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ICRA Lanka Assigns the Claims Paying Ability Rating of [SL]A-to Softlogic Life Insurance PLC

ICRA Lanka Limited, subsidiary of ICRA Limited, a group company of Moody's Investors Service, has assigned the claims paying ability rating of [SL] A- (pronounced SL A minus) with a stable outlook for Softlogic Life Insurance PLC (SLI or the company), formerly known as Asian Alliance Insurance.

The rating is based on the strength derived from the shareholding pattern of SLI since majority ownership lies with a diversified conglomerate (Softlogic Holdings PLC; rated at [SL] BBB with a stable outlook). The rating draws comfort from strong group synergies as well as an assumption that SLI will receive timely and adequate support from the majority shareholder. The rating also factors in SLI's rising market share (stands as Sri Lanka's fifth largest life insurer with a market share of about 8-9% as on June 30, 2016). The rating further takes comfort from the sizeable capital base, which was recently strengthened by the proceeds generated through the full divestment of stake in its general insurance subsidiary, Asian Alliance General Insurance Limited. The rating is further strengthened by SLI's healthy profitability indicators and relatively comfortable capitalization profile. However, ICRA Lanka takes cognizance of the aggressive growth outlook of SLI that could exert some pressure on the capitalization profile of the company. ICRA Lanka also takes note of the large capex plans of the group entities of Softlogic Holdings that may weaken the parent company's ability to provide adequate financial support to SLI. The ability of the parent group to support the operations of SLI will be a key rating sensitivity.

SLI, which currently offers life insurance products in Sri Lanka, caters mainly to the premium segment of customers and, hence, is characterized by above-average ticket sizes. It commenced operations in December 1999 and operated as a composite insurer (providing both general insurance and life insurance products under the Asian Alliance brand). In 2011, the company was acquired by Softlogic Capital PLC (step-down subsidiary of Softlogic Holdings PLC) and owing to the change in regulations in 2014, the general insurance and the life insurance businesses were segregated with the former becoming a step-down subsidiary of the latter (housed under Asian Alliance Insurance). In June 2016, company divested its complete stake from the general insurance business (reaping proceeds of about LKR 1.2 Bn), and the life insurance company was renamed as Softlogic Life Insurance PLC.

As on December 31, 2015 SLI was the fifth largest life insurer in Sri Lanka with a market share of about 8% (Gross Written Premium of LKR 4.1 Bn vis-à-vis LKR 3.0 Bn as on December 31, 2014). For the 6 months ended June 30, 2016 Company recorded Gross Written Premium of LKR 2.8 Bn, about 40% YoY growth compared to corresponding period of the previous fiscal. Positive growth outlook is expected to persist over the medium-long term as the Sri Lankan life insurance industry benefits from the conducive macro factors such as increasing disposable income and increasing demand for private sector healthcare.

SLI's cost structure is characterized by relatively high acquisition cost (acquisition cost¹/GWP of 28% in FY2015 vis-à-vis 25% in FY2014), as the company targets high-end customer segments (which are considered more manpower intensive). In terms of the business sourcing, sales are primarily generated by SLI's internal sales team, while the contribution from brokers is quite modest.

Profitability of the company is supported by positive underwriting outlook in the life segment. Life insurance segment recorded PAT of LKR 993 Mn for FY2015 vis-à-vis LKR 840 Mn for FY2014. For the 6M ended June 30, 2016 the life insurance segment recorded PAT of LKR 579 Mn. Strong profitability provides a degree of support for the company's aggressive growth plans, through strong internal generations; ROE for FY2015 was about 40%. Profitability of the life insurer is expected to improve as the divestment of the general insurance business will ensure management focus and better resource allocation for the life insurance business.

As on December 31, 2015 SLI Life had a net worth of LKR 2.4 Bn vis-à-vis LKR 1.4 Bn as on December 31, 2014; reported net worth as on June 30, 2016 was LKR 2.5Bn. Risk weighted capital adequacy ratio of the company was comfortably above the regulatory minimum of 120%; risk weighted CAR as on December 31, 2015 was 173%. The capitalization profile of SLI is expected to improve with the proceeds from the general insurance divestment.

Company Profile

Softlogic Life Insurance PLC, formally known as Asian Alliance Insurance PLC commenced operations in December 1999 and had evolved into a composite insurance solutions provider with a sizeable market share in life insurance segment. The company catered to a clientele that consists of corporates and individuals both in Life and non-life business through an extensive network (64 branches) of regional distribution offices located throughout Sri Lanka. The company was acquired by the diversified conglomerate, the Softlogic Group in 2011. In January 2012, two foreign institutional investors, DEG of Germany and FMO of Netherlands, invested in a significant minority (about 19% each) in the company.

In October 2016, subsequent to the divestment of the general insurance business, company was renamed as Softlogic Life Insurance PLC.

During the year ended December 31, 2015 SLI (standalone/ life insurance) reported a net profit of LKR 993 Mn on a Gross Written Premium of LKR 4.1 Bn compared to net profit of LKR 840 Mn on a Gross Written Premium of LKR 3.0 Bn for the corresponding period of the previous fiscal. On a consolidated (composite) basis SLI reported a Net profit of LKR 924 Mn on a Gross Written Premium of LKR 6.1 Bn during the year ended December 31, 2015 compared to a Net profit of LKR 755 Mn on a Gross Written Premium of LKR 4.8 Bn for corresponding period of the previous fiscal.

Note 01: Acquisition cost – Underwriting and policy acquisition cost

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