

28th February 2019

AIA INSURANCE LANKA PLC

CONSOLIDATED INDEPENDENT ADVISOR'S REPORT

Prepared by



CAPITAL ALLIANCE PARTNERS LIMITED

Level 05, Millennium House, 46/58, Nawam Mawatha, Colombo 02,
Sri Lanka

This Report is for the use of the Board of Directors of AIA Insurance Lanka PLC for the purpose set out in Background of the Assignment on page 4 of this Report and should not be used for any other purpose.

Neither all nor part of the contents of this Report shall be disseminated to regulatory bodies and/or the public, through advertising, public relation, news, sales or any other form of dissemination without prior approval of Capital Alliance Partners Limited.

Legal Notice

This Report has been prepared by Capital Alliance Partners Limited (CAL) to provide an independent opinion on the Offer Price pertaining to the delisting of AIA Insurance Lanka PLC.

This Report relies upon discussions with the directors of AIA Insurance Lanka PLC, information and documents compiled by and provided to CAL by AIA Insurance Lanka PLC and its representatives. CAL has relied solely on reported information such as Annual Reports provided by AIA Insurance Lanka PLC and not examined any other source of information including information on AIA Insurance Lanka PLC that is publicly available. This information was adequate to facilitate an informed view of the offer and to form a reasonable basis for the opinion.

This Report is provided subject to the following assumption and qualification:

AIA Insurance Lanka PLC has made available to CAL all material public information in its possession or known to it in relation to the business operations of AIA Insurance Lanka PLC, and that all information so provided is up to date and that AIA Insurance Lanka PLC has not withheld any material public information;

CAL has carried out its own analysis based on historical operational results and other publicly available information in arriving at our assumptions. CAL has made an educated judgment in determining the assumptions used to the extent that they form a reasonable and reliable basis for the purpose of this assignment.

CAL has not undertaken any independent enquiries or audits to verify that the information provided is correct and has not carried out any type of audit of AIA Insurance Lanka PLC's records to verify that all material documentation has been provided.

The value recommendations made herein are valid as of the Valuation Date and a reasonable period of time thereafter, subject to there being no material changes to the operating environment of AIA Insurance Lanka PLC. The use of the value recommendations in this Report after the passage of six months from the Valuation Date is not recommended.

This Report is not intended as an offer document or solicitation for the sale of shares. The recipients of this Report must make their own independent decision regarding any investments made. CAL assumes no responsibility for any investment decisions made by investors based on information contained in this report.

Background to the Assignment

AIA Company Limited ("AIACO") in Hong Kong, as the effective major shareholder of AIA Insurance Lanka PLC ("AIASL") currently owns 97.16% of the Ordinary Voting Shares directly and indirectly acquired via transactions in years 2012 and 2013. The balance 2.84% shareholding of the company is distributed publicly among the public shareholders.

AIACO was planning to de-list AIASL from the Colombo Stock Exchange in order to be line with its group policies. AIACO made an exit offer of LKR 1,000 per share to the public shareholders of AIASL. The company held an Extraordinary General Meeting on 20 August 2018 to obtain shareholder approval for the aforesaid de-listing however the special resolutions for the proposed de-listing was not adopted by the shareholders of AIASL.

AIACO now intends to make a revised exit offer to the public shareholders of AIASL and to carry out the de-listing of the company from the official list of the Colombo Stock Exchange. CAL was mandated to provide an independent opinion on the fairness of the exit offer price and has prepared a summary report based on CAL's initial report dated 23 July 2018 to the Board of Directors of AIASL and an updated report on the same dated 28 February 2019 reflecting the latest published financial statements as at 31 December 2018 and the revised terms of the exit offer.

This report has been prepared to provide the readers an overview, comparison of the content and deviations of underlying parameters of the prior reports prepared. In order for readers to get a comprehensive understanding, the reported dated 28 February 2019 should be reviewed in conjunction with the valuation findings of CAL's report dated 23 July 2018 which is annexed herewith.

Please refer page no. 7 for CAL's updated report dated 28 February 2019 and the annexure on page no. 30 for an extract of the valuation findings of CAL's report dated 23 July 2018.

Executive Summary to the Shareholders of AIASL

Summary of Valuation Findings

AIA Company Limited made a revised exit offer of LKR 2,500 to the public shareholders of AIASL and CAL has been approached by AIASL to provide a fairness opinion on the revised exit offer price. For this purpose, CAL is of the view that the most appropriate method to gauge the Fair Market Value of the AIASL share price is to use PBV relative ratio.

The PBV relative generated a valuation of LKR 938 per AIASL share. Book value which primarily consists of constantly reprising policy liabilities and financial investments, are reflective of their fair market values and in addition to earnings via premiums and investment returns, account for a large portion of a company's income. However, as an additional measure of valuation, CAL has carried out a PER relative taking into consideration other selected pure life insurance comparables as the reference point. Due to significant one-off adjustments made to arrive at recurring earnings for FY18, CAL has omitted the spot PER as the resulting earnings-based valuation does not capture the true potential value of the company. The valuation findings however have been included in this report for completeness. Furthermore, CAL has considered the Net Asset Value though it does not however place much emphasis on this metric in evaluating the fair values of AIASL.

CAL's peer comparable group for AIASL includes other pure life insurance companies Union Assurance PLC (UAL), Janashakthi Insurance PLC (JINS) and Softlogic Life Insurance PLC (AAIC).

Shareholders should note that CAL provided a recommendation that the initial exit offer price of LKR 1,000 made by AIACO was also reasonable and fair to all public shareholders based on its report dated 23 July 2018.

The table below details out a summary of the valuation findings based on CAL's reports dated 23 July 2018 and its updated report dated 28 February 2019 based on the revised exit offer.

Valuation summary	Value per share as per report dated 28 Feb 2019	Premium/ Discount to the revised exit offer price (LKR 2,500)	Value per share based as per report dated 23 Jul 2018	Premium/ Discount to the initial exit offer price (LKR 1,000)
PBV relative (AIASL vs. peer comparables)	LKR 938	166%	LKR 721	39%
PER relative (3-year Average Earnings)	LKR 838	198%	LKR 751	33%
Net asset Value	LKR 608	311%	LKR 533	88%

It is important to note that market prices of the comparable peer companies to AIASL have increased significantly since CAL's initial report dated 23 July 2018 (i.e. UAL by 39%, AAIC by 65% and JINS by 21%).

Furthermore, due to the direction issued by the Insurance Regulatory Commission of Sri Lanka (IRCSL), life insurance companies' recorded one-off surpluses in their respective income statements as a result of changes in valuation method of insurance contract liabilities. In addition, all comparable peers recognized deferred tax assets by utilizing available brought forward tax losses.

The latest published financial statements as at 31 December 2018 of peer comparable companies' earnings were also adjusted significantly to eliminate any non-recurring implications as a result of the above-mentioned adjustments (i.e. UAL adjustments amounted to 34% of trailing twelve months earnings, AAIC adjustments amounted to 67% of trailing twelve months earnings and JINS adjustments amounted to 94% of trailing twelve months earnings. AIASL adjustments amounted to 95% of trailing twelve months earnings).

While the former has an implication on all valuations produced (i.e. PBV relative and PER relative), the latter specifically distorts the spot PER relative (AIASL vs. peer comparables)

Please refer figure 4.3 in the report dated 28 February 2019 for the respective adjustments to earnings.

CAL's Fairness Opinion on the Revised Exit Offer Price

CAL believes that the revised exit offer price of LKR 2,500 made by AIACO is reasonable and fair to all public shareholders and has considered the following factors in deriving its opinion.

