

# Financial Performance Review

## Overall Performance

- The year 2008 became a special milestone year for Janashakthi Insurance with the conversion into being a Public Limited Company, taking place in its 15th year of existence.
- In addition, in 2008 the Company was able to sustain the incremental year on year growth of revenue that has been achieved since inception!
- In the Prior Year the Company was able to cross the LKR 5Bn threshold for Consolidated Revenue. The Company in 2008 was able to cross the LKR 5 Bn threshold in respect of Consolidated Gross Written Premium as well.
- The highlight of the year under review was the Initial Public Offer, which resulted in an inflow of Capital Funds amounting to LKR 396 Mn. These funds were primarily utilised to reduce the inherent risk profile reflected in the Balance Sheet of the Company as at that point.
- The resultant liquidation of high cost borrowings, not only reduced the current high Interest Rate Risk profile of the Company, but has also contributed, in no small measure, towards boosting the profitability of the Company.

The re-structuring of the Balance Sheet will benefit the Company in the ensuing medium term period as well.

- Consequently, during the year under review, the Gearing Ratio of the Company was significantly reduced from 59.6% of the prior year to a zero level at the end of 2008.

This was due of LKR 982 Mn of high cost borrowing being liquidated. The balance funds for this purpose was utilised from cash flows generated from operations.

- In addition, the Gross Written Premium of the Company has recorded substantial earnings from Investment Income and Other Income streams, where a value of LKR 993 Mn was recorded in 2008 against a value of LKR 1,089 Mn recorded in 2007.

It should be noted that the value in the year 2007, included LKR 258 Mn that related to a Surplus on Revaluation of Assets held as Investments.

- Accordingly, Investments and Other Income in 2008 reflected a 20% growth in real terms over the prior year.
- The Investments in Fixed Assets in 2008 amounted to LKR 119 Mn and Staff Training amounted to LKR 36 Mn. These investments were facilitated from the pool of funds of the Company, which also included the IPO cash flows.

- Operating expenses of LKR 1,238 Mn as against the value of LKR 1,186 Mn of the prior year reflects a cost percentage increase of only 4.4%. This is the result of a conscious Management focus across the organization to increase staff efficiencies, management of utilities and consumables and minimization of wastage through a drive to achieve an increased sense of ownership and responsibility amongst all work teams across the Company.

In addition, Claims and Benefits paid out in 2007 of LKR 2,289 Mn increased to LKR 2,370 Mn, which reflects a growth of only 3.5%.

- Net Acquisition Costs have increased from LKR 642 Mn to LKR 838 Mn a growth of 31%. This was due to the increase of the sales force that had been mobilized to generate greater income levels in a very competitive environment.
- Profit Before Taxation of LKR 503 Mn reflects a reduction against the prior year value of LKR 549 Mn. As has been previously explained the prior year Profits include exceptional income arising from a revaluation of Investment Assets. Accordingly, in real terms, the LKR 503 Mn needs to be compared against an effective value of LKR 287 Mn of the prior year. This reflects a growth of approximately 28% in Profit Before Taxation. The Finance costs of LKR 233 Mn of the prior year reduced to LKR 93 Mn in the year under review. The relative cost saving of approximately LKR 140 Mn also contributed towards off setting the rupee value of increases of Net Incurred claims and Net Acquisition Costs.
- Profit After Taxation of LKR 449 Mn when compared against Profit After Taxation of LKR 525 Mn of the prior year needs to take cognizance of the explanations set out above.

## Life Insurance Operations

- Gross Premium generated from Life Operations reached LKR 1,426 Mn during the Year, up from a value of LKR 1,206 Mn in the Prior Year.
- Janashakthi Insurance continues to offer a full range of products to suit the multiple needs of the discerning Policyholder, including the coverage needed by a family unit.

In addition, during the year the Company was successfully able to launch a new Life Investment Product, that has proved to be popular and as at the end of the year, accounted for 8% of the Total Life Product portfolio.

- In relation to the Consolidated Life Fund maintained on

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behalf of Life Policyholders, the Fund amounted to LKR 2,926 Mn, as against the prior year-end value of LKR 2,526 Mn.

### General Insurance Operations

- Gross Written Premium increased from LKR 3,678 Mn to LKR 3,937 Mn during the year under review. This reflects a growth of LKR 259 Mn in an extremely competitive market environment.
- Motor Insurance continued to generate significant revenue streams for the Company, with 73.7% of General Insurance business relating to Motor.
- The General Insurance Fund as at 31st December 2008 amounted to LKR 3,209 Mn as against the Prior Year value of LKR 3,005 Mn.

