

**VALUATION**  
**OF**  
**PEOPLE'S INSURANCE LIMITED**  
**AS AT**  
**AUGUST 31, 2015**



Joint Financial Advisors and Managers to the Issue



**October 14, 2015**



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October 14, 2015  
Board of Directors,  
People's Insurance Limited,  
No. 53, Dharmapala Mawatha,  
Colombo 03.

Dear Sir,

**Valuation of People's Insurance Limited ("PIL") shares as at August 31, 2015**

We, NDB Investment Bank Limited, Acuity Partners (Private) Limited and People's Bank Investment Banking Unit in the capacity of Joint Financial Advisors and Managers to the Initial Public Offering (IPO) of PIL, wish to submit the enclosed Research Report in accordance with Section 3.1.4. c (ii) of the Listing Rules of the Colombo Stock Exchange.

We have carried out a detailed analysis of the business operations of PIL to arrive at the fair value of PIL's shares based on three valuation methodologies and the results have been summarised below.

Valuation Method	Residual Income (1)	Justified PBV (2)	Median Peer PBV (3)	Average of (1), (2), & (3)
Equity Value (LKR MN)	2,414.5	2,975.3	2,670.7	2,686.9
Value per Share (LKR)	16.10	19.84	17.80	17.91

We believe that PIL shares would have a fair value of LKR 17.91 per share, given the Company's business fundamentals and the industry dynamics in General Insurance industry.

Considering your intention to offer an upside to potential investors and the healthy marketability of shares, we recommend an offer price of LKR **15.00 per share** for the purpose of the IPO. The recommended offer price is expected to offer an upside of c. 19.4% to potential investors.

The detailed Research Report is enclosed herewith for your reference.

Thank you.

Yours faithfully,

**NDB INVESTMENT BANK LIMITED**

Darshan Perera  
Director/  
Chief Executive Officer

**ACUITY PARTNERS (PRIVATE) LIMITED**

Shehan Cooray  
Senior Vice President  
Corporate Finance

**PEOPLE'S BANK  
INVESTMENT BANKING UNIT**

Clive Fonseka  
Head of Treasury &  
Investment Banking

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## 1.0 BACKGROUND

People's Insurance Limited (“PIL” or “the Company”), a fully owned subsidiary of People's Leasing & Finance PLC (“PLF”), commenced commercial operations in 2010 as a non-life (general) insurer licensed by the Insurance Board of Sri Lanka.

During a short period of time, PIL has grown at a significant pace and is, at present, within the top five general insurance companies in the country in terms of Gross Written Premiums (Source: IBSL Annual report 2014). The Board of Directors of PIL has decided to list the Company on the Colombo Stock Exchange to be in compliance with the regulatory guidelines.

In compliance with Section 3.1.4. c (ii) of Listing Rules of the Colombo Stock Exchange (“CSE”), NDB Investment Bank Limited, Acuity Partners (Private) Limited and People’s Bank Investment Banking Unit (hereinafter referred to as “The Joint Managers”), in the capacity of Joint Financial Advisors and Managers to the Initial Public Offering (IPO), has carried out a valuation on the share of PIL for the purpose of ascertaining the issue price.

The assessed valuation and the underlying assumptions pertaining to the same are set out in this Research Report.

## 2.0 VALUATION METHODOLOGY

Some of the most commonly used techniques amongst the many different methodologies used in valuing companies are given below:

1. Discounted Free Cash Flow (DCF) Method
2. Net Asset Value Method
3. Residual Income Method
4. Justified PBV Method
5. Price Multiples Method

Given due consideration to PIL’s business model and the industry in which it operates, the Joint Managers believe not all valuation methodologies could be considered as appropriate.

The Joint Managers did not consider Discounted Free Cash Flow (DCF) method since it is less relevant for insurance sector due to the fact that not all of the capital is free to be distributed / deployed as dividends or share repurchases/investments. Further, the level of required capital varies with the risks of the liabilities that it underwrites, the assets it buy with the proceeds from the liabilities, and the cash flow and duration mismatches between the assets and the liabilities. Further, Net Asset Value may not be suitable for a company which operates as a going concern.

Considering the above, the Joint Managers have carried out the valuation of PIL based on the Residual Income, Justified PBV approaches, and Price Multiples approach.

## 2.1 Residual Income Method

Residual Income (“RI”) emphasis on the excess net income a firm generates over and above the required rate of return for its shareholders. In order to determine a fair value for the business operation of PIL, the RI method was considered as an appropriate technique, taking into account the fact that it is an ongoing business, dealing primarily in financial assets.