1. The appropriateness of PBV relative in valuing insurance companies over other valuation methods highlighted in the table above for sake of completeness
2. Illiquidity of the share
3. Opportunity cost to minority shareholders
4. The return to shareholders since the previous offer was made as opposed to the return by the market

28th February 2019
(Valuation date: 28th February 2019)

AIA INSURANCE LANKA PLC

INDEPENDENT ADVISOR'S REPORT

Prepared by



CAPITAL ALLIANCE PARTNERS LIMITED

Level 05, Millennium House, 46/58, Nawam Mawatha, Colombo 02,
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Glossary of Terms and Abbreviations

AIA	AIA Group Limited
AIACO	AIA Company Limited
AIAHLL	AIA Holdings Lanka Limited
AIASL	AIA Insurance Lanka PLC
CAGR	Compound annual growth rate
CAL	Capital Alliance Partners Limited
Comps	Comparable Companies to AIA Insurance Lanka PLC
CSE	Colombo Stock Exchange
EGM	Extraordinary General Meeting
EPS	Earnings per Share
IRCSL	Insurance Regulatory Commission of Sri Lanka
LKR	Sri Lanka Rupee
NAV	Net Asset Value
PBV	Price to book value
PEG	Price to earnings to growth
PER	Price to earnings ratio
ROAE	Return on Average Equity
SEC	Securities & Exchange Commission of Sri Lanka
T/O	Turnover
TTM	Trailing Twelve Months
USD	US Dollar
The Assignment	Independent advisor's report on the revised exit offer made by AIA Company Limited to the Board of Directors of AIA Insurance Lanka PLC
The Board	The Board of Directors of AIA Insurance Lanka PLC
Fair Market Value / Fair Consideration	The expected price at which a willing seller and a willing buyer would conclude a transaction. This assumes that both parties to the transaction are informed of all relevant factors as at the date of the transaction and are undertaking the transaction

	without duress. Fair Market Value estimates rely principally on calculations of a range of fundamental values plus other relevant factors such as share liquidity/illiquidity, scarcity value, concept premium and/ or a control premium, as appropriate.
Ordinary Voting Shares	Ordinary Voting Shares of AIA Insurance Lanka PLC
The Offeror	AIA Company Limited
The Revised Exit Offer Price	LKR 2,500
Shareholders	Shareholders of AIA Insurance Lanka PLC
Valuation Date	28 February 2019

CAL believes that the offer price of LKR 2,500 per share made by AIA Company Limited IS FAIR & REASONABLE CONSIDERATION for AIA Insurance Lanka PLC investors and recommends shareholders to ACCEPT this offer.

1.0 Introduction

1.1 Executive Summary

AIA Insurance Lanka PLC ("AIASL") is in the process of delisting its shares listed on the Colombo Stock Exchange and has received listing exemptions from the Insurance Regulatory Commission of Sri Lanka on the basis that the ultimate holding/parent being listed on a foreign stock exchange. Effective major shareholder, AIA Company Limited has made a revised exit offer of LKR 2,500 to the public shareholders of AIASL and CAL has been approached by AIASL to provide a fairness opinion on the revised exit offer price.

For this purpose, CAL has used multiple methods of valuation to arrive at a range of values for the said share price but is of the view that the Price-to-Book Value method is the most appropriate valuation metric to be used in this instance. The P/BV relative generated a valuation of LKR 938 per AIASL share. Book value which primarily consists of constantly reprising policy liabilities and financial investments, are reflective of their fair market values and in addition to earnings via premiums and investment returns, account for a large portion of a company's income.

CAL's valuation methods produce a range of LKR 608 per share to 938 per share. Considering the appropriateness of each valuation method including other peer company specific factors and illiquidity of the AIASL's shares, CAL believes that the revised exit offer price of LKR 2,500 made by AIACO is reasonable and fair to all public shareholders.

Price-to-book ratio relatives

The P/BV multiple of 1.5x based on peer market capitalization weighted average of UAL, JINS and AAIC was multiplied by AIASL's net book value of LKR 608 per share as at 31 December 2018. This generated a valuation of LKR 938 per AIASL share. The revised exit offer price of LKR 2,500 amounts to a 166% premium to the P/BV Relative of LKR 938 per share.

Other methods

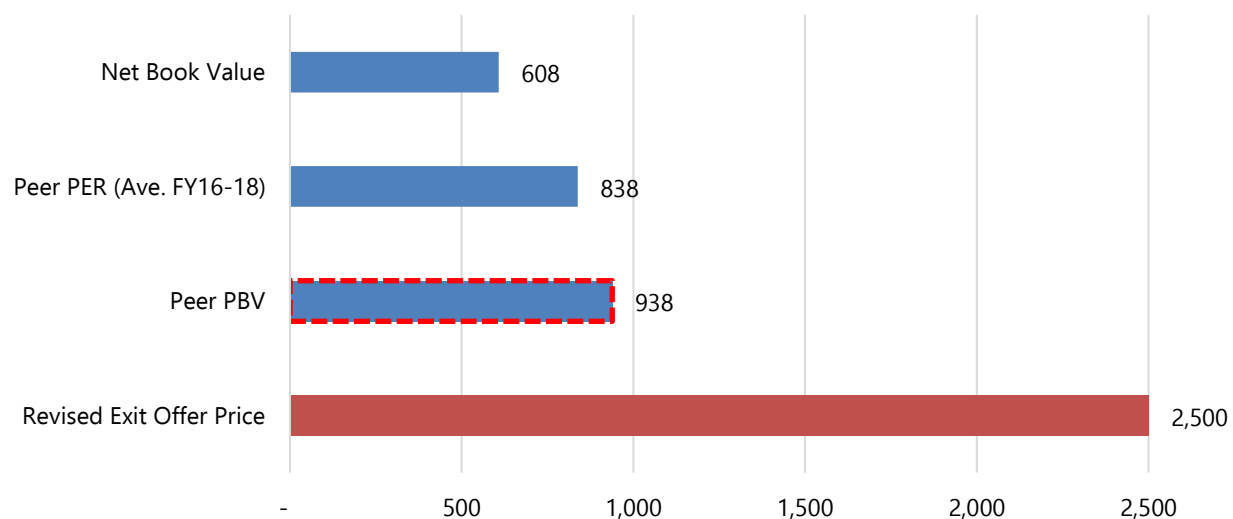
Other methods used include,

- a) Price to Earnings ratio based on the earnings for the 12-month period ending 31 December 2018 of AIASL and other pure life peer companies. This has been included in the report for completeness however due to the significant one-off adjustments made to arrive at recurring earnings, the resulting earnings-based valuation does not capture the true potential of the company.
- b) Price to Earnings ratio based on the average earnings for the past three financial years of AIASL and other pure life peer companies
- c) Price to Earnings ratio as per GIC Industry Group Statistics of the Insurance sector. As mentioned above in point a), it has been included in the report for completeness.

As per other considerations, in their initial offer document dated 26th February 2013 to purchase all the issued and the fully paid up ordinary voting shares of AIASL, AIA indicated the intention to delist AIASL from the CSE and has now received listing exemptions from the IRCSL. As and when this process is complete, any shareholder that does not accept the offer will have ownership of an unlisted entity with no liquidity.

However, CAL would like to state that these valuations are based purely on historical performance of the Company only.