### Branches as Profit Centers, Split of Sales Force and Financial MIS

- A significant initiative launched by the Company during the Prior year was the conversion of all operating Branches into independent Profit Centers. This has continued to contribute toward the success of the Company.
- This initiative has provided greater devolution of decision making ability to Zonal Heads, District and Branch Managers, resulting in increasingly better and speedier customer service capabilities and standards.
- In addition to the above, the Company has further developed this initiative, into a division of the Sales Force into two distinct groups responsible exclusively for Life & General Insurance sales respectively.
- These initiatives have been supported by development work relating to enhancement of the capability of the Company to generate in depth financial MIS, that is relevant to the users at grass root levels and the front lines of the Company.

### Management of the Investment Portfolio

- Subsequent upon the key initiative of the prior year of restructuring and reorganizing of the Investment Committee. Investment decisions are being made in a more structured manner. The Assets and Liability Management Reports that are made available, enables a more balanced approach to Risk Management to be initiated and implemented.

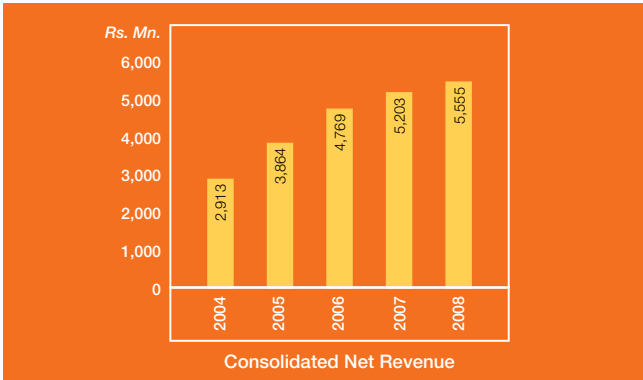
- These reports analyze the Liquidity maturity mismatches, interest rate re-pricing mismatches and market rate risk assessments and sensitivities. As a result, as explained the Investment Committee's quality of decision making has been enhanced through more focused information to mitigate and manage risks. This has enabled achievement of incremental Investment Income streams, enhanced Net Profitability of Janashakthi Insurance and has also facilitated the managing of the Solvency related requirements of the Life and General Insurance Funds.
- A significant proportion of assets continue to remain in longer term Investments / Fixed Assets. This in itself, while yielding relatively lower returns, provides the Company with a quantum of very valuable assets that can be converted into significantly large cash inflows and / or alternate investment opportunities in the future.

### Management of Solvency Requirements

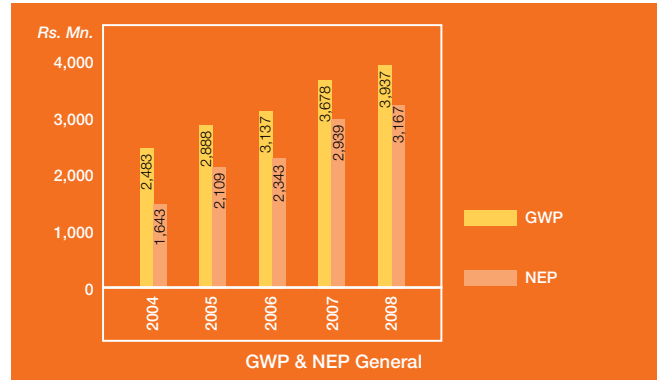
- A key overriding principle of Financial Management of Janashakthi Insurance has been the focus on maintaining the Solvency margins for General Insurance, Life Insurance Fund of the former NIC Policyholders and JIPLC.
- Required Solvency is computed on a monthly basis and reviewed at both the Investment Committee and General Management Committee levels. The decisioning criteria has been to manage the Investment Portfolio in such a manner as to maintain required Solvency margins at above the required mandatory levels, while balancing the longer term strategy of building up a stronger asset base for future income generation.

