has 10 products in this segment.

Easing claims

Meanwhile, Janashakthi's claims ratio continues on its improving trend (refer to Chart 4), and is better than most of its industry peers'. The Company's underwriting standards in the life segment are derived from Hannover Re. Its claims ratio eased significantly from 43.13% as at end-FY Dec 2004 to 21.11% as at end-FY Dec 2008. Furthermore, the Company has maintained its lapse ratio at 21%; the industry average deteriorated from 44% as at end-FY Dec 2007 to 51% as at end-FY Dec 2008.

Chart 4: Janashakthi's life claims experience vs peers



Moderate quality of investments

Receding exposure to repos

Investment portfolio revamped after license suspension

Weaker investment yields

Investment Portfolio

RAM Ratings Lanka considers the quality of Janashakthi's investment portfolio as moderate as the portfolio is less exposed to risks, nonetheless our concerns hinge on the mediocre credit evaluation of investments and bulky corporate debt. Most of Janashakthi's investments comprise government securities (end-June 2009: 48.97%), with a sizeable portion (end-June 2009: 43.62%) of its corporate debt papers either guaranteed by banks or carrying investment-grade stand-alone ratings. Concurrently, the Company has reduced its exposure to repo agreements, which introduce interest-rate risk. However, its corporate debt investments are lumpy, with 2 particular papers accounting for 45% of its entire corporate debt portfolio. Going forward, Janashakthi intends to further increase its investments in government securities and bank deposits, which are deemed low risk.

In FY Dec 2008, Janashakthi continued trimming its exposure to repo agreements; RAM Ratings Lanka views this positively as these investments introduce significant interest-rate risk. The Company's repo agreements summed up to LKR 45.59 million as at end-FY Dec 2008, compared to LKR 774.47 million a year earlier. Investments in corporate debts, on the other hand, jumped LKR 706.87 million to LKR 2.11 billion as at the same date. This had been mainly achieved through increased investments in promissory notes.

In May 2009, the IBSL suspended Janashakthi's licence owing to non-compliance with regulations. Following the suspension, Janashakthi's investment portfolio altered (refer to Table 3). It reflects a more liquid stance, with investments in fixed deposits taking up 9.25% of Janashakthi's total investments as at end-June 2009 compared to only 0.48% as at end-FY Dec 2008. The Company had managed to increase its fixed deposits via proceeds from the sale of its loan portfolio. Significant quantum (43.62%) of the Company's corporate debt papers are now either quoted or guaranteed by banks (making them admissible as per IBSL regulations). On the other hand, we noted concentration risks in corporate debt investments with two loans to related parties accounting 45.03% of total corporate debts. However, our concerns are somewhat mitigated as these took up only a respective 4.64% and 5% of Janashakthi's investments. Meanwhile, the management is also making an effort to dispose of its investment properties and increase its holdings of government securities and bank term deposits.

Table 3: Janashakthi's investment mix

Investments	FY Dec 2005	FY Dec 2006	FY Dec 2007	FY Dec 2008	end-June 2009
Treasury Bonds	11.33%	27.82%	44.18%	42.71%	48.97%
Corporate Debts	9.03%	21.88%	21.94%	34.48%	21.57%
Repo Agreements	69.21%	20.34%	12.10%	0.74%	0.58%
Investments in property	0.65%	21.97%	18.55%	21.14%	19.30%
Quoted equities	7.60%	4.75%	2.68%	0.44%	0.33%
Fixed deposits	1.72%	2.19%	0.55%	0.48%	9.25%
Unquoted equities	0.01%	0.01%	0.01%	0.01%	0.00%
Venture capital investments	0.45%	0.59%	0.00%	0.00%	0.00%
Investment in Bio Assets	0.00%	0.44%	0.00%	0.00%	0.00%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

Although Janashakthi's investment yield had fallen to 14.99% as at end-FY Dec 2008, (end-FY Dec 2007: 17.17%), we note that this ratio had spiked up in the last 2 years, propped up by one-off gains. In FY Dec 2007, the Company's other income had been buoyed by sales of investment properties and the divestment of a subsidiary. In FY Dec 2006, the Company had benefited from a one-off equity sale. Prospectively, RAM Ratings Lanka opines that Janashakthi's