Residual Income for a given year is determined as below.

$$RI_t = E_t - (r \times B_{t-1}) = (ROE - r) \times B_{t-1}$$

where,

$RI_t$	= residual income in year $t$
$E_t$	= expected earnings for year $t$
$r$	= required return on equity
$B_{t-1}$	= book value of equity in year $t-1$
$ROE$	= expected return on equity

The fair value of a share under RI method is determined by adding present values of expected residual incomes to the current book value of equity. The fair value calculation, as per the RI method, can be summarised as below.

$$V_0 = B_0 + \left\{ \sum_{t=1}^{t-1} \frac{RI_t}{(1+r)^t} \right\} + TV_t$$

where,

$V_0$	= intrinsic value in year 0
$B_0$	= book value of equity in year 0
$RI_t$	= residual income in year $t$
$r$	= required return on equity
$TV_t$	= terminal value at year $t$

The Terminal Value at year  $t$  ( $TV_t$ ) in a continuing residual income model is calculated using the following standard formula.

$$TV_t = \frac{RI_t}{(1+r-\omega)(1+r)^{t-1}}$$

where,

$TV_t$	= terminal value at year $t$
$RI_t$	= residual income in year $t$
$r$	= required return on equity
$\omega$	= persistence factor

The persistence factor determines the sustainability of excess net income over required rate of return. If the excess net income is expected to continue perpetually then the persistent factor is assumed as “1”. Accordingly if it is expected to diminish just after the initial forecast period persistent factor is assumed as “0”. The persistence factor could be any value between “0” and “1” depending on the Joint Managers’ estimate on firm’s ability to persist with its competitive advantage.

## 2.2 Justified PBV Method

The Justified Price-to-Book Value is a form of intrinsic value calculation where it indicates the warranted PBV multiple given a company's expected Return on Equity, Sustainable Growth Rate, and its Cost of Equity. The Joint Managers believe Justified PBV is an appropriate method to determine the fair value of the business operation of PIL as it is determined through an analysis of business fundamentals and widely used by analyst to evaluate finance and insurance companies.

The Justified PBV ratio based on forecast fundamentals can be calculated as:

$$\text{Justified PBV ratio} = \frac{ROE - g}{r - g}$$

where,

- ROE* = expected return on equity
- r* = required return on equity
- g* = expected growth rate in dividends/earnings

## 2.3 Price Multiple Method

PIL can be valued based on the price multiples of its listed peers. The commonly used price multiples to calculate relative value of a share are Price-to-Earnings (P/E) and Price to Book value (PBV) ratios.

The relative value for PIL shares using peer Price-to-Earnings ratio would be calculated as follows:

$$\text{Market Price} = \text{Forward EPS} * \text{Applicable PER}$$

where,

- EPS* = earnings per share
- PER* = Price-to-Earnings ratio/Relative

The relative value for PIL shares using peer average Price-to-Book Value ratio would be calculated as follows:

$$\text{Market Price} = \text{BVPS} * \text{Applicable PBV}$$

where,

- BVPS* =book value per share
- PBV* = Price-to-Book Value ratio

### 3.0 FORECASTING METHODOLOGY AND SOURCES OF INFORMATION

The requisite inputs for the Residual Income Approach and Justified PBV Approach were derived explicitly from forecast financial statements of PIL. The following methodology was adopted in forecasting the financial statements of PIL:

- I. The financial statements were forecasted for a period of five years based on the business plans of PIL;
- II. Input from the Management of PIL were obtained with a view to better understand the nature of the operations;
- III. The Audited Financial Statements and the Management Accounts were analysed in order to review the historical performance of PIL and to identify possible trends and key performance indicators;
- IV. Future growth plans of PIL have been duly incorporated in the forecast financials based on discussions with the Management.
- V. The forecast financial performance was assessed in light of the future outlook of insurance industry for the next five years.

It should be noted that this valuation exercise was carried out based on the discussions with the management of PIL together with the information provided by PIL.

### 4.0 FORECAST ASSUMPTIONS

#### 4.1 Industry Outlook

Gross Written Premiums for General insurance industry grew by 3.7% to LKR 55.3 Bn in 2014. The industry growth rate has plummeted from 23.4% in 2011 to 3.7% in 2014. However, the General Insurance penetration of 0.56% in 2014, one of the lowest in Emerging Asian markets, suggests that there is much upside potential, particularly in non-motor segments.

General Insurance industry is generally considered to be positively correlated with the GDP growth. Sri Lanka achieved a GDP growth in excess of 6% for the last five years and it is expected to grow not less than 5% for the next five years. We are of the view that the industry growth would coincide with GDP growth rate during the next five years and hence the industry would, at a minimum, be able to maintain the current level of industry penetration.