### Visual Representation of Key Performance Indicators

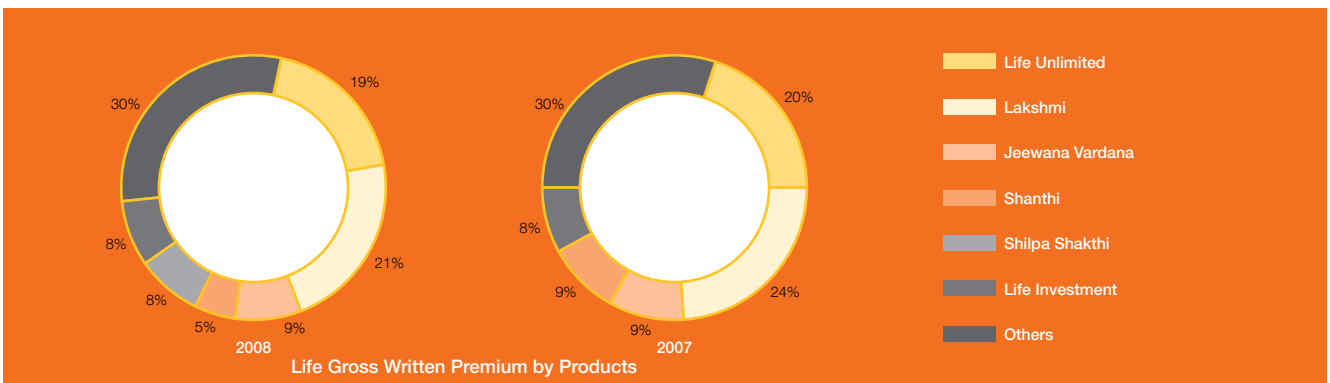
Following is a visual representation that analyses and presents recent trends of Key Performance Indicators and Key Result Areas, to provide greater clarity of the underlying business.



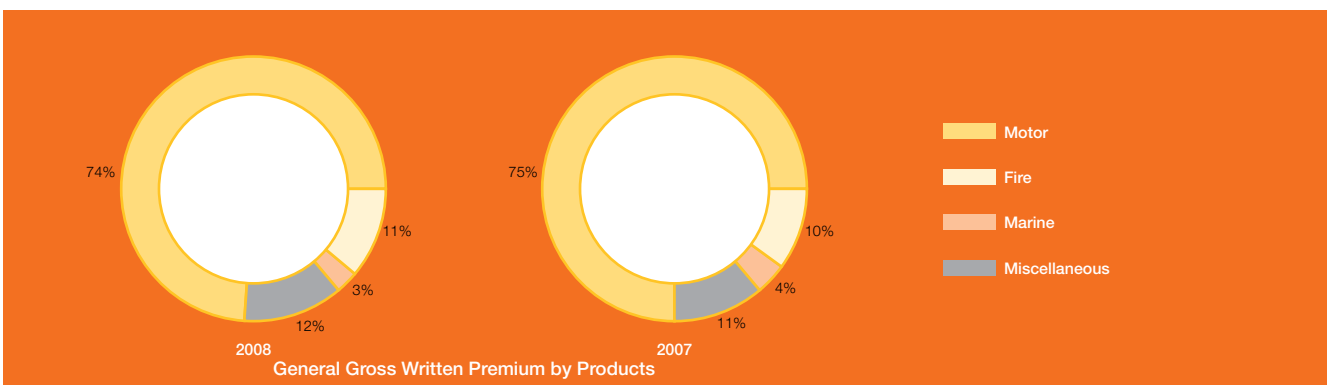
Janashakthi Insurance PLC reached another milestone as it crossed the LKR 5.5 Bn revenue threshold, reflecting a growth of 6.8% over last year.



General GWP recorded a growth of 7% in 2008 compared to 2007.

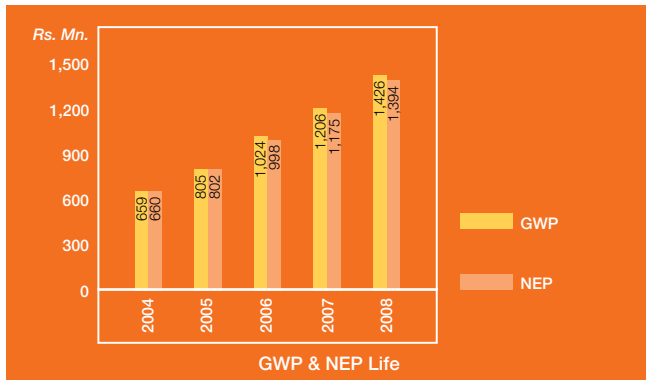


The product mix in the Life Product portfolio has been enhanced with the introduction of the new Life Investment product.

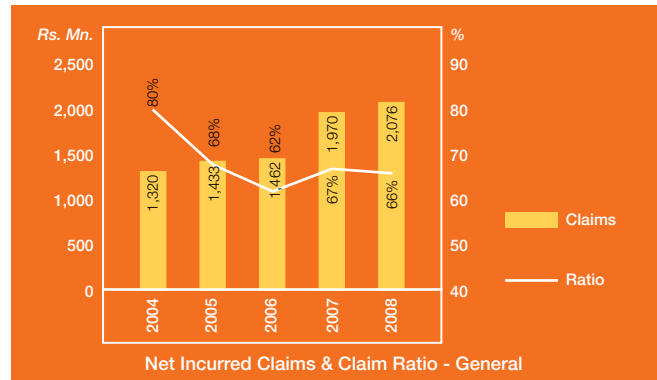


The Product mix in General Insurance business has remained stable with value addition being incorporated. The Motor product retains its position as the market leader at JIPLC.