Moderate capitalisation

Capital augmented through share issue and retained profits

Lower gearing levels

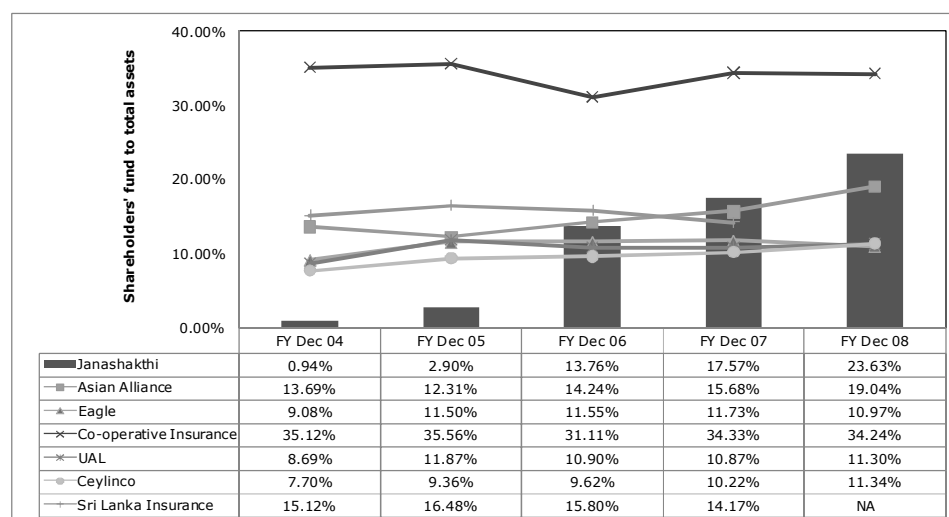
investment income will taper off due to declining interest rates.

Strength of Capitalisation

Janashakthi's capitalisation is deemed moderate as its solvency margins provide little buffer against adverse movements. Nonetheless, its ratio of shareholders' funds to total assets has remained stronger than those of its similar-sized peers. Furthermore, the Company's gearing levels have improved following its exit from repo obligations and the repayment of some borrowings.

Janashakthi's capitalisation has been bolstered by new share issues and retained profits. The Company's capital had expanded to LKR 2.36 billion as at end-FY Dec 2008 (end-FY Dec 2007: LKR 1.70 billion). It had issued 33 million new shares via an initial public offering, raising LKR 396 million. Concurrently, Janashakthi's shareholders' funds to total assets improved to 23.63% as at end-FY Dec 2008 (end-FY Dec 2007: 17.57%), comparing better than its peers (refer to Chart 5). Furthermore, it is already in compliance with the IBSL's requirement to increase its capital to LKR 1 billion (by 2010).

Chart 5: Janashakthi's shareholders' funds to total assets vs industry peers



Janashakthi's gearing levels had improved over the same period, as proceeds from its share issuance and the sale of investments had been used to exit its repo obligations. The Company's gearing ratio had ameliorated to 0.11 times as at end-FY Dec 2008 - the lowest level since our initial rating exercise (refer to Table 4). The Company had also managed to pay off some bank borrowings during the period; its debt load shrank to LKR 269.50 million as at end-FY Dec 2008 (end-FY Dec 2007: LKR 373.13 million). Nonetheless, we observe that its gearing levels had increased marginally to 0.17 times by end-June 2009, in line with its additional bank borrowings. Although this level is slightly higher than its peers', our concerns are mitigated by the Company's stronger capital position.

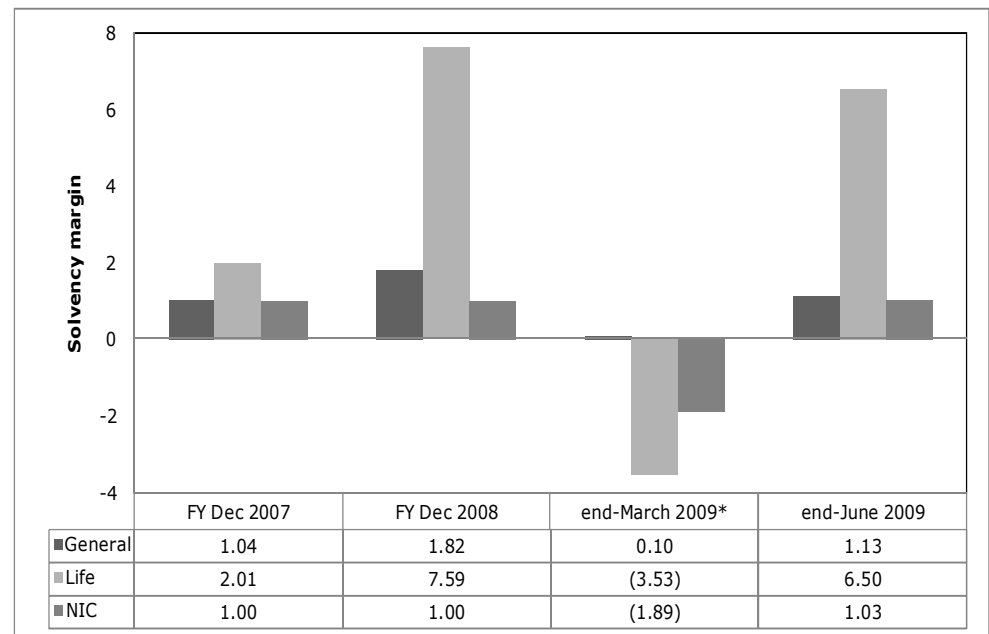
Table 4: Janashakthi's gearing levels vs peers