	2010	2011	2012	2013	2014
<b>Gross Written Premium (LKR MN)</b>					
<i>Fire</i>	5,012	5,376	5,422	6,304	6,242
<i>Marine</i>	1,499	1,678	1,918	1,796	1,812
<i>Motor</i>	20,949	27,141	31,638	33,157	34,945
<i>Miscellaneous</i>	7,641	9,134	10,717	12,054	12,262
<b>Total</b>	<b>35,101</b>	<b>43,329</b>	<b>49,694</b>	<b>53,311</b>	<b>55,262</b>
<b>YoY GWP Growth Rate</b>					
<i>Fire</i>		7.3%	0.9%	16.3%	-1.0%
<i>Marine</i>		12.0%	14.3%	-6.3%	0.9%
<i>Motor</i>		29.6%	16.6%	4.8%	5.4%
<i>Miscellaneous</i>		19.5%	17.3%	12.5%	1.7%
<b>Total</b>		<b>23.4%</b>	<b>14.7%</b>	<b>7.3%</b>	<b>3.7%</b>
<b>General Insurance Penetration</b>	0.63%	0.66%	0.66%	0.61%	0.56%
<b>Gross Domestic Product (LKR Bn)</b>	5,604	6,544	7,579	8,674	9,785
<b>GDP Growth Rate</b>	8.0%	8.2%	6.3%	7.2%	7.4%

Source: IBSL Annual Report 2014

## 4.2 Business Strategy

At present, a significant portion of PIL's business is generated through captive sources, viz. PLF and People's Bank. The Company's primary focus in the next three to five years would be to capture non-captive business whilst maintaining steady growth for its existing operations.

As per the discussions with the Management, we understand that several initiatives have been taken to position PIL in order to capture non-captive businesses with a view to reducing the reliance of captive sources:

- Retail channels: 20 marketing personnel of PIL have been stationed in PLF offices to bring in new retail business from outside PLF
- Corporate / Broker channels: Personnel have been recruited with a specific mandate to seek business opportunities via corporate accounts and insurance brokerage houses

Further, we note that the branch network is to be increased to five from the existing two by 2017. In order to encompass the above growth plans, the following assumptions have been used for the purpose of this valuation.

Assumptions	
Number of new branches to be opened	3
Capital expenses per branch (LKR MN)	1.5
GWP per branch (LKR MN)	25.0
Employees per branch	4

It has also been assumed that PIL would continue to open one new branch per year beyond 2017.

## 4.3 Gross Written Premium

Albeit moderate GWP growth in FY2014, since its inception in 2010 PIL has grown at a rapid pace to record GWP in excess of LKR 3.4Bn. The Company, which at present stands among the top five non-life insurance companies in the country can attribute much of its growth to its captive business source and parent, PLF.

As highlighted in the Company's business strategy, whilst maintaining steady growth in its captive business, the management will aim to focus on business outside that of PLF to continue the growth trajectory of the Company. However, post assessing the highly competitive non-life insurance industry in the country; a continuation of the aggressive growth rates experienced by PIL in the past would be unlikely.

Considering the above, the Joint Managers believe that PIL would achieve a Total GWP CAGR of 7.5% for the next five years from 2015 – 2019. The composition of GWP is expected to remain at current levels throughout the forecast period with the dominant motor segment contributing nearly 85%. The following GWP levels have been assumed in preparing the financial projections for the Company.

LKR MN	2014A	2015F	2016F	2017F	2018F	2019F	5 Yr. CAGR
<b>Motor GWP</b>	<b>2,864.9</b>	<b>3,151.4</b>	<b>3,424.8</b>	<b>3,713.3</b>	<b>3,965.1</b>	<b>4,194.6</b>	<b>7.9%</b>
<i>Growth in Motor GWP</i>	5.5%	10.0%	8.7%	8.4%	6.8%	5.8%	
<b>Non-Motor GWP</b>	<b>575.7</b>	<b>554.6</b>	<b>602.0</b>	<b>652.3</b>	<b>696.6</b>	<b>743.9</b>	<b>5.3%</b>
<i>Growth in Non-Motor GWP</i>	7.5%	-3.7%	8.6%	8.4%	6.8%	6.8%	
<b>Total GWP</b>	<b>3,440.6</b>	<b>3,706.0</b>	<b>4,026.8</b>	<b>4,365.6</b>	<b>4,661.7</b>	<b>4,938.5</b>	<b>7.5%</b>
<i>Growth in Total GWP</i>	5.8%	7.7%	8.7%	8.4%	6.8%	5.9%	



#### 4.4 Reinsurance Premium

The Joint Managers expect Total Reinsurance Premium ceded to be c. 8.0% of Gross Written Premium during the forecast period. The forecast Reinsurance Premium Ceded as a % of GWP for each asset class is shown below.

Reinsurance Premium Ceded as a % of GWP	
Motor	3.0%
Marine	90.0%
Fire	65.0%
Miscellaneous	7.0%

#### 4.5 Claims and Expenses

##### 4.5.1 Net Claims

PIL's Net Claims Ratio was at 72.6% in FY2014, declining steadily from 83.6% in FY2011. However, the industry average net Claims Ratio was 65.4% during the same period. The industry average Claims Ratio remained higher than PIL throughout last five years because of PIL's high proportion of captive business, which generally incur higher claims, and aggressive pricing at the establishment stage. The Joint Managers expect a continuation of the gradual decline in net claims ratio in line with Management forecasts and PIL's strategy of focusing on growing its non-captive business.

##### 4.5.2 Net Acquisition Costs

The Joint Managers are of the view that PIL's net Acquisition Cost would remained around 11.3% for the forecast period based on the Company's operating history and the regulatory restrictions placed on such costs as per IBSL guidelines.