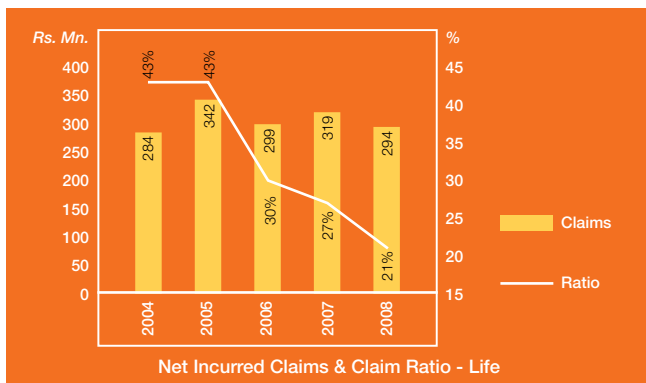
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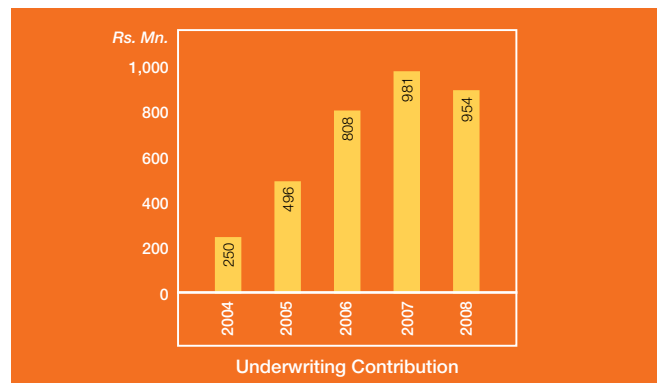
Life Gross Written Premia registered an impressive 18% growth over 2007 in 2008. The introduction of the new life investment related product contributed 8% to the overall portfolio and boosted the level of annual growth.



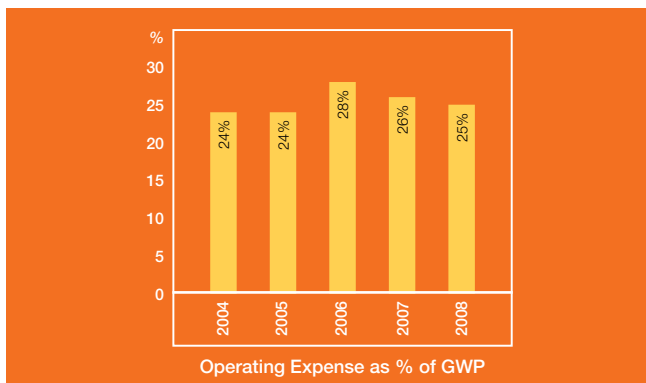
The Net Claims Ratio closed marginally lower than 2007, while the net pay out remained relatively stable against a higher Net Earned Premium Value.



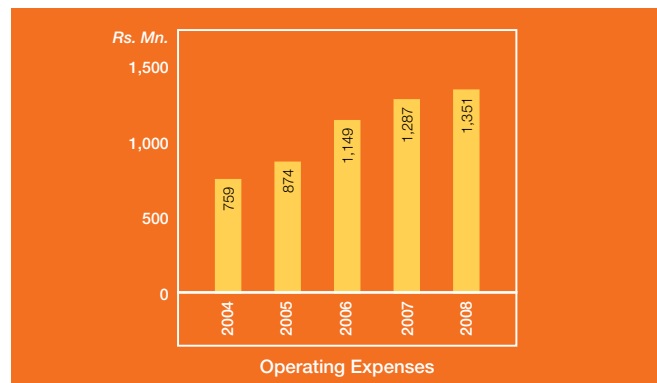
The Life Net Claims Ratio ended lower by 6% as the Policy Holder benefits remained stable against a higher premia base.