	FY Dec 2004	FY Dec 2005	FY Dec 2006	FY Dec 2007	FY Dec 2008
Janashakthi	47.71	12.92	0.75	0.80	0.11
Ceylinco Insurance	0.43	0.45	0.29	0.04	0.17
Sri Lanka Insurance	0.00	0.00	0.02	0.03	0.08
Eagle Insurance	0.03	0.00	0.00	0.00	0.00
Union Assurance PLC	0.00	0.00	0.00	0.23	0.09
Asian Alliance Insurance	0.06	0.20	0.08	0.06	0.03
Co-operative Insurance	0.00	0.02	0.03	0.02	0.00

Suspension of license

Janashakthi’s licence had been suspended as its solvency margins dipped below the regulatory minimums, following IBSL’s reclassification of its admissible assets. The Company had included certain assets which the regulator deemed inadmissible. After the revision, its solvency margin for the general segment had dipped to 0.1 times (regulatory minimum: 1.0 time) as at end-March 2009; the margins for the life segment had descended to -3.53 times and -1.89 times for Janashakthi and National Insurance Corporation (“NIC”), respectively. Following the shift in the Company’s investment portfolio (as discussed in *Investment Portfolio*), however, its solvency margins had improved, meeting the regulatory minimums by end-June 2009 (refer to Chart 6).

Chart 6: JIC's solvency margins



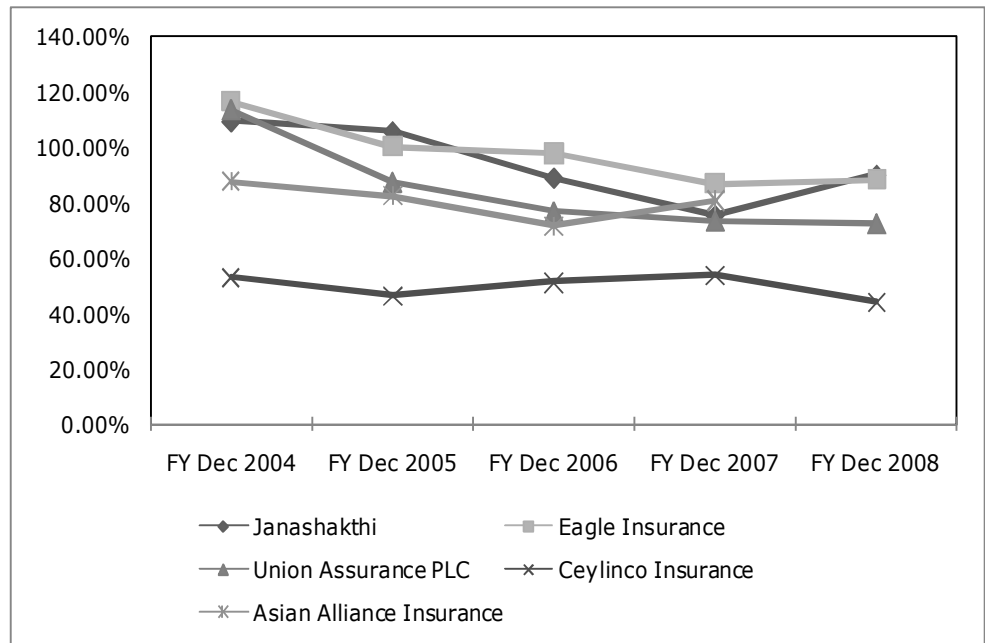
*following the reclassification of investments by the IBSL

Adequacy of Reserving

Moderate reserving levels

RAM Ratings Lanka deems Janashakthi’s reserving levels as moderate. Although its life reserves are based on actuarial assessment, its incurred-but-not-reported (“IBNR”) reserves are still evaluated internally. Janashakthi’s IBNR reserves accounted for 2% of its net earned premiums in fiscal year 2008; similarly sized peers with actuarial-assessed IBNR reserves reported ratios of more than 5% of their net earned premiums. Nonetheless, the Company’s reserve-adequacy ratio had improved to 90.28% as at end-FY Dec 2008 (end-FY Dec 2007: 75.76%), comparing favourably against those of its peers (refer to Chart 7).

Chart 7: Janashakthi's reserve-adequacy ratio vs peers



In terms of life reserving, Janashakthi has been able to maintain, on average, transfers of 27% of its net premiums to the life fund. The growth in net premiums in the life segment and lower claims experience had helped augment the Company's life fund by 15.84% in FY Dec 2008 (FY Dec 2007: +9.55%) (refer to Table 5). Janashakthi relies on an external actuary to determine the adequacy of its life reserves.