Figure 1.1 Different Methods Generated Wide Valuation Ranges



1.2 Background to the Assignment

AIA Company Limited ("AIACO") in Hong Kong, as the effective major shareholder of AIA Insurance Lanka PLC ("AIASL") currently owns 97.16% of the Ordinary Voting Shares directly and indirectly acquired via transactions in years 2012 and 2013. The balance 2.84% shareholding of the company is distributed publicly among the public shareholders.

AIA is planning to de-list AIASL from the Colombo Stock Exchange in order to be line with its group policies. AIASL initially set out to delist on 20 July 2018 and sought approval from the shareholders for the proposed de-listing at an Extraordinary General Meeting held on 20 August 2018. However, the resolutions for the proposed de-listing was not adopted by the shareholders. AIASL by way of its announcement dated 28 February 2019 is re-seeking to obtain approval of its shareholders for the de-listing and now wishes to make a revised exit offer in order to provide an exit opportunity to the existing minority shareholders.

For this purpose, the Directors of AIASL seek an independent advisor and has approached CAL to conduct a Fairness Opinion and submit an Independent Valuation Report to the Board of Directors of AIASL. Accordingly, CAL provided the initial report dated 23 July 2018 to the Board of Directors of AIASL. However, the Board of AIASL has requested for an updated report, reflecting the latest published financial statements as at 31 December 2018 and the revised terms of the exit offer.

The updated report should be reviewed in conjunction with the initial report dated 23 July 2018. Please refer section 5.1 of the report for an analysis of the share price post the EGM held on 20 August 2018 for the purpose of obtaining shareholder approval for the proposed previous de-listing attempt of the company.

2.0 AIA Insurance Lanka PLC – Profile

AIA Insurance Lanka PLC (AIASL) is one of the fastest growing life insurers in the country with over 16% market share. The company was incorporated as a limited liability company in Sri Lanka on 12 December 1986 under the Companies Act No.17 of 1982 and re-registered on 24 August 2009 under the Companies Act No 07 of 2007. Since being incorporated the company has grown swiftly to become the 3rd largest life insurer in the nation.

AIASL underwrite life insurance risks, such as those associated with death and disability. AIASL has a strong distribution network covering the entire island which deploys over 3,500 Wealth Planners and operate over 125 branch offices.

Figure 2.1: Ratio Analysis of AIA Insurance Lanka PLC		
<i>31-Dec</i>	2017	2018
Profitability		
Premium retention ratio	97.4%	97.0%
Expense ratio	63.2%	69.4%
Net income ratio	65.7%	1.5%
Investment yield	12.2%	11.2%
ROAE	64.8%	1.1%
Leverage		
Total assets to equity	3.0x	2.9x
Premium to surplus ratio	0.6x	0.7x

Source: Company annual reports, CSE, CAL analysis

Figure 2.2 Annual Income Statement of AIA Insurance Lanka PLC		
<i>(Amounts in LKRm)</i>	2017	2018
Gross written premium	11,511	12,739
Gross reinsurance premium	(302)	(382)
Net written premium	11,208	12,357
Investment income	5,228	5,092
Fee income	495	777
Realized gains	72	80
Fair value losses	(30)	(194)
Other operating revenue	248	120
Total revenue	17,221	18,232
Net claims and benefits	(5,137)	(5,644)
Change in contractual liability	2,598	(2,405)
Change in contractual liability due to one off surplus	6,081	-

Net acquisition expenses	(1,786)	(1,979)
Operating and administrative expenses	(5,297)	(6,591)
Profit before tax	13,680	1,612
Income tax expense	(238)	2,498
Profit for the year	13,442	4,111
Basic earnings per share	437	134
Dividend per share	50	91

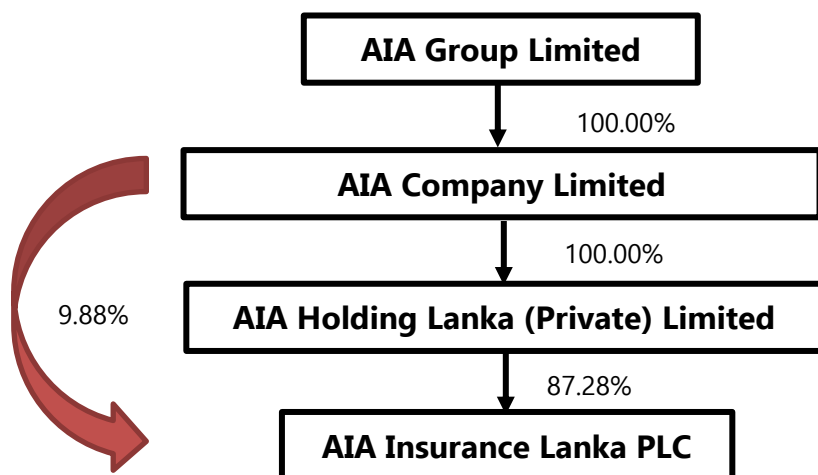
Source: Company annual reports

Figure 2.3 Balance Sheet of AIA Insurance Lanka PLC		
(Amounts in LKRm)	2017	2018
Assets		
Intangible assets	948	924
Property, plant and equipment	747	768
Financial assets	45,736	44,836
Policyholder and other loans	922	837
Deferred income tax asset	-	2,552
Reinsurance receivables	81	128
Trade receivables	474	403
Other assets	3,166	2,921
Other fund assets	235	296
Cash and cash equivalents	274	742
Total assets	52,584	54,407
Liabilities		-
Insurance liabilities	32,116	31,925
Retirement benefit obligations	222	217
Deferred income tax liability	6	-
Other fund liabilities	235	296
Reinsurance payables	91	190
Accruals and other payables	2,527	2,946
Current income tax liabilities	3	3
Deferred revenue	11	49
Bank overdraft	6	82
Total liabilities	35,219	35,707
Equity		-
Stated capital	512	512
Capital reserves	152	179
Restricted Regulatory Reserve	6,081	6,081

Revenue reserves	10,620	11,928
Total equity	17,365	18,700
Total equity and liabilities	52,584	54,407

Source: Company annual reports

Figure 2.4 Holding Structure of AIA Insurance Lanka PLC



Source: Company annual reports

3.0 The Offeror – AIA Company Limited

AIA Company Limited (AIACO) is a private limited liability company incorporated in Hong Kong in 1931. AIACO's ultimate parent company, AIA Group Limited, is the largest independent publicly listed Pan-Asian life insurance group in the world. It has operations across eighteen markets in Asia-Pacific; with wholly owned branches and subsidiaries in Hong Kong, Thailand, Singapore, Malaysia, China, Korea, the Philippines, Australia, Indonesia, Taiwan, Vietnam, New Zealand, Macau, Brunei, Cambodia, a representative office in Myanmar, a 49% joint-venture in India and a 97.16% effective ownership in a subsidiary in Sri Lanka.

4.0 Detailed Valuation Methodology and Summary

CAL prepared this report to determine the Fair Market Value per share of AIASL, and to make a recommendation on the revised exit offer submitted by AIACO.

The "*Fair Market Value*" is the expected price at which a willing seller and a willing buyer would conclude a transaction. This assumes that both parties to the transaction are informed of all relevant factors as at the date of the transaction and are undertaking the transaction without duress. Fair Market Value estimates rely principally on calculations of a range of fundamental values plus other relevant factors such as share liquidity/illiquidity, scarcity value, concept premium and/or a control premium, as appropriate.