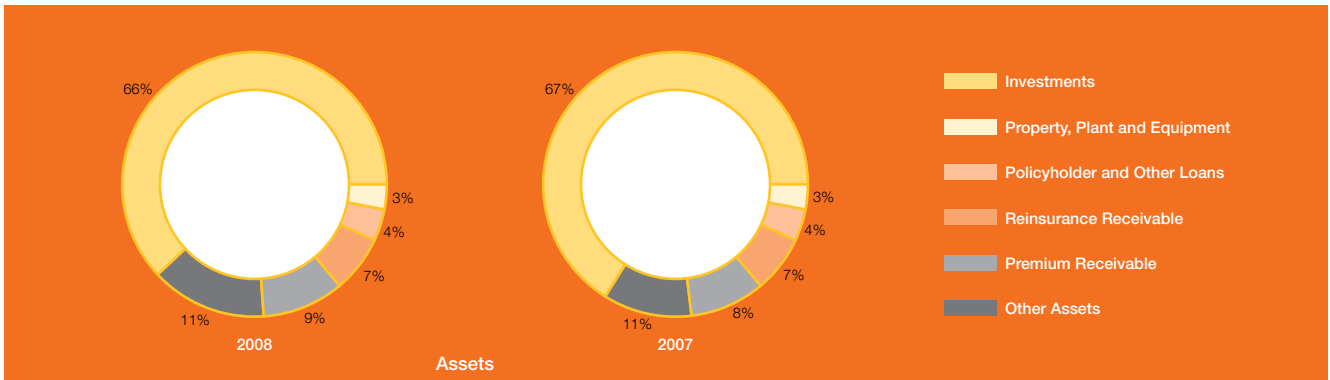
Underwriting contribution recorded a drop compared to 2007 resulting primarily from higher Net Acquisition Costs recorded in 2008.



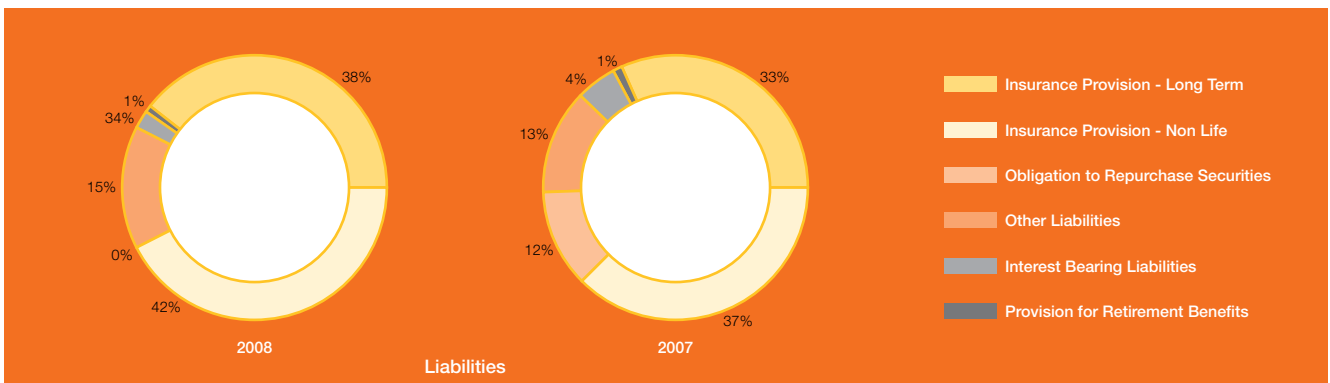
Operating expenses compared to GWP was lower compared to 2007 resulting from efforts to manage Operating Costs.



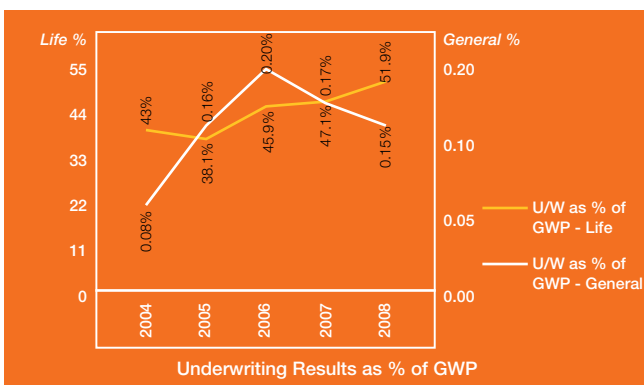
Total Operating expenses recorded a marginal growth of 5% over the prior year.



The Balance Sheet mix of assets remains largely unchanged. The Investment portfolio has reduced marginally due to the rationalisation of the Balance Sheet to improve the risk profile of the Company.