Table 5: Movements in Janashakthi's life fund

(in LKR millions)	FY Dec 2005	FY Dec 2005	FY Dec 2006	FY Dec 2007	FY Dec 2008
Life fund c/f (a)	1,548.38	1,768.37	2,022.93	2,305.70	2,525.79
Net premiums	659.65	801.98	997.83	1,174.84	1,394.10
Investment & other income	193.10	198.67	253.17	411.77	402.37
Claims	(284.48)	(342.24)	(299.03)	(319.16)	(294.23)
Management expenses	(346.15)	(400.85)	(605.52)	(786.23)	(781.56)
Transfer to life fund (b)	219.99	254.55	282.77	202.59	400.14
Revaluation	-	-	-	17.51	-
Life fund b/f (a + b)	1,768.37	2,022.93	2,305.70	2,525.79	2,925.93

Reinsurance

Janashakthi's re-insurance arrangements are deemed adequate as it has a well-diversified pool of reinsurers, and cedes about 15% and 2% of its general and life insurance premiums, respectively, to its reinsurers - in line with industry practice. Moreover, all of Janashakthi's reinsurance partners fall within the regulatory requirements, as they are either rated above BBB or backed by a sovereign (refer to Table 6). On a more positive note, reinsurance claims from the general insurance business are less than 6 months old.

Adequate reinsurance

Table 6: Janashakthi's reinsurers

Name of Reinsurer	Financial Strength Rating	Agency	Date Affirmed
BEST Re	A-	A.M. Best	18-Aug-08
China International Reinsurance	A-	A.M. Best	26-Feb-09
Misr Insurance Company	A-	A.M. Best	15-Aug-08
General Insurance Corporation of India	A-	A.M. Best	24-Feb-09
Hannover Re	A	A.M. Best	16-Jul-08
Malaysian Reinsurance Berhad	A-	A.M. Best	20-Nov-08
Milli Reasurans Turk Anonim Sirketi	B++ (very good)	A.M. Best	06-Aug-08
FAIR Pool (Managed by Milli Re)*	-	-	-
Partner Re	A+	A.M. Best	20-Jan-09
SCOR	A-	A.M. Best	14-Nov-08
Toa Re	A+	A.M. Best	25-Aug-08
Trust International	A-	A.M. Best	27-Jun-08
National Insurance Trust Fund**	-	-	-

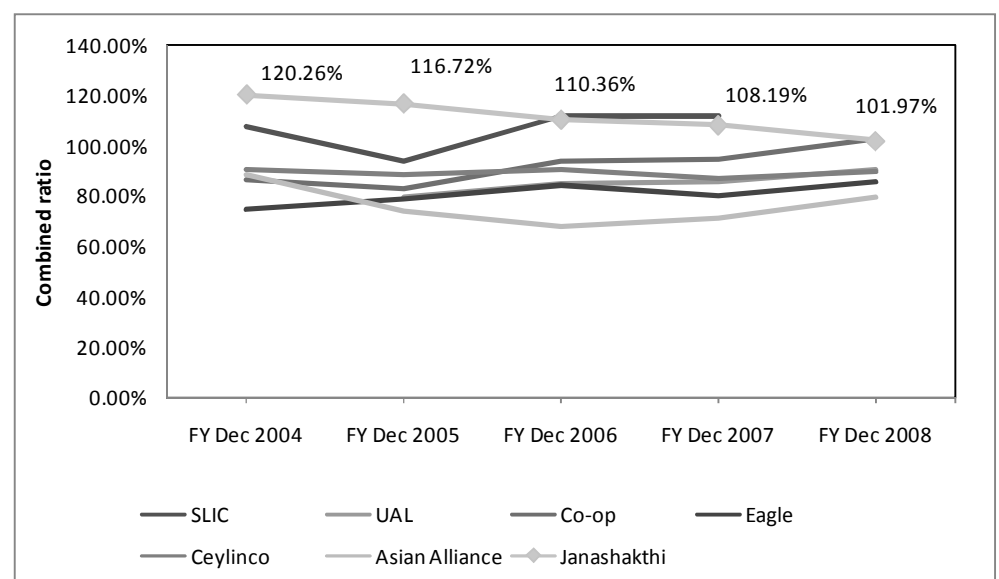
*Federation of Afro-Asian Insurers Reinsurers

**Government-backed Sri Lankan reinsurer

Profitability

Janashakthi's underlying profitability shows an improving trend, however, we note that overheads continue to weigh down its overall performance. The Company's combined ratio continues to ameliorate (refer to Chart 8), nonetheless was weaker than peers. Its bottom line is still supported by investment income and surplus from the life business. Although the Company's pre-tax profit dipped to LKR 503.19 million in fiscal year 2008 (FY Dec 2007: LKR 549.12 million), its return on assets ("ROA") improved to 9.18% (end-FY Dec 2007: 8.25%), supported by better underwriting results from the life segment.