Method	Definition
P/BV Relative	A P/BV ratio measures a company's market value to its book value. A company's fair value is determined by applying the P/BV ratio of its nearest peer or comparable peer group to the company's book value.
P/E Relative	A P/E ratio provides a factually-based, earnings derived comparative valuation. A company's fair value is determined by applying the P/E ratio of its nearest peer or a comparable peer group to the company's earnings.
Book or Net Asset Value	Book or liquidation value is based on balance sheet accounting values. This method ignores the market value of a share, and instead refers exclusively to balance sheet values (adjusted for known off balance sheet assets and liabilities).

Figure 4.1 Values derived using the valuation methods described

Figure 4.1 Valuation summary	Value per share	Premium/Discount to the exit offer price
PBV relative (AIASL vs. peer comparables) ¹	LKR 938	166%
PER relative (AIASL vs. peer comparables) ¹	LKR 66	3,665%
PER relative (Average Earnings – FY16 - FY18) ²	LKR 838	198%
PER relative (AIASL vs. Insurance Sector)	LKR 21	11,810%
Net asset Value	LKR 608	311%

Source: Company annual reports, CSE, CAL analysis

¹ Peers include UAL, JINS, AAIC

² Peers include UAL, AAIC. JINS includes a negative value and has been omitted accordingly.

4.1 Market value-based share price

As the net book value is an appropriate measure of insurance companies, CAL is of the view that the most appropriate method to gauge the Fair Market Value of the AIASL share price is to use PBV relative ratio. However, as an additional measure of valuation, CAL has carried out a PER relative taking into consideration other selected pure life insurance comparables as the reference point.

Furthermore, CAL has considered the Net Asset Value though it does not however place much emphasis on this metric in evaluating the fair values of AIASL.

CAL's peer comparable group for AIASL includes other pure life insurance companies Union Assurance PLC (UAL), Janashakthi Insurance PLC (JINS) and Softlogic Life Insurance PLC (AAIC).

4.1.1 Price-to-book ratio relatives (P/BV ratio)

Book value (net asset value) is one of the key metrics used in establishing insurance company stock valuations, as book values, which primarily consist of constantly reprising policy liabilities and financial investments, are reflective of their fair market values and in addition to earnings via premiums and investment returns, account for a large portion of a company's income.

The weighted average P/BV ratio of the comparable listed peers' is 1.5x. Based on the P/BV multiples of the comparable peers', applying the ratio to AIASL's NAV of LKR 608 per share as at 31 December 2018 gives a fair value of LKR 938 per share. The revised exit offer price of LKR 2,500 amounts to a 166% premium to the P/BV Relative of LKR 938 per share.

Figure 4.2 PBV Relative	Market Cap. (LKRm) ¹	Net Assets (LKRm) ²	PBV Ratio
AIA Insurance	47,815	18,700	2.6x
Union Assurance	18,851	13,672	1.4x
Janashakthi Insurance	6,071	9,191	0.7x
Softlogic Life	14,250	6,671	2.1x
Market cap. weighted average			1.5x
Intrinsic value per share			LKR 938

Source: CSE, Company Annual Reports, CAL analysis

¹ Market cap as at 28 February 2018

² NAV as at 31 December 2018

4.1.2 Price-to-earnings ratio relatives

Comparing PER relative is a much simpler and straight forward approach. However, this ratio does not take in to consideration the market expectations in respect of recurrent EPS growth trends; but offer a factual, earnings-based valuation. While we have considered multiple variations of the PER relative, one should put less emphasis in using the method due to its inherent limitations. This has been included in the report for completeness however due to the significant one-off adjustments made to arrive at recurring earnings, the resulting earnings-based valuation does not capture the true potential of the company. The AIASL share price based on PER relatives is on the lowest end of the valuation findings due to the low earnings of AIASL for the period ended 31 December 2018 after adjustments. The adjustments amounted to 95% of AIASL's earnings. CAL places P/BV as the primary valuation metric in this report.

Figure 4.3 Adjusted Income of peer companies for the period ending 31 December 2018

Figure 4.3 Peer Financials (LKRm)	AIA Insurance	Union Assurance	Janashakthi Insurance	Softlogic Life
Net income ¹	4,111	3,244	9,215	3,336
Change in contract liability due to one off surplus transfer	(1,422)	-	-	-
Profit for the period from discontinued operations	-	-	(7,341)	-
Income tax reversal due to recognition of deferred tax asset	(2,498)	(1,111)	(1,322)	(2,241)
Recurring net income	191	2,132	552	1,095

Source: Company annual reports, CSE, CAL analysis

¹ Earnings for the 12 months period ending 31 December 2018

Figure 4.4 summarizes the values derived using other pure life insurance companies' PER multiples whereas figure 4.5 uses the average earnings applicable for the past three financial years of AIASL and its peers. Figure 4.6 summarizes the values derived using the Insurance Sector PER as per the GICS Industry Group Statistics published by the CSE.

The weighted average P/E ratio of the comparable peers is 10.7x. Based on the P/E multiples of the comparable peers, applying the ratio to AIASL's recurring 12-month earnings gives a fair value of LKR 66 per share. The revised exit offer price of LKR 2,500 is at a 3,665% premium to the PER Relative of LKR 66 per share.

Figure 4.4 Detailed PER relative using peer comparables

Figure 4.4 PER Relative	Market Cap. (LKRm)¹	Recurring Earnings (LKRm)²	PER Ratio
AIA Insurance	47,815	191	250.4x
Union Assurance	18,851	2,132	8.8x
Janashakthi Insurance	6,071	552	11.0x
Softlogic Life	14,250	1,095	13.0x
Market cap. weighted average*			10.7x
Intrinsic value per share			LKR 66

Source: CSE, Company Annual Reports, CAL analysis

¹ Market cap as at 28 February 2019

² Adjusted earnings for the 12 months ending 31 December 2018

* It is important to note that peer comparable companies' earnings were adjusted to reflect recurring earnings. Due to the direction issued by the IRCSL, life insurance companies recorded one-off surpluses in their respective income statements in 2017 due to the change in valuation method of insurance contract liabilities. AIASL recorded part of this surplus in the first quarter of FY18. In addition, all peers recognized deferred tax assets by utilizing available brought forward tax losses. Accordingly, utilizing the adjusted earnings, which reflect company specific factors, could result in higher PER ratios. The respective adjustments to earnings are disclosed in figure 4.3 above.

The following table uses the average earnings for the past three financial years of AIASL and its peers in order to normalize the significant movement in earnings in the past year due to drastic changes in interest rates. The weighted average P/E ratio of the comparable peers as per this method is 9.6x and the resultant share price is LKR 838. The revised exit offer price of LKR 2,500 amounts to a 198% premium to the P/E Relative of LKR 838 per share.

CAL has omitted JINS from the peer comparables in calculating the PER relative using average earnings for FY16 – FY18 as the net profit for the 12-month period ending 31 December 2017 indicates a negative

value when adjusted for the one-off surplus and the profit for the period from discontinued operations of the general insurance arm.

Figure 4.5 Detailed PER relative using average earnings from FY16 to FY18 of peer comparables

Figure 4.5 PER Relative	Market Cap. (LKRm)¹	Average Earnings (LKRm)²	PER Ratio
AIA Insurance	47,815	2,687	17.8x
Union Assurance	18,851	2,482	7.6x
Janashakthi Insurance	6,071	nm	nm
Softlogic Life	14,250	1,166	12.2x
Market cap. weighted average			9.6x
Intrinsic value per share			LKR 838

Source: CSE, Company Annual Reports, CAL analysis

¹ Market cap as at 28 February 2019

² Adjusted average earnings from FY16 to FY18

The following table uses the Insurance Sector Index as per the Colombo Stock Exchange (GICS Industry Group Statistics) and the 12 months earnings of AIASL for the period ending 31 December 2018. However, it should be noted that the index is a reflection of all Life, General and Composite Insurers and therefore the value based on the Sector PER is included in this report only to provide an overall understanding of how AIASL's value per share compares to the entire insurance sector. The revised exit offer price of LKR 2,500 amounts to a 11,810% premium to the P/E Relative of LKR 21 per share.