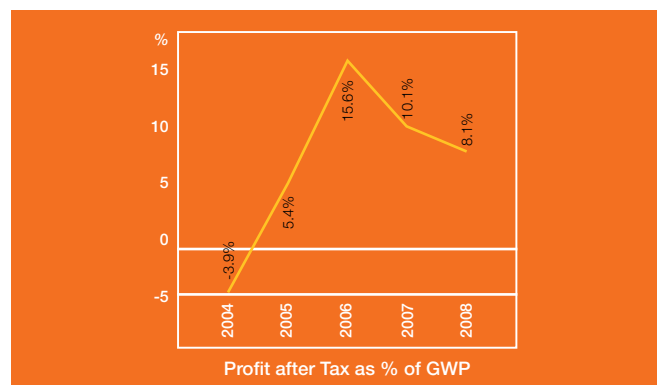


The Balance Sheet mix of liabilities primarily reflects the Life Fund and General Technical Reserves. The interest rate risk exposure of the Balance Sheet has been minimised with the lowering of balance sheet gearing arising from focussed Risk Management Strategies.



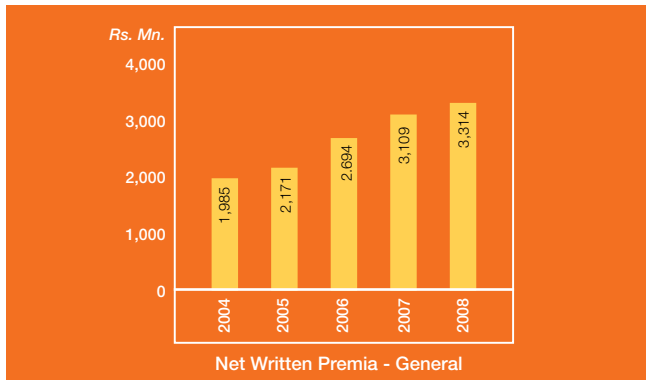
Underwriting results compared to General GWP was marginally lower than that achieved in 2007 due primarily to an increase in Net Acquisition Costs.

Underwriting results compared to Life GWP was higher than that of 2007 arising from stable Policy Holder benefits against a higher GWP that was recorded.

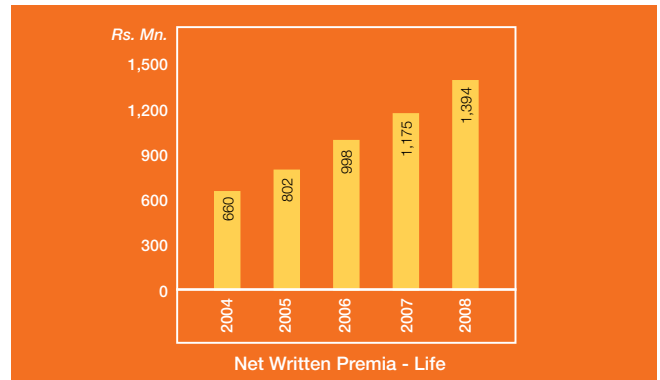


The trend relating to PAT as % of GWP reflects the Exceptional Income earned in 2006 & 2007. The level reached at end of 2008, is higher than the trend seen upto 2005.

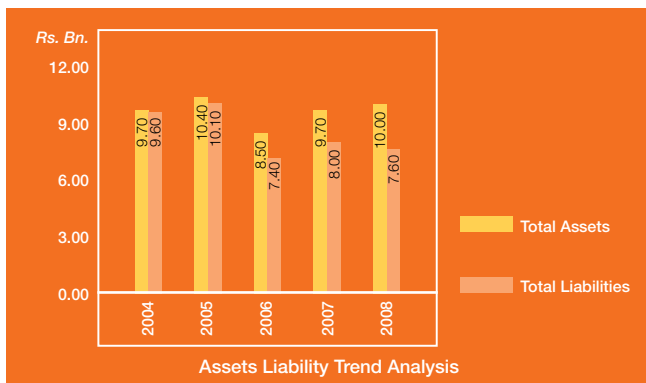
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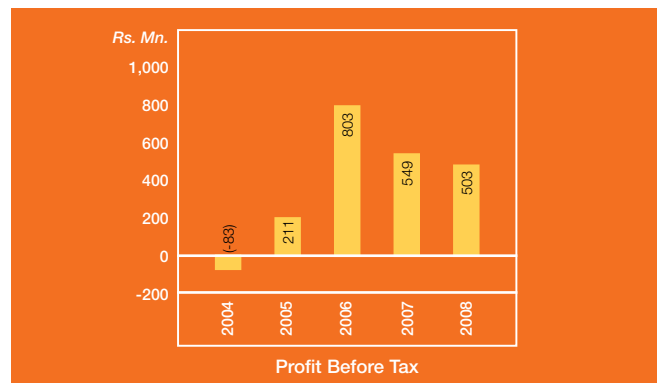
The Net Written Premium for General Insurance reflects a growth in line with the GWP growth.