Chart 8: Janashakthi's combined ratio vs peers



Improving underlying performance

Overheads erode top-line gains

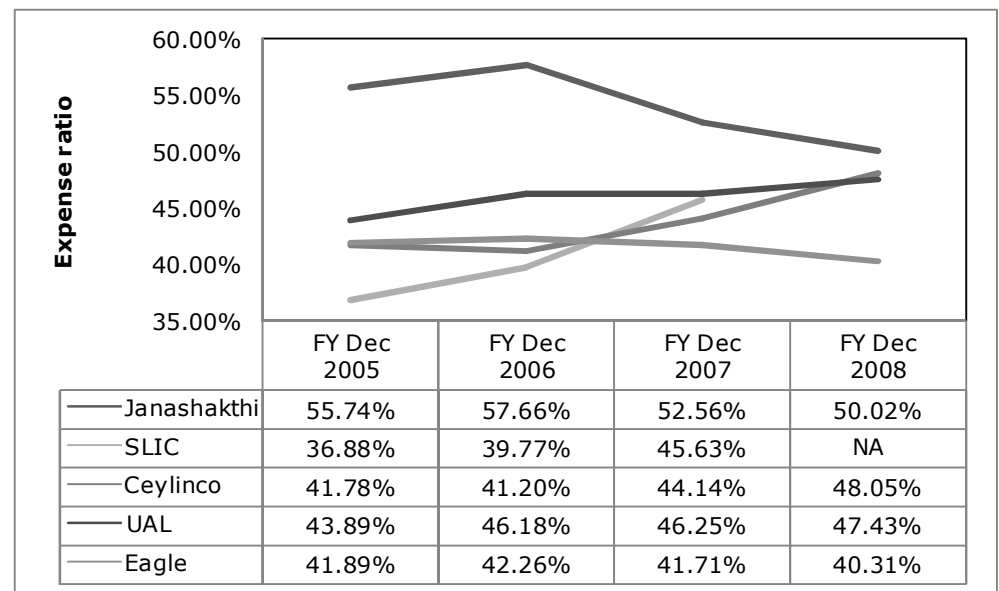
Despite the improvement in gross underwriting profits and a significant reduction in interest expenses, Janashakthi's net underwriting loss for the general insurance business remained relatively unchanged owing to escalating staff costs and a change in the apportionment of overheads between business

Change in allocation of overheads

segments. The Company's improving underwriting standards in the general business helped nudge gross underwriting profits in this segment up 12.62% to LKR 1.09 billion in FY Dec 2008 (FY Dec 2007: LKR 0.97 billion). In addition, its finance costs receded to LKR 45.16 million for the year (FY Dec 2007: LKR 122.77 million) in line with receding gearing levels. Nonetheless, increased staff costs had eclipsed the savings from lighter finance costs. As such the Company recorded an uptick in its expense ratio in the general business. Consequently, the Company's net underwriting loss was unaffected, coming up to LKR 407.96 million in fiscal year 2008 (FY Dec 2007: LKR 406.47 million) (refer to Table 7).

Janashakthi changed the apportioning of overheads between its general and life businesses, over the period. The Company had changed its allocation of overheads from 65:35 (65% of overheads allocated to the general segment, 35% to life) to 70:30 during FY Dec 2008. Nonetheless, the Company's overall expense ratio, although on an improving trend, remained weaker than its peers' (refer to Chart 9).

Chart 9: Janashakthi's overall expense ratio vs peers



Healthier life performance

At the same time, the underwriting surplus from the life segment surged 358.33% to LKR 318.31 million as at end-FY Dec 2008 (end-FY Dec 2007: LKR 69.45 million), supported by improving claims experience and declining interest expenses. The continued growth of the life segment, bolstered by lower claims, aided the 28.54% advance in gross underwriting profit.

Underlying performance

Despite the dip in pre-tax profit (refer to Table 7), the Company's underlying performance still improved. Its profits have augmented in the last 2 years, backed by one-off gains from investments (as discussed under *Investment Portfolio*). Janashakthi's pre-tax profit descended 8.36% to LKR 503.19 million in FY Dec 2008 (FY Dec 2007: LKR 549.12 million). However, the Company's ROA climbed up to 9.18% at the end of the year (end-FY Dec 2007: 8.25%), lifted by an underwriting surplus from the life segment. Going forward, Janashakthi's underlying performance is expected to continue improving as the management focuses on reining in overheads and further strengthening its underwriting standards.