Figure 4.6 PER relative using Insurance Sector Index

Figure 4.6 PER Relative	Insurance sector
PER multiple ¹	3.4x
Intrinsic value per share	LKR 21
Revised Exit Offer Price premium	11,810%

Source: CSE, Company Annual Reports, CAL analysis

¹ As per CSE report dated 28 February 2019

4.1.3 Net Asset Value

CAL has taken into consideration the Net Asset Value as liquidation metric for AIASL in order to evaluate the balance amount after subtracting total liabilities from the company's total assets. If AIASL were to liquidate as at a particular date, this is the amount to be settled to all equity holders of the company. As at 31 December 2018, AIASL's Net Asset Value per share is LKR 608.

CAL does not however recommend the use of liquidation value to ascertain the fair value of AIASL as this amount does not take in to consideration the going concerns of the company. The liquidation value is included in the report for completeness.

5.0 Other Considerations

5.1 Increase in Share Price subsequent to the EGM held on 20 August 2018

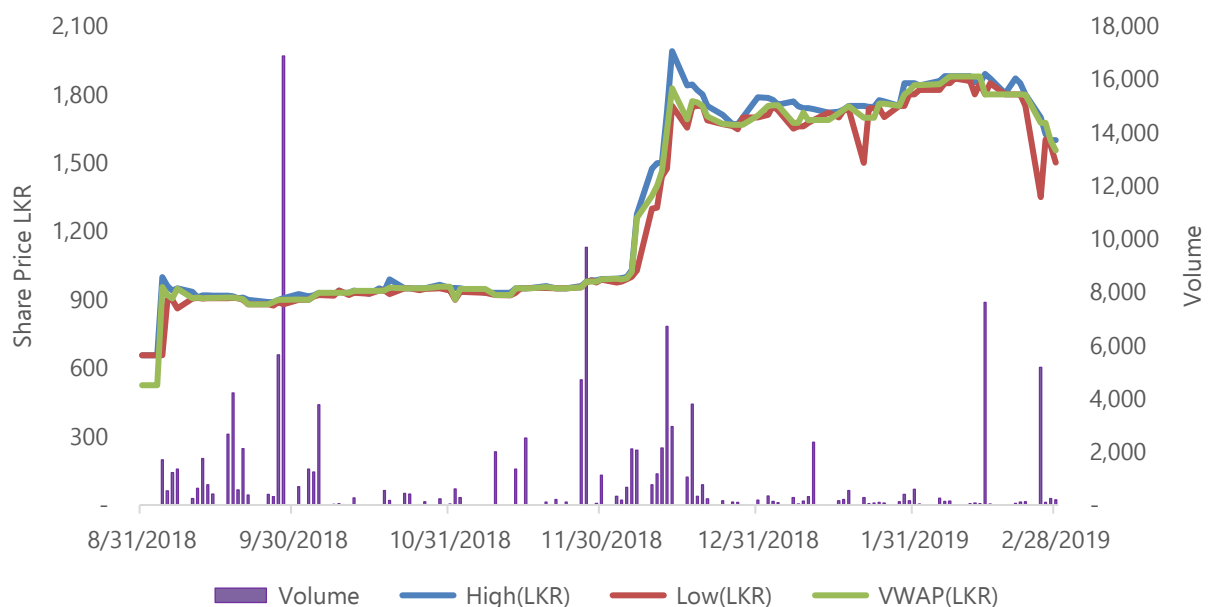
An EGM was convened on 20 August 2018 for the purpose of obtaining shareholder approval for the proposed de-listing of the company. However, the said resolutions pertaining to the proposed de-listing was not adopted by the shareholders at the said EGM. Immediately upon the lifting of the trading suspension on 31 August 2018, the share price of AIASL traded at levels closer to the initial exit offer price of LKR 1,000 made by AIACO and eventually as high as LKR 1,990 per share. This is solely due to the presence of a willing buyer at an offer price of LKR 1,000 and above as well as investors/ shareholders who expect to capitalize on the opportunity of a higher exit offer price. The table below indicates the share volume that has been traded post the de-listing announcement and the convergence of the volume weighted share price towards the initial de-listing offer price of LKR 1,000.

Figure 5.1 Share Trading prior to the EGM and post EGM

Prior to de-listing announcement and trading suspension

Date	High	Low	VWAP	Volume	Turnover (LKR)
20 Jul 2018	530	528	525	29	15,360

Market performance of AIA from 31st August 2018 to 28th February 2019



Source: CSE

Post de-listing announcement and trading suspension

Period	High	Low	VWAP	Total Volume	Total Turnover (LKR)
31 Aug 2018 – 28 Feb 2019	1,990	657	1,305	120,615	144,086,826

5.2 Liquidity risk for minority shareholders of AIA Insurance Lanka PLC

AIA indicated in its offer document dated 26th February 2013 to purchase all the issued and the fully paid up ordinary voting shares of AIASL not directly or indirectly held by AIA, and its intention to de-list AIASL provided AIASL satisfies all legal and regulatory requirements. This would enable AIASL to be in line with AIA's operating model. AIA further highlighted in the offer document dated 26th February 2013 the below points, which could affect minority shareholders

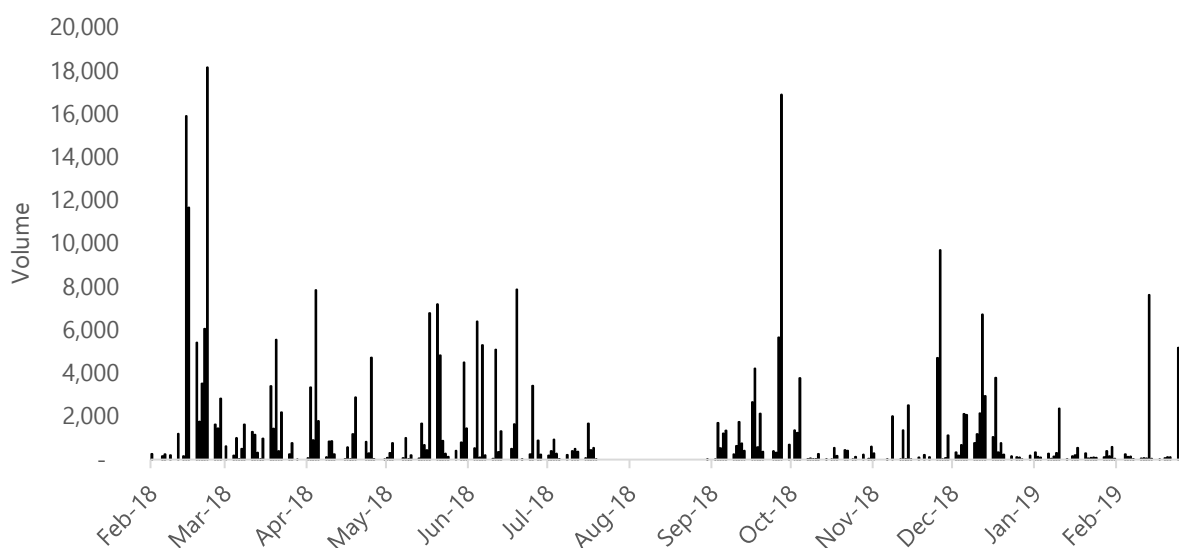
1. Reduction in dividend pay-out at AIASL in order to reinvest available excess cash flows in the business to support the growth plans of the company
2. Further capital infusion into the company to support expansion thus resulting in the dilution of minority stakeholders who do not take up any pro-rata rights entitlements in future equity rights issues

CAL believes that it is in the best interest of the public shareholders of AIASL to accept the revised exit offer since declining the revised exit offer would result in the said shareholders having to hold shares of an unlisted company post the de-listing (should the shareholders vote in favor of the delisting at the EGM) thus limiting their exit options.