##### 4.5.3 Operating Expenses

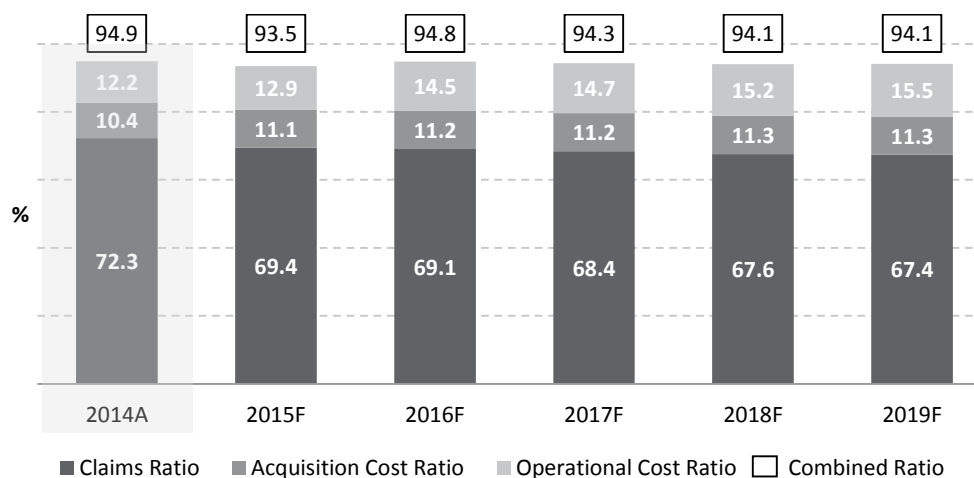
PIL enjoys a significantly lower Operating Cost ratio compared to its industry peers due to its business model, which mainly focuses on captive business from its affiliated companies. PIL's Net Expense Ratio (including Net Acquisition Cost) stood at 22.6% *cf.* the industry average of 40.4% in 2014. However, expanding in to non-captive business expected to increase the Operational Cost Ratio of PIL since the expansion would result in increased Administrative Overheads and Sales and Marketing Expenses. The Joint Managers expect PIL's the operating cost ratio to increase to 15.5% by 2019F.

It should be noted that PIL and PLF have agreed to continue current shared services arrangement, hence that current cost structure for captive business is expected to continue to the foreseeable future.

##### 4.5.4 Combined Ratio

The Joint Managers expect PIL's Combined Ratio to be around 94% during the forecast period. PIL's business strategy of targeting non-captive business while maintaining the captive business would support the steady decline in Net Claims Ratio but it simultaneously increases its operating costs. Hence the steady decline of Net Claims Ratio to 67.4% in 2019F from 72.3% in 2014 is expected to get offset by the increase in Operating Cost Ratio to 15.5% in 2019F from 12.2% in 2014.

The key components of Combined Ratios used in the financial projections are depicted below:



#### 4.6 Underwriting Profits

PIL is one of the few companies in the Sri Lankan General Insurance sector to make underwriting profits, owing to its Combined Ratio being below 100%, since 2012. The Company has been able to keep the Combined Ratio less than 100% due to its access to captive business from People's Bank Group. The Joint Managers assumed that the Combined Ratio would be maintained around 94% for the forecast period. Hence, PIL is expected to earn underwriting profits throughout the forecast period at the following amounts.

LKR MN	2014A	2015F	2016F	2017F	2018F	2019F
<b>Underwriting Profits</b>	<b>151.8</b>	<b>212.6</b>	<b>201.3</b>	<b>218.2</b>	<b>242.6</b>	<b>255.2</b>
<i>Underwriting Profit Margin</i>	<i>5.1%</i>	<i>6.5%</i>	<i>5.7%</i>	<i>5.7%</i>	<i>5.9%</i>	<i>5.9%</i>

#### 4.7 Investment Income

The Joint Managers assumed that PIL would hold the investment portfolio composition it maintained in year 2014 for the rest of forecast period. Hence fixed deposits, government securities, and debentures would account for c.43%, 24% and 18% of the total portfolio respectively, throughout the forecast period.

Total return on investment securities of the said portfolio has been assumed based on a spread above the risk free rate. The Joint Managers have assumed a short term risk free rate of 6.5%, as indicated by 91-day Treasury Bill rate, for year 2015 and 7.0% for the rest of the forecast period with a view that rates would remain at present single digit levels given the sustainable macroeconomic growth environment.

The Joint Managers expect Total Return on Financial Assets to range from 8.3 - 9.1% during the forecast period.

LKR MN	2014A	2015F	2016F	2017F	2018F	2019F
Investment Income	385.3	321.2	417.3	499.1	555.3	607.6
Average Financial Assets	3,512.5	3,996.2	4,789.7	5,685.7	6,240.3	6,828.9
<i>Return on Financial Assets %</i>	<i>11.3%</i>	<i>8.3%</i>	<i>8.9%</i>	<i>9.0%</i>	<i>9.1%</i>	<i>9.1%</i>

#### 4.8 Funds Raised from Initial Public Offering

The Joint Managers made the following assumptions with respect to the funds raised from IPO.