Table 7: Janashakthi's performance (FY Dec 2004-FY Dec 2008)

(in LKR million)	FY Dec 2004	FY Dec 2005	FY Dec 2006	FY Dec 2007	FY Dec 2008
General underwriting profit	(495.51)	(545.76)	(439.45)	(406.47)	(407.96)
Investment income	419.29	759.03	1,174.85	676.96	590.61
Life underwriting surplus	29.02	58.89	93.28	69.45	318.31
Investment income	193.10	198.67	253.17	411.77	402.37
Transfer to long term fund	(219.99)	(254.55)	(282.77)	(202.59)	(400.14)
Pre-tax profit	(74.09)	216.27	799.09	549.12	503.19

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 seen in the context of the global downturn. Not surprisingly, all 3 major sectors of the domestic economy have been hit by the global turmoil.

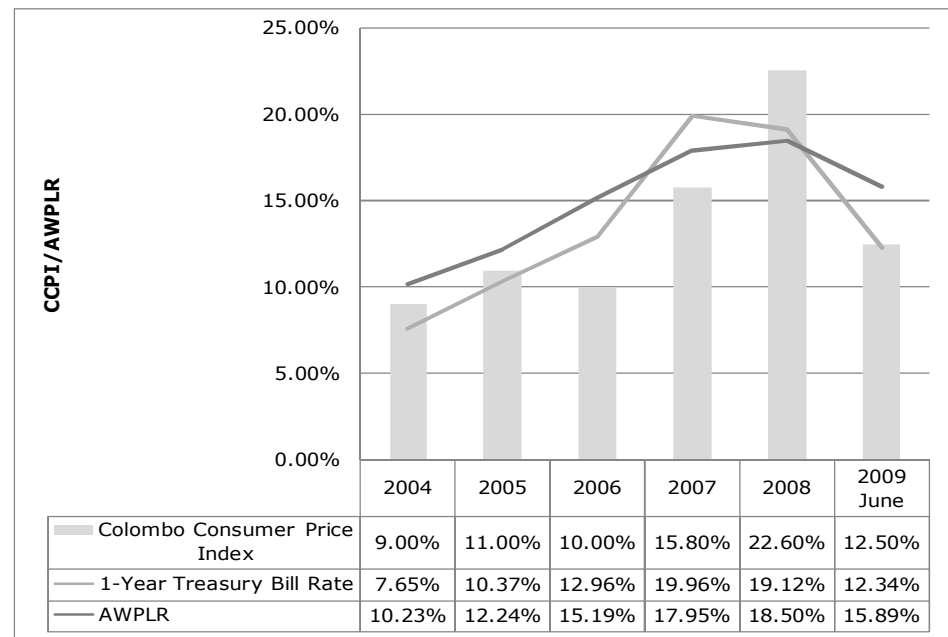
The performance of the primary sectors (agriculture, forestry and fishing) had been dented by the steep fall in tea prices, drought and slumping demand. Although value addition in tea declined 40.9%, this was partially cushioned by the expansion of other food items, including fishing. However, virtually 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 8).

Table 8: 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 stand-by 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 10). 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 10: Inflation and interest rates

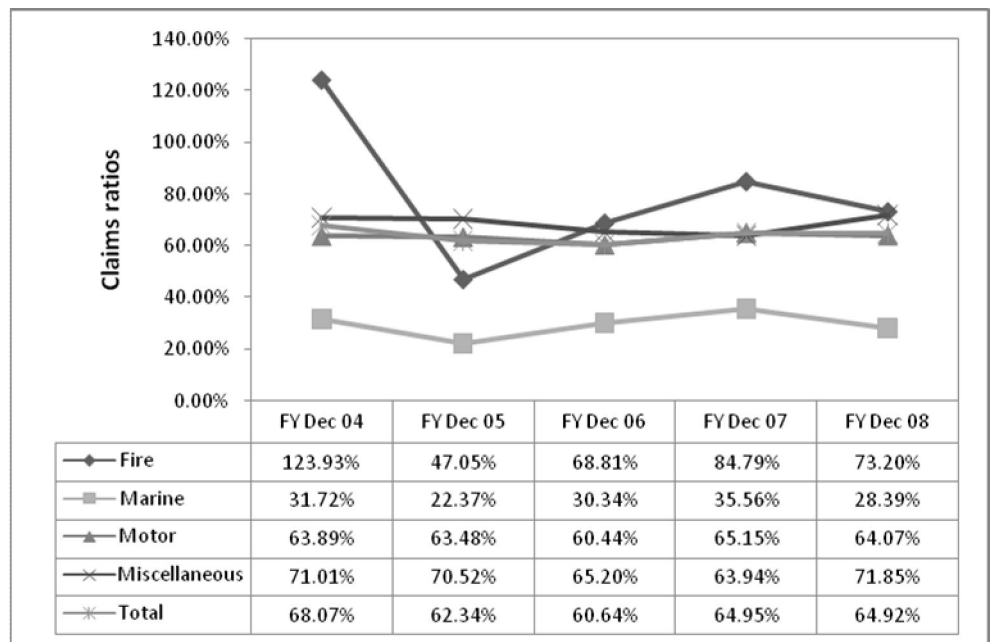


Against this macroeconomic backdrop, the domestic insurance sector made up 3.2% of the financial industry’s total assets as at end-December 2008. The industry is composed of 16 players, 2 of which are engaged in only life business while another 3 are only in general insurance; the rest are involved in 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 can be few and 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 11). 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 11: 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