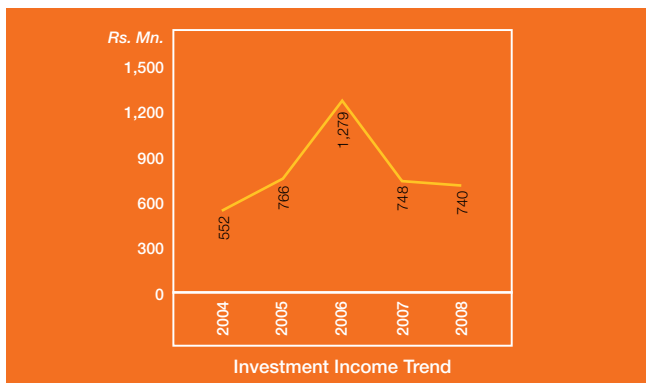
The Net Written Premium for Life Insurance reflects a growth in line with GWP reflecting stable reinsurance trend.



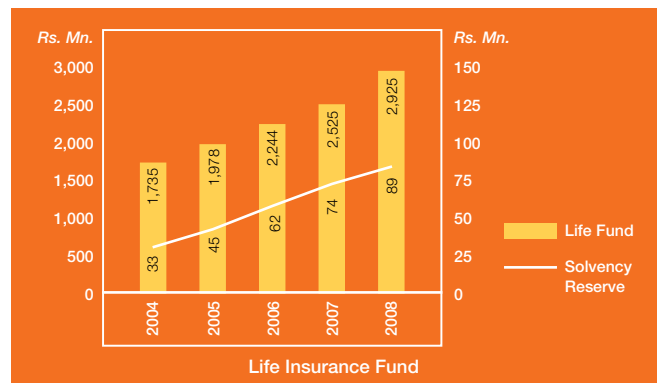
Liabilities recorded a decrease due to risk mitigation strategies that reduced excessive high cost Borrowing levels.



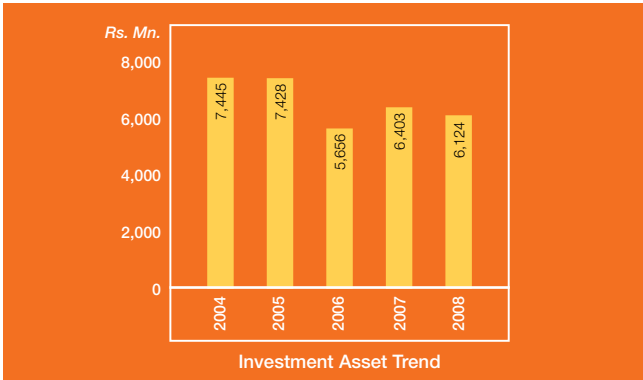
Profit Before Tax was lower by LKR 46 Mn than the Prior Year which included Property Revaluation Income of LKR 257 Mn, thus reflecting a real growth of LKR 211 Mn in 2008.



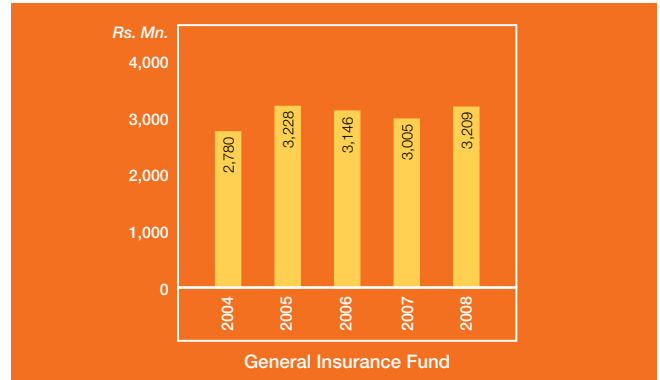
Investment Income at LKR 740 Mn compares against LKR 748 Mn in 2007 which included LKR 257 Mn of Property Revaluation Income.



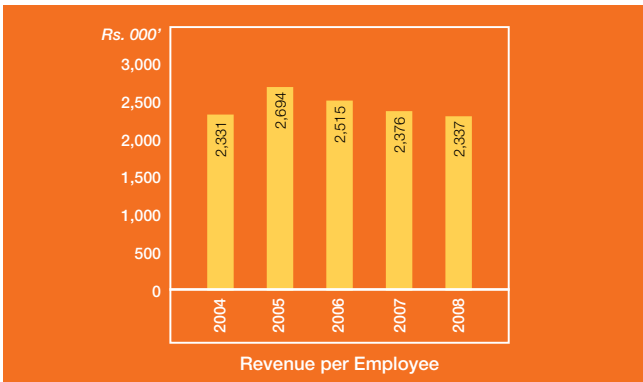
The Life Insurance Fund continues to grow steadily contributing to the stability of the Company.