- I. PIL would be able to raise LKR 750,000,000 from the Initial Public Offering;
- II. The total cost of the IPO would be approximately 5% of the total funds raised;
- III. IPO proceeds would be available to the Company by January 2016
- IV. PIL would be eligible for 50% tax concession for the subsequent three year period subject to meeting the 20% public shareholder threshold. Hence, the Joint Managers assumed an income tax rate of 14% from 2016F to 2018F.
- V. The return on IPO proceeds has been assumed to be in line with the return on the existing investment portfolio.

#### 4.9 Insurance Liability

The Joint Managers estimated the movement in Unearned Premium Reserves and the Total Claims Outstanding as a % of Gross Written Premium. Claims Incurred But Not Reported (IBNR) was estimated as a percentage of Total Claims incurred for a given year. The summary of forecasting bases and assumptions are given below.

Insurance Liability	Forecasting Basis	Assumption
Unearned Premium Reserves	Net Change in Reserves as a % of GWP	4.2%
Claims outstanding	Claims Outstanding as a % of GWP	22.3%
Incurred But Not Reported Claims	IBNR as a % of Total Claims incurred	20.0%

The resultant insurance liability for the forecast period as follows.

LKR MN	2015F	2016F	2017F	2018F	2019F
Provision for Unearned Premium	1,855.4	2,026.5	2,212.0	2,410.0	2,619.9
Claims Outstanding	824.6	896.0	971.3	1,037.2	1,098.8
Claims Incurred But Not Reported	451.3	487.9	523.7	552.8	583.5
<b>Total Insurance Liability</b>	<b>3,131.3</b>	<b>3,410.4</b>	<b>3,707.0</b>	<b>4,000.1</b>	<b>4,302.2</b>

#### 4.10 Expected Capital Adequacy Ratio (CAR)

PIL's Risk Based CAR stood at 231% on June 30, 2015, well above the regulatory minimum of 120%. The Joint Managers expect PIL to maintain a healthy Risk Based Capital Adequacy Ratio throughout the forecast period. It was assumed that PIL would maintain the asset allocation strategy of its current investment portfolio during the forecast period. Hence, forecasts are not subject to additional risks arising from changes in asset allocation. We expect the funds raised via the IPO to provide additional capital buffers against increased underwriting risks associated with PIL's expansion into non-captive business together with changes in idiosyncratic risks and correlations among financial asset classes.

## 5.0 FORECAST FINANCIAL STATEMENTS

### 5.1 Forecast Income Statements

LKR MN	2014A	2015F	2016F	2017F	2018F	2019F
<b>Gross Written Premium</b>	<b>3,440.6</b>	<b>3,706.0</b>	<b>4,026.8</b>	<b>4,365.6</b>	<b>4,661.7</b>	<b>4,938.5</b>
Premium Ceded to Reinsurers	(293.9)	(297.9)	(323.6)	(350.7)	(374.5)	(398.8)
Net Change in Unearned Premium	(156.2)	(157.5)	(171.1)	(185.5)	(198.1)	(209.8)
<b>Net Earned Premium</b>	<b>2,990.5</b>	<b>3,250.7</b>	<b>3,532.2</b>	<b>3,829.4</b>	<b>4,089.1</b>	<b>4,329.9</b>
Net Claims and Benefits	(2,162.7)	(2,256.7)	(2,439.6)	(2,618.5)	(2,764.1)	(2,917.4)
Net Acquisition Costs	(310.8)	(361.7)	(396.8)	(430.8)	(460.3)	(487.4)
Operating Expenses	(365.1)	(419.6)	(513.3)	(562.0)	(622.1)	(670.0)
<b>Underwriting Profits</b>	<b>151.8</b>	<b>212.6</b>	<b>182.6</b>	<b>218.2</b>	<b>242.6</b>	<b>255.2</b>
Fee and Other Operating Income	35.7	37.0	40.0	43.3	46.1	48.8
Investment Income	385.3	321.2	417.3	499.1	555.3	607.6
<b>Total Other Revenue</b>	<b>421.0</b>	<b>358.1</b>	<b>457.3</b>	<b>542.4</b>	<b>601.4</b>	<b>656.4</b>
<b>Profit Before Tax</b>	<b>572.8</b>	<b>570.7</b>	<b>639.9</b>	<b>760.6</b>	<b>844.1</b>	<b>911.6</b>
Income Tax	(122.7)	(138.9)	(76.3)	(90.7)	(100.9)	(217.4)
<b>Profit After Tax</b>	<b>450.1</b>	<b>431.8</b>	<b>563.6</b>	<b>669.8</b>	<b>743.2</b>	<b>694.1</b>