Date of Incorporation:	October 1992			
Commencement of Business:	September 1994			
Major Shareholders:	Janashakthi Limited	81.80%		
Directors:	Mr WT Ellawela	Chairman		
	Mr CTA Schaffter	Deputy Chairman		
	Mr Prakash Schaffter	Managing Director		
	Mr LCR de C Wijetunge	Director		
	Mr Ramesh Schaffter	Director		
	Ms Manjula Mathews	Director		
	Mr Eardley Perera	Director		
	Deshamanya Dr Nihal Jinesena	Director		
	Ms Anushya Coomarasamy	Director		
Auditor:	Ernst & Young			
Listing:	Diri Savi Board of the Colombo Stock Exchange			
Key Management:	Mr Prakash Schaffter	Director/Managing Director		
	Mr Bertal Pinto-Jayawardena	General Manager-Finance & Planning		
	Ms Dayalanie Abeygunwardena	General Manager-Insurance		
	Mr Ravi Liyanage	General Manager- Sales & Marketing		
	Mr. Gamini Pereis	General Manager – Human Resources & Administration		
Major Subsidiaries and Associates:	None			
Capital History:				
	Year	Remarks	Amount (LKR million)	Cumulative Total (LKR million)
	1999	Issue of shares	175	175
	2000	Issue of shares	100	275
	2007	Bonus shares	825	1,100
	2008	Issue of shares	396	1,496

Financial Summary - Company

BALANCE SHEET (LKR Million)	31-Dec-05	31-Dec-06	31-Dec-07	31-Dec-08	30-Jun-09
ASSETS					
Cash and Bank Balances	335.30	262.83	443.90	227.39	584.23
Investments					
Properties	48.44	1,267.25	1,187.93	1,294.75	1,330.10
Fixed Income Securities	6,653.09	4,075.13	5,007.72	4,772.42	4,902.29
Unit Trust	0.00	155.53	0.00	0.00	0.00
Equity Securities	598.50	82.59	172.38	27.39	22.81
Fixed and Call Deposits	128.05	75.04	34.95	29.41	637.67
Investment-Linked Investments	0.00	0.00	0.00	0.00	0.00
Net Loans	221.95	277.33	344.25	376.89	144.98
Outstanding Premium from agents/brokers	497.28	719.12	822.42	1,014.26	1,032.77
Amount Due from reinsurers/ceding company	1,054.63	776.38	681.73	710.91	515.43
Investments in Subsidiaries/Associates	0.00	0.00	0.00	0.00	0.00
Other Assets	393.88	485.16	637.62	1,187.77	1,173.69
Property, Plant & Equipment	434.96	365.66	339.93	359.38	382.34
TOTAL ASSETS	10,366.08	8,542.03	9,672.83	10,000.57	10,726.30
LIABILITIES					
Provision for outstanding claims:					
Admitted/estimated but not yet paid & IBNR	2,153.11	1,760.39	1,456.45	1,520.71	2,896.48
Reserve for Unexpired Risks (General Insurance)	1,075.20	1,385.91	1,548.54	1,688.05	0.00
Actuarial Liabilities (Life Insurance)	2,022.93	2,305.70	2,525.79	2,925.93	3,275.58
Bonus & Unallocated surplus carried forward	0.00	0.00	0.00	0.00	0.00
TOTAL INSURANCE FUNDS	5,251.23	5,452.00	5,530.79	6,134.68	6,172.06
Amount Due to Agent, Brokers & Reinsurers	356.45	124.83	155.60	182.89	0.00
Accrued expenses & Trade and Other Creditors	568.09	907.82	931.62	1,050.37	1,391.04
Amount due to Related Companies	0.00	0.00	0.00	0.00	0.00
Bank Overdraft & Other bank borrowings	3,889.33	881.72	1,355.34	269.50	471.37
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	10,065.10	7,366.36	7,973.35	7,637.44	8,034.47
Paid-up Capital	275.00	275.00	1,100.00	1,496.00	1,496.00
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	63.07
Retained Profits/(Accumulated Losses)	24.08	898.70	599.48	867.13	1,132.76
Minority Interest	1.90	1.97	0.00	0.00	0.00
TOTAL SHAREHOLDERS' FUNDS	300.98	1,175.67	1,699.48	2,363.13	2,691.83
TOTAL LIABILITIES & SHAREHOLDERS' FUNDS	10,366.08	8,542.03	9,672.83	10,000.57	10,726.30