5.3 The revised exit offer is at a 49% premium to the three-month weighted average AIASL share price of LKR 1,672

The daily trading data for the three months period ending 28 February 2019 as per the CSE has been taken into consideration as an additional valuation metric. This results in three-month weighted average share price of LKR 1,672. The revised exit offer price of LKR 2,500 amounts to a 49% premium to the three-month weighted average share price of LKR 1,672 per share.

Figure 5.2 Daily trading volumes for AIA Insurance Lanka PLC for 12-month period ending 28 February 2019



Source: CSE

Figure 5.3 Trading data for AIA Insurance Lanka PLC for 12-month period ending 28 February 2019

Year	Month	High	Low	VWAP	Average Daily Volume (Shares)	Average Daily Turnover (LKR)
2019	February	1,890	1,350	1,752	802	1,372,091
	January	1,850	1,500	1,728	307	531,296
2018	December	1,990	975	1,545	1,290	1,992,628
	November	991	900	962	1,340	1,286,684
	October	989	900	926	495	458,154
	September	999	657	906	2,197	1,989,243
	August	657	657	525	8	5,252
	July	530	510	520	429	222,667
	June	545	502	523	1,974	1,033,385
	May	544	407	476	1,324	617,905
	April	445	388	418	1,473	613,831
	March	400	335	375	1,140	427,880
	February	530	335	447	4,341	1,929,895

Source: CSE

5.4 The revised exit offer is at a 26% premium to the highest price of LKR 1,990 per share and at a 646% premium to the lowest price of LKR 335 per share as per the trading data for the past 12 months

The daily trading data for the 12 months period ending 28 February 2019 as per the CSE has indicated a highest price of LKR 1,990 and a lowest price of LKR 335 per share. The revised exit offer price of LKR 2,500 amounts to a 26% premium to the highest price of LKR 1,990 per share and a 646% premium to the lowest price of LKR 335 per share. Please note the highest price of LKR 1,990 is skewed due to trading activity of investors/shareholders as disclosed in Section 5.1.

5.5 Investor have gained a return of 43% since the initial offer in February 2013

All investors who opted to hold on to their shares in February 2013 have since made a significant above market return on AIASL shares. If the revised exit offer price of LKR 2,500 is exercised prior to the delisting from the CSE, the said shareholder will be making a 43% return on their shareholding in AIASL, as opposed to the 0.2% compound annual growth rate produced by the All Share Price Index of the CSE.

6.0 Appendix – Definition of Key Ratios

Premium retention ratio	$\text{Net earned premium} / \text{Net written premium}$
Claims ratio	$\text{Total claims and transfer to life insurance fund} / \text{Net earned premium}$
Expense ratio	$\text{Total acquisition and operating expenses} / \text{Net earned premium}$
Combined ratio	$\text{Claims ratio} + \text{Expense ratio}$
Net income ratio	$\text{Net income after tax} / \text{Net written premium}$
Investment yield	$\text{Investment income} / \text{Average Investments}$
Effective tax rate	$\text{Income tax expense} / \text{Profit before tax}$
ROAE	$\text{Net income after tax} / \text{Average equity invested}$
Premium to surplus ratio	$\text{Net earned premium} / \text{Net asset}$
Solvency ratio	$\text{Value of admissible assets} / \text{Value of liabilities}$

Annexure – Extract of Valuation Workings from the report dated 23 July 2018

Detailed Valuation Methodology and Summary

The "*Fair Market Value*" is the expected price at which a willing seller and a willing buyer would conclude a transaction. This assumes that both parties to the transaction are informed of all relevant factors as at the date of the transaction and are undertaking the transaction without duress. Fair Market Value estimates rely principally on calculations of a range of fundamental values plus other relevant factors such as share liquidity/illiquidity, scarcity value, concept premium and/or a control premium, as appropriate.

Method	Definition
P/BV Relative	A P/BV ratio measures a company's market value to its book value. A company's fair value is determined by applying the P/BV ratio of its nearest peer or comparable peer group to the company's book value.
P/E Relative	A P/E ratio provides a factually-based, earnings derived comparative valuation. A company's fair value is determined by applying the P/E ratio of its nearest peer or a comparable peer group to the company's earnings.
Book or Net Asset Value	Book or liquidation value is based on balance sheet accounting values. This method ignores the market value of a share, and instead refers exclusively to balance sheet values (adjusted for known off balance sheet assets and liabilities).

Figure 1.1 Values derived using the valuation methods described

Figure 1.1 Valuation summary	Value per share	Premium to the exit offer price
PBV relative (AIASL vs. peer comparables) ¹	LKR 721	39%
PER relative (AIASL vs. peer comparables) ²	LKR 971	3%
PER relative (Average Earnings – FY15 - FY17)	LKR 751	33%
PER relative (AIASL vs. Insurance Sector)	LKR 657	52%
Net asset Value	LKR 533	88%

Source: Company annual reports, CSE, CAL analysis

¹ Peers include UAL, JINS, AAIC

²Peers include UAL, AAIC

1.1 Market Value-based share price

As the net book value is a very appropriate measure of insurance companies, CAL is of the view that the most appropriate method to gauge the Fair Market Value of the AIASL share price is to use PBV-relative ratio. However, as an additional measure of valuation, CAL recommends the PER relative taking into consideration other selected pure life insurance comparables as the reference point.

Furthermore, CAL has considered the Net Asset Value though it does not however place much emphasis on this metric in evaluating the fair values of AIASL.

CAL's peer comparable group for AIASL includes other pure life insurance companies Union Assurance PLC (UAL), Janashakthi Insurance PLC (JINS) and Softlogic Life Insurance PLC (AAIC).

1.1.1 Price-to-book ratio relatives (P/BV ratio)

Book value (net asset value) is one of the key metrics used in establishing insurance company stock valuations, as book values, which primarily consist of constantly reprising policy liabilities and financial investments, are reflective of their fair market values and in addition to earnings via premiums, investment returns account for a large portion of a company's income.

The weighted average P/BV ratio of the comparable listed peers' is 1.4x. Based on the P/BV multiples of the comparable peers', applying the ratio to AIASL's NAV of LKR 533 per share as at 31 March 2018 gives a fair value of LKR 721 per share. The offer price of LKR 1,000 amounts to a 39% premium to the P/BV Relative of LKR 721 per share.