## 5.2 Forecast Balance Sheets

LKR MN	2014A	2015F	2016F	2017F	2018F	2019F
<b>ASSETS</b>						
Financial Investment	3,644.9	4,064.2	5,295.0	5,821.4	6,376.7	6,969.7
Reinsurance Receivables	137.3	148.9	161.8	175.4	187.2	199.4
Insurance Receivables	523.7	558.4	606.8	657.8	702.4	744.2
Deferred Acquisition Cost	180.8	192.7	209.4	227.0	242.4	256.8
Other Assets	271.6	170.2	177.1	179.7	190.1	206.3
<b>Total Assets</b>	<b>4,758.2</b>	<b>5,134.6</b>	<b>6,450.2</b>	<b>7,061.4</b>	<b>7,698.9</b>	<b>8,376.4</b>
<b>Equity</b>						
Stated Capital	600.0	600.0	1,331.3	1,331.3	1,331.3	1,331.3
Other Reserves	810.0	905.9	1,187.7	1,455.6	1,752.9	2,030.6
<b>Total Equity</b>	<b>1,410.0</b>	<b>1,505.9</b>	<b>2,519.0</b>	<b>2,786.9</b>	<b>3,084.2</b>	<b>3,361.8</b>
<b>Liabilities</b>						
Outstanding Claims Provision	1,203.2	1,275.9	1,383.9	1,495.0	1,590.0	1,682.3
Provision for Unearned Premium	1,697.9	1,855.4	2,026.5	2,212.0	2,410.0	2,619.9
Other Liabilities	447.1	497.3	520.8	567.5	614.7	712.4
<b>Total Liabilities</b>	<b>3,348.2</b>	<b>3,628.6</b>	<b>3,931.2</b>	<b>4,274.5</b>	<b>4,614.7</b>	<b>5,014.6</b>
<b>Total Equity and Liabilities</b>	<b>4,758.2</b>	<b>5,134.6</b>	<b>6,450.2</b>	<b>7,061.4</b>	<b>7,698.9</b>	<b>8,376.4</b>

## 6.0 VALUATION RESULTS

The following section illustrates key valuation assumptions and the resultant equity valuations as at August 31, 2015 for the Company based on the three methods discussed in this Research Report.

### 6.1 Residual Income Method

Assumptions	
10 Year Treasury Bond Rate (a)	†10.0%
Corporate Bond Premium (b)	1.0%
Equity Risk Premium (c)	6.0%
<b>Cost of Equity (a + b + c)</b>	<b>17.0%</b>
<b>Persistence Factor</b>	<b>‡0.9</b>

†Source: Central Bank of Sri Lanka as at 31 August 2015

‡The Joint Managers believe PIL would be able to maintain its competitive advantage over its peers for a significant period. Accordingly, a persistent factor of 0.9 has been assumed.

LKR MN	2015F	2016F	2017F	2018F	2019F
Net Income (a)	129.6	563.6	669.8	743.2	694.1
Equity Charge (b)	83.0	379.6	427.5	472.9	523.4
<b>Residual Income (a-b)</b>	<b>46.6</b>	<b>183.9</b>	<b>242.4</b>	<b>270.2</b>	<b>170.8</b>
Market Value Added	946.6				
Beginning Net Asset Value	1,467.9				
<b>Equity Value</b>	<b>2,414.5</b>				

Based on the Residual Income Approach the total equity value of PIL amounts to **LKR 2.4 Bn with a per share value of LKR 16.10**

### 6.2 Justified PBV Method

	2016F	2017F	2018F	2019F	Average
Return On Equity (%)	23.7%	25.2%	25.3%	21.5%	<b>24.0%</b>
Earnings Retention Ratio (%)	50.0%	40.0%	40.0%	40.0%	<b>44.0%</b>
Sustainable Growth Rate (%)	11.8%	10.1%	10.1%	8.6%	<b>10.2%</b>

Justified PBV	
Forecast Average ROE% (a)	24.0%
Forecast Sustainable Growth (b)	10.2%
Cost of Equity (c)	17.0%
<b>Justified PBV (a-b)/(c-b)</b>	<b>2.03x</b>
Beginning Net Asset Value (LKR MN)	1,467.9
<b>Equity Value (LKR MN)</b>	<b>2,975.3</b>

Based on the Justified PBV Approach the total equity value of PIL amounts to **LKR 3.0 Bn with a per share value of LKR 19.84**

### 6.3 Price Multiples Methods

The companies in the insurance sector currently listed on the Colombo Stock Exchange are either into life insurance business or are composite insurers. Considering levels of liquidity in the secondary market and the percentage of non-life insurance business, the Joint Managers have selected Asian Alliance Insurance (AAIC), HNB Assurance (HASU) and Janashakthi Insurance (JINS) as the peer group for PIL. Salient information pertaining to these listed peers are given below.