Financial Summary - Company

INCOME STATEMENT (LKR Million)	31-Dec-05	31-Dec-06	31-Dec-07	31-Dec-08	30-Jun-09
Net Premiums	2,973.40	3,691.74	4,283.58	4,708.29	2,411.10
Less: Provision for Reserves for Unexpired Risks	(62.11)	(350.53)	(169.20)	(146.21)	51.33
Earned Premiums	2,911.29	3,341.21	4,114.39	4,562.08	2,462.43
Less: Claims Incurred and Claims Admitted	(1,775.51)	(1,760.83)	(2,288.71)	(2,369.82)	(1,144.04)
Gross Underwriting Surplus/(Deficit)	1,135.78	1,580.37	1,825.68	2,192.26	1,318.39
less: Underwriting Expenses (of the Funds)	(1,622.65)	(1,926.54)	(2,162.69)	(2,281.91)	(1,109.99)
Net Underwriting Surplus/(Deficit)	(486.87)	(346.17)	(337.02)	(89.65)	208.40
Investment Income	762.60	1,292.21	748.08	739.51	383.01
Other Income	195.10	135.81	340.65	253.48	115.64
Surplus / (deficit) transferred from Revenue Account					
- General Insurance	213.27	735.40	270.49	182.65	339.90
- Life Insurance	3.00	63.68	278.64	320.54	0.00
Company's Operating Turnover	216.27	799.09	549.12	503.19	339.90
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	216.27	799.09	549.12	503.19	339.90
Less: Depreciation and Amortisation	(7.69)	0.00	0.00	0.00	0.00
Operating Profit Before Interest and Tax	208.59	799.09	549.12	503.19	339.90
Less: Interest and Finance Charges	0.00	0.00	0.00	0.00	0.00
Operating Profit Before Tax	208.59	799.09	549.12	503.19	339.90
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)	2.12	4.33	0.00	0.00	0.00
Adjusted Profit/(Loss) Before Tax	210.71	803.41	549.12	503.19	339.90
Less: Tax & Zakat	(1.15)	(57.29)	(23.35)	(54.04)	(74.28)
Adjusted Profit/(Loss) After Tax	209.56	746.13	525.78	449.16	265.62
Less: Minority Interests	(0.04)	(0.07)	0.00	0.00	0.00
Less: Dividends	0.00	0.00	0.00	(181.50)	0.00
Retained Profit For The Year	209.52	746.06	525.78	267.66	265.62

Financial Ratio - Company

KEY FINANCIAL RATIOS (%)	31-Dec-05	31-Dec-06	31-Dec-07	31-Dec-08	30-Jun-09
PROFITABILITY (%)					
Gross Underwriting Margin	38.20%	42.81%	42.62%	46.56%	54.68%
Net Underwriting Margin	(16.37%)	(9.38%)	(7.87%)	(1.90%)	8.64%
Pre-tax Operating Margin	15.58%	29.30%	17.55%	19.19%	29.33%
Pre-tax Return on Assets (av.)	4.61%	11.44%	8.25%	9.18%	13.65%
Investment Yield (av.)	12.71%	21.03%	17.17%	14.99%	14.73%
After Tax Return on Equity	69.63%	63.46%	30.94%	19.01%	19.74%
Return on Capital Employed	5.03%	41.40%	23.34%	19.37%	22.25%
Claims Ratio	60.99%	52.70%	55.63%	51.95%	46.46%
Expense Ratio	55.74%	57.66%	52.56%	50.02%	45.08%
Combined Ratio	116.72%	110.36%	108.19%	101.97%	91.54%
Investment Income Ratio	32.21%	38.68%	25.42%	21.09%	20.68%
Operating Ratio	84.51%	71.68%	82.77%	80.88%	70.86%
CAPITALISATION / SOLVENCY					
Gearing Ratio (times)	12.92	0.75	0.80	0.11	0.18
Operating Profit Debt Coverage Ratio (times)	0.21	1.64	0.80	4.12	3.30
Insurance Fund Liability Ratio	17.45	4.64	3.25	2.60	2.29
Total Surplus Assets Coverage	0.03	0.16	0.21	0.31	0.34
LIQUIDITY					
Total Liquid Assets / Total Insurance Funds	1.41	0.80	0.94	0.79	0.90
Total Liquid Assets / Total Assets	0.71	0.51	0.54	0.48	0.52
OTHER PERFORMANCE RATIOS					
Retention Ratio	80.32%	88.71%	87.70%	87.78%	87.32%

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)

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.

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.
- 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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RAM Ratings (Lanka) Limited
No. 9 Arthur's Place
Colombo 4
Sri Lanka

Tel: (9411) 2553089 Fax: (9411) 2553090

E-mail: ram@ram.com.lk
Website: <http://www.ram.com.lk>