Figure 1.2 PBV Relative	Market Cap. (LKRm) ¹	Net Assets (LKRm) ²	PBV Ratio
AIA Insurance	16,150	16,395	1.0x
Union Assurance	12,670	11,103	1.1x
Janashakthi Insurance	4,984	6,950	0.7x
Softlogic Life	9,000	4,501	2.0x
Market cap. weighted average			1.4x
Intrinsic value per share			LKR 721

Source: CSE, Company Annual Reports, CAL analysis

¹ Market cap as at 23 July 2018

² NAV as at 31 March 2018

1.1.2 Price-to-earnings ratio relatives

Comparing PER relative is a much simpler and straight forward approach. However, this ratio does not take in to consideration the market expectations in respect of recurrent EPS growth trends; but offer a factual, earnings-based valuation. While we have considered multiple variations of the PER relative, one should put less emphasis in using the method due to its inherent limitations.

Figure 1.3 Adjusted Income of peer companies for the period ending 31 March 2018

Figure 1.3 Peer Financials (LKRm)	AIA Insurance	Union Assurance	Janashakthi Insurance	Softlogic Life
TTM net income ¹	8,902	7,580	10,686	2,477
Change in contract liability due to one off surplus transfer	(1,422)	(3,382)	(1,796)	(798)
Gain from the disposal of subsidiary	-	-	(9,199)	-
Recurring net income	7,480	4,198	(308)	1,679

Source: Company annual reports, CSE, CAL analysis

¹ Earnings for the 12 months period ending March 31 2018

Figure 1.4 summarizes the values derived using other pure life insurance companies' PER multiples whereas figure 1.5 uses the average earnings applicable for the past three financial years of AIASL and its peers and figure 1.6 summarizes the values derived using the Insurance Sector PER as per the GICS Industry Group Statistics published by the CSE.

CAL has omitted JINS from the peer comparables in calculating the PER relative as the net profit for the 12-month period ending 31 March 2018 indicates a negative value when adjusted for the one-off surplus and the gain arose from the recent sale of its general insurance arm.

Accordingly, the weighted average P/E ratio of the comparable peers is 4.0x. Based on the P/E multiples of the comparable peers, applying the ratio to AIASL's recurring TTM earnings gives a fair value of LKR 971 per share. The offer price of LKR 1,000 amounts to a 3% premium to the PER Relative of LKR 971 per share.

Figure 1.4 Detailed PER relative using peer comparables

Figure 1.4 PER Relative	Market Cap. (LKRm)¹	Recurring Earnings (LKRm)²	PER Ratio
AIA Insurance	16,150	7,480	2.2x
Union Assurance	12,670	4,198	3.0x
Janashakthi Insurance	4,984	(308)	n/a
Softlogic Life	9,000	1,679	5.4x
Market cap. weighted average			4.0x
Intrinsic value per share			LKR 971

Source: CSE, Company Annual Reports, CAL analysis

¹ Market cap as at 23 July 2018

² Adjusted earnings for the trailing 12 months ending 31 March 2018

The following table uses the average earnings for the past three financial years of AIASL and its peers in order to normalize the significant movement in earnings in the past year due to drastic changes in interest rates. The weighted average P/E ratio of the comparable peers as per this method is 8.5x and the resultant share price is LKR 751. The offer price of LKR 1,000 amounts to a 33% premium to the P/E Relative of LKR 751 per share.

Figure 1.5 Detailed PER relative using average earnings from FY15 to FY17 of peer comparables

Figure 1.5 PER Relative	Market Cap. (LKRm)¹	Average Earnings (LKRm)²	PER Ratio
AIA Insurance	16,150	2,725	5.9x
Union Assurance	12,670	2,147	5.9x
Janashakthi Insurance	4,984	312	16.0x
Softlogic Life	9,000	1,132	7.9x
Market cap. weighted average			8.5x
Intrinsic value per share			LKR 751

Source: CSE, Company Annual Reports, CAL analysis

¹ Market cap as at 23 July 2018

² Adjusted average earnings from FY15 to FY17

The following table uses the Insurance Sector Index as per the Colombo Stock Exchange (GICS Industry Group Statistics) and the 12 months earnings of AIASL for the period ending 31 March 2018. However, it should be noted that the index is a reflection of all Life, General and Composite Insurers and therefore the value based on the Sector PER is included in this report only to provide an overall understanding of how AIASL's value per share compares to the entire insurance sector. The offer price of LKR 1,000 amounts to a 52% premium to the P/E Relative of LKR 657 per share.

Figure 1.6 PER relative using Insurance Sector Index

Figure 1.6 PER Relative	Insurance sector
PER multiple ¹	2.7x
Intrinsic value per share	LKR 657
Offer Price premium	52%

Source: CSE, Company Annual Reports, CAL analysis

¹ *Trailing PER as at 23 July 2018*

1.1.3 Net Asset Value

CAL has taken into consideration the Net Asset Value as liquidation metric for AIASL in order to evaluate the balance amount after subtracting total liabilities from the company's total assets. If AIASL were to liquidate as at a particular date, this is the amount to be settled to all equity holders of the company. As at 31 March 2018, AIASL's Net Asset Value per share is LKR 533.

CAL does not however recommend the use of liquidation value to ascertain the fair value of AIASL as this amount does not take in to consideration the going concerns of the company. The liquidation value is included in the report for completeness.

AIA Insurance Lanka PLC.

Review of Ordinary Share Valuation of AIA Insurance Lanka PLC as at February 28, 2019

Reliance Restricted

01 March 2019



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Reliance Restricted

March 01, 2019

Board of Directors
AIA Insurance Lanka PLC
AIA Tower,
92, Dharmapala Mawatha,
Colombo 07, Sri Lanka.

Dear Sirs

Review of Ordinary Share Valuation of AIA Insurance Lanka PLC as at February 28, 2019

In accordance with your instructions, we have performed the work set out in our Engagement Agreement dated October 3, 2018 in connection with the Review of Ordinary Share Valuation of AIA Insurance Lanka PLC as at February 28, 2019. (hereinafter mentioned as “AIA”) prepared by Capital Alliance Partners Limited based on the information made available to us by the management of AIA and take pleasure forwarding you the report in this regard.

Scope and nature of our work

Our terms of reference and scope of work with regard to the assignment would be to perform a Review of Ordinary Share Valuation of AIA Insurance Lanka PLC based on the relative market approach as at February 28, 2019 [the “valuation date”] carried out by Capital Alliance Partners Limited, for the purpose of producing to the Securities & Exchange Commission [SEC] of Sri Lanka and Colombo Stock Exchange [“CSE”].

Purpose of our report and restrictions on its use

This report was prepared on the specific instructions of AIA Insurance Lanka PLC (Hereinafter mentioned as “AIA”) solely to perform a Review of Ordinary Share Valuation of AIA Insurance Lanka PLC carried out by Capital Alliance Partners Limited, for the purpose of producing to the Securities & Exchange Commission of Sri Lanka and Colombo Stock Exchange (the “Purpose”). If unauthorized persons choose to rely upon any of the contents of this report, they may do so at their own risk.

Except for the Purpose, this report in whole or in part may not, except with the expressed written permission of EYTAS, be reproduced or distributed or commercially exploited in any material form by any means. Further, when using the report for the Purpose, the content of the report shall not be disseminated or extracted in parts. Wherever the report content is referred to, the report shall be published in its entirety.

All information we have received is the responsibility of the management of AIA. We have not sought to establish the reliability of information given to us except as specifically stated in the report. This exercise does not constitute an audit and hence, no opinion is provided on such financial information.



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We have used publicly available information to perform the Review of Ordinary Share Valuation of AIA Insurance Lanka PLC.