Peers	P/E (x)	PBV (x)	ROE (%)	Non-Life GWP %
AAIC	10.4	2.9	27.5%	36.1%
HASU	10.6	1.8	17.2%	49.8%
JINS	7.6	1.6	20.8%	75.8%
<b>Mean</b>	<b>9.5</b>	<b>2.1</b>	<b>21.8%</b>	<b>nm</b>
<b>Median</b>	<b>10.4</b>	<b>1.8</b>	<b>20.8%</b>	<b>nm</b>

*Based on prices as at August 31, 2015*

*Earnings TTM to June 30, 2015*

*Book Value as at June 30, 2015*

The Joint Managers decided to use Peer Median PBV to determine the Relative value of PIL shares as it closely reflects the industry attributes when compared to P/E.

Relative Value Based on PBV	
Peer Group Median PBV	1.8
Book Value per share (Aug 2015)	9.79
Market Value per share	17.80
<b>Equity Value (LKR MN)</b>	<b>2,670.7</b>

Based on the Peer Group Median PBV the total equity value of PIL amounts to  
**LKR 2.7 Bn with a per share value of LKR 17.80**

## 7.0 PROPOSED IPO ISSUE PRICE

A summary of the valuation results highlighted in the preceding sections are given below:

	Residual Income	Justified PBV	Median Peer PBV	Average
Equity Value (LKR MN)	2,414.5	2,975.3	2,670.7	2,686.9
Value per Share (LKR)	<b>16.10</b>	<b>19.84</b>	<b>17.80</b>	<b>17.91</b>
P/E Ratio (2014A) (x)	5.4	6.6	5.9	6.0
P/E Ratio (2015F) (x)	5.6	6.9	6.2	6.2
Post-IPO P/E (2016F) (x)	5.6	6.6	6.1	6.1
Pre-IPO PBV (31 Aug 2015) (x)	1.6	2.0	1.8	1.8
Post-IPO PBV (31 Aug 2015) (x)	1.4	1.7	1.6	1.6

Given the Company's business fundamentals and the industry dynamics, the Joint Managers believe PIL shares would have a fair value of c. LKR **17.91** per share.

The Joint Managers understand that the Board of Directors of PIL intends to offer an upside to IPO investors, in a range of 15%-20%, over and above the cost of equity of 17% as an incentive to subscribe for its shares. Considering the Board of Director's intentions and the healthy marketability of shares post-IPO, the Joint Managers propose an offer price of LKR **15.00** per share.

Average Value per Share (LKR)	<b>17.91</b>
Proposed IPO Price (LKR)	<b>15.00</b>
Expected Upside to IPO investors	<b>c.19.4%</b>

Given the proposed IPO offer price of LKR15.00 per share, PIL would have to issue 50,000,000 shares to raise LKR 750 MN. The resultant Stated Capital, Net Assets Value and the number of share of PIL before and after IPO would be as follows.

	Pre-IPO	Post-IPO
Stated Capital	600.0	1,350.0
Net Assets Value (LKR MN)	1,467.9*	2,199.2 <sup>‡</sup>
Number of shares (MN)	150.0 <sup>†</sup>	200.0

\* Net Assets Value as at August 31, 2015 adjusted for declared dividend of LKR 120 MN on September 25, 2015.

<sup>‡</sup> Estimated issue cost is LKR37 MN and it was assumed 50% of the issue cost would be allowed to offset against the gross IPO proceeds.

<sup>†</sup> Number of shares after the subdivision of shares on October 13, 2015



## 8.0 RESEARCH TEAM

### NDB INVESTMENT BANK LIMITED

#### **Nilendra Weerasinghe – Assistant Vice President**

Nilendra specializes in the structuring and placement of IPOs with over five years of experience in investment banking. Nilendra has been part of the NDBIB team for numerous IPOs managed by the company including that of People's Leasing, Singer Finance, Access Engineering, Union Bank and Mackwoods Energy. He has a wide array of experience in project financing, loan syndications and mergers and acquisitions.

Nilendra is a CFA Charterholder and a graduate in Computer Science and Engineering with a first class honours degree from the University of Moratuwa. He also holds an MBA in Strategy and Operations from the National University of Singapore. His previous work experience includes Goldman Sachs in Singapore where he was involved in advising and raising equity funds via IPO for clients in the Southeast Asian region.

#### **Viraj Wijesinghe – Assistant Vice President**

Viraj possesses over eight years of experience in corporate finance, financial risk management, and investment banking. He joined NDB investment bank as an Assistant Vice President in 2014. Prior to joining NDB Group he was with the Universal Enterprises Private Limited, the largest leisure group in Republic of Maldives, functioning as their Group Treasury Manager.

Viraj was successful in planning and implementing a derivatives based hedging strategy to manage Universal's Foreign Exchange and Interest rate exposures. Further he was responsible for liquidity management, corporate finance and management reporting functions of Universal. Prior to Universal, Viraj worked with Amba Research as an offshore investment analyst. At Amba, he worked with prominent Buy-side and Sell-side clients in major financial markets, successfully catering to their diverse investment analysis requirements.

Viraj is a CFA Charterholder, a certified Financial Risk Manager (FRM) from Global Association of Risk Professionals (GARP) in USA and an Associate Member of CIMA (UK). He also holds a BBA, specialized in Finance, from the University of Colombo.