The Investment portfolio recorded a marginal decrease mainly due to initiatives taken to reduce the risk exposure of the Company, thus leading to a shedding of some Assets funded by excessive Borrowings.



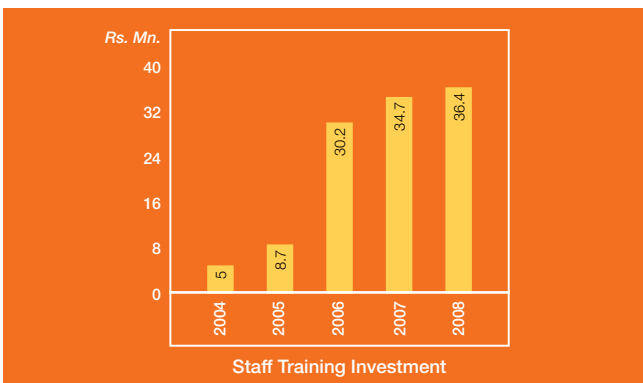
The Technical Reserves on the General Insurance Fund recorded a growth of LKR 204 Mn thus contributing to strengthening the Company.



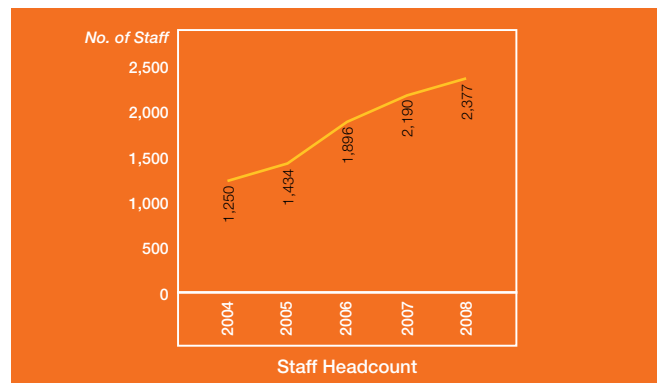
Revenue per Employee recorded a marginal increase reflecting improved employee productivity.



Profit per Employee has been impacted by higher Net Acquisition Cost and lower Investment Income compared to 2007.

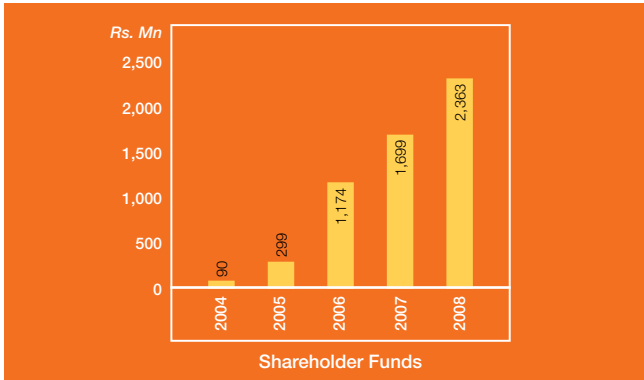


The Company continues to invest heavily on staff training, recognising that Staff is the key strength and resource of the Company.

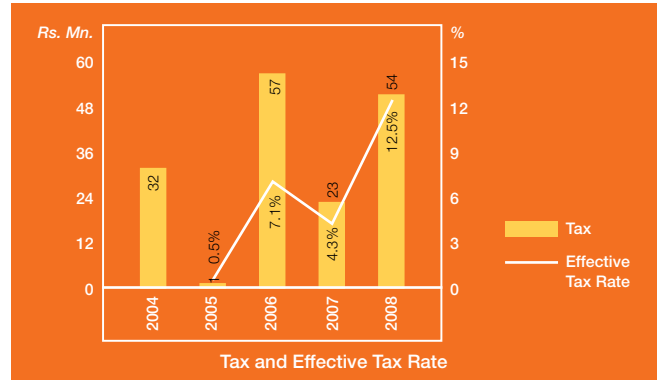


The head count registered an increase of 8.5% mainly reflected in the increase of the sales force, required to boost the Sales Turnover.

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The Shareholder Funds continue to grow strongly. The confidence of the public in the Company was reflected in the oversubscribed IPO which added LKR 396 Mn to the Shareholder Funds.



The Effective Tax Rate, while reflecting a growth over the Prior Year remains significantly lower than the Corporate Tax Rate