#### **Rukshan Aponso – Assistant Manager**

Rukshan joined the NDB Group in 2013 and has since then been actively involved in transactions carried out by NDBIB. Prior to joining NDB, he worked as an Associate Consultant in the Corporate Finance and Strategy Division of PricewaterhouseCoopers. He counts for over 5 years of experience in valuation and structuring. Rukshan holds a B.Sc. Mathematics and Economics, First Class, University of London. He is currently a candidate for CFA – level III.

### ACUITY PARTNERS (PRIVATE) LIMITED

#### **Shehan Cooray – Senior Vice President – Corporate Finance**

Shehan joined Acuity from HNB, where he worked in the Corporate Finance Division of the Bank and was involved in numerous equity & debt capital raising transactions. Notable transactions which he has worked on include the GDR offering on the Luxembourg Stock Exchange by HNB and numerous IPO's and Private Placements including Textured Jersey, Vallibel One and Hemas Holdings. He has over 9 years' experience in finance including company valuations & advisory, securities placement and structured finance.

Before joining HNB, Shehan has worked as an analyst at Fitch Ratings Lanka, the local affiliate of Fitch Inc., focusing primarily on Corporates and Structured Finance. He has covered a wide range of industry sectors including telecommunications, conglomerates and commodities.

Shehan has a Bachelor of Science degree in Development Economics with First Class Honours from the University of London, UK and a Master of Science in Corporate & International Finance from the University of Durham, UK.

#### **Amani Ranaweera – Assistant Vice President – Corporate Finance**

Amani has over 3 years' experience in auditing, management consultancy & taxation and she has worked as a Financial Analyst at the Distilleries Corporation of Sri Lanka (DCSL) for over a year, prior to joining Acuity Partners in 2011.

Amani is a member of the Chartered Institute of Management Accountants (CIMA) UK, a member of the Institute of Chartered Accountants of Sri Lanka (ICASL) and is an affiliate of the Association of Chartered Certified Accountants (ACCA), UK. She has a Bachelor of Science degree in Banking & Finance from the University of London – London School of Economics and Political Science, with First Class Honours and a Master of Science degree in Finance from the University of Liverpool, with a distinction.

Amani has over 4 years' experience in valuations, restructuring and advisory. She is currently working on equity raising and restructuring projects, while she has completed the IPO for Amana Bank and advisory projects for clients in the tourism & service sectors.

#### **PEOPLES BANK INVESTMENT BANKING UNIT**

##### **D Pubudu Champike – Chief Manager**

Pubudu Champike is a CFA Charterholder and an associate member of both the Institute Chartered Accountants of Sri Lanka and the Institute of Bankers of Sri Lanka. He is also equipped with a Diploma in Treasury, Investment and Risk Management from the Institute of Bankers of Sri Lanka and holds ACI dealing certificate. He obtained his B.Sc. Business Administration (Special) Degree with a first class in Financial Management from the University of Sri Jayawardenepura in the year 2000 and completed his Master of Business Administration from the Postgraduate Institute of Management.

He joined to the People's Bank as a Management Trainee in 2002 and counts over 10 years of experience in Treasury Management. In 2011, he joined the Investment banking unit. He has been instrumental in arranging, structuring and the marketing of the landmark securitization and the debenture transactions that brought wide acclaim to the PBIBU.

##### **Lakmal Jayarathne – Investment Analyst**

Lakmal Jayarathne is an Associate member of Chartered Management Accountant UK and a Chartered Global Management Accountant. He obtained his Master of Business Administration from Federation University of Australia in 2012 and holds a Diploma in Investment & Portfolio Management from Institute of Bankers of Sri Lanka. Further he is an Associate member of Institute of Bankers of Sri Lanka.

He started his career as a Regional Finance Coordinator attached to the People's Bank finance Department and moved to Treasury Unit of the bank in 2009. In 2011, he joined the Investment banking unit and contributed to significant financial market transactions which were handled by the People bank IBU.

## 9.0 DISCLAIMER

The information, forecasts, analyses, assumptions and opinions contained herein have been compiled or arrived at solely based on information provided to the Joint Managers by the Client/PIL. Such information has not been independently verified and no guarantee, representation or warranty, expressed or implied is made as to its accuracy, completeness or correctness. Nothing contained in this Presentation Material is, or shall be relied upon as, a promise or representation by the Joint Managers. All such information is subject to change without notice and such changes could be due to unforeseen circumstances. This Presentation Material is for information purposes only and does not purport to be a complete description of the subject matter presented herein.

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Accordingly, the Joint Managers shall not be liable for any loss or damage howsoever arising as a result of any person acting or refrain from acting in reliance on any information, forecast analysis and opinion contained herein.

The recipients of this Presentation Material and/or Investors are expected to carry out their own independent evaluations taking into consideration macro-economic variables and other relevant conditions.

The valuation presented herein is valid for a period of three months (03) from the date of this Report i.e. October 14, 2015, however, subject to there being no material changes to the parameters impacting operations of PIL.