Further, we wish to note the other limitations of our work undertaken as stated below:

- ▶ In carrying out this assignment, we have performed reasonable analysis and assessments that were possible and practical within the time available and as at the date of this report.
- ▶ Neither EYTAS nor any of its employees has a financial interest in the entity being appraised.
- ▶ No investigations of the titles of the properties have been made and the owner's claims to the properties have been assumed valid. No consideration has been given to liens or encumbrances, which may be against the properties. Therefore, no responsibility is assumed for matters of a legal nature.
- ▶ We, EYTAS, did not seek to verify the existence of any contingent liabilities relating to AIA.

This report is prepared on the specific instructions of the management of AIA for the use of the management solely for the purpose stated above and should not be used for any other purposes. Neither all nor part of the contents of this report shall be disseminated to the public, through advertising, public relation, news, sales or any other public media without prior approval of EYTAS.

The valuation results are depicted in the executive summary [page 6] of this report.

Management Representations

The contents of our report have been reviewed by the management of AIA Insurance Lanka PLC and have been acknowledged.

Yours faithfully,

A handwritten signature in black ink, appearing to be 'Amal', is written over a light blue horizontal line.

Director

**Dashboard**

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Abbreviations





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ASPI	All Share Price Index
CAL	Capital Alliance Partners Ltd
CSE	Colombo Stock Exchange
EPS	Earnings Per Share
EYTAS	Ernst & Young Transaction Advisory Services (Pvt.) Ltd
Latest Practicable Date	February 28, 2019
LKR	Sri Lanka Rupee
Ltd.	Limited
LTM	Latest Twelve Months
M.Cap	Market Capitalization
Mn	Million
NA	Not Applicable
NM	Not Meaningful
PBV	Price to Book-value
PE	Price to Earnings
PLC	Public Listed Company
Pvt	Private
SEC	Securities and Exchange Commission of Sri Lanka
Valuation Date	February 28, 2019
VWAP	Volume Weighted Average Price

2

Executive Summary

Value Conclusion





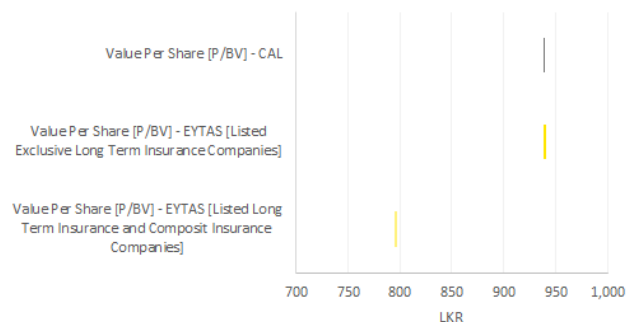
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Methodology	Category
Relative Market Approach [Multiple Based]	Primary Methodology
Cost Approach [NAV Based]	Secondary Methodology

Valuation Results - Relative Market Approach



Source: EYTAS

Implied PBV multiple was deemed most appropriate in concluding on a value per share based on relative market approach compared to an implied PE multiple as book values of long term insurance companies are revalued more frequently and therefore is a better representation of a fair value, whereas volatility in earnings inherent to long term insurance business limits the derivation of a sustainable EPS and thereby a sustainable PE multiple.

Value Conclusions

	February 28, 2019	Premium/(Discount) to the Revised Offer Price [LKR 2,500]
Value Per Share based on Relative Market Approach - CAL	LKR 938	166%
Value Per Share [P/BV] - EYTAS [Listed Exclusive Long Term Insurance and Composite Insurance Companies]	LKR 795	215%
Value Per Share [P/BV] - EYTAS [Listed Exclusive Long Term Insurance Companies]	LKR 938	166%
Net Asset Value Per Share	LKR 608	311%
Monthly Volume Weighted Average Price [As at February 28, 2019]	LKR 1756	42%

Source: EYTAS

- ▶ As per our review, the value per share based on relative market approach of listed exclusive long term insurance companies [Life insurance] stood at LKR 938 as at the valuation date of February 28, 2019. As such, the market capitalization weighted, peer price to book value multiple stood at 1.54x.
- ▶ The value per share based on relative market approach of listed exclusive long term insurance and composite insurance companies [Life and general insurance] stood at LKR 795 as at the valuation date of February 28, 2019. As such, the market capitalization weighted, peer price to book value multiple stood at 1.31x.
- ▶ The value conclusion by CAL based on relative market approach as at February 28, 2019 stood at LKR 938 per share.
- ▶ Based on the information provided to us by the management and review procedures carried out by us, nothing has come to our attention that causes us to believe that the value parameter and methodology used to conclude on the value parameter by CAL are not reasonable.
- ▶ Note that the above conclusion is based on assumptions governing relative market approach, where the variation in prospective cash flows and profit of peer companies were assumed to be similar, thus assuming the value per share derived based on relative market approach has reached the intrinsic value per share. In that regard, an appropriate methodology to estimate the intrinsic value per share [taking into consideration the company specific risks and characteristics in estimating the prospective cash flows and profit] of a long term insurance company could be further considered. However, our scope was limited to a review of valuation carried out by CAL as at February 28, 2019, based on relative market approach.

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Limitations





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General Limitations

- This report is prepared by Ernst & Young Transaction Advisory Services (Pvt) Ltd [hereinafter mentioned as EYTAS] on the specific instructions of the management of AIA Insurance Lanka PLC [Herein after mentioned as AIA] to perform a Review of Ordinary Share Valuation of AIA Insurance Lanka PLC as at February 28, 2019, for the purpose of producing to the Securities & Exchange Commission of Sri Lanka and Colombo Stock Exchange and should not be used for any other purpose. Neither all nor part of the contents of this report shall be disseminated to the public, through advertising, public relation, news, sales or any other public media without prior approval of EYTAS.
- This report is not intended as an offer document or solicitation for the sale of shares. The recipients of this report must make their own independent decision regarding the offer made. EYTAS assumes no responsibility for any investment decisions made by investors based on information contained in this report.
- EYTAS has not undertaken any independent enquiries or audits to verify that the information is correct and has not carried out any type of audit of AIA's records. No investigations of the titles of the properties have been made and the owner's claims to the properties have been assumed valid. No consideration has been given to liens or encumbrances, which maybe against the properties. Therefore, no responsibility is assumed for matters of a legal nature.
- A draft of this report was provided to the Board of Directors of AIA along with a request to confirm that there are no material errors or omissions in the report and that the assumptions and information in the report are factually accurate in so far as they relate to matters that are privy to the Directors in their capacity as members of the Board of the Company. Confirmation of these terms and ratification of the report by the Board have been provided in writing and has been relied on by EYTAS.
- The value parameters depicted herein are valid as of the Valuation Date and a reasonable period of time thereafter, subject to there being no material changes to the operating environment of AIA. The use of the value parameters in this report after the passage of six months from the Valuation Date is not recommended.
- In carrying out this assignment, we have performed a reasonable analysis and assessments that were possible and practical within the time available and as at the date of this report.
- The Review of Ordinary Share Valuation was carried out based on the Relative Market approach.
- Further, no responsibility is assumed for financial information obtained from publicly available sources [CSE annual reports, IBSL Publications] and is believed to be reliable.
- Neither EYTAS nor any of its employees has a financial interest in the entity being appraised.
- The fee for the preparation of this report is not contingent upon results reported.
- We, EYTAS, did not seek to verify the existence of any contingent liabilities relating to AIA.

4

Background to the Assignment





4 Background to the Assignment

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EYTAS was requested by Board of Directors of AIA Insurance Lanka PLC to perform a Review of Ordinary Share Valuation of AIA Insurance Lanka PLC as at February 28, 2019, for the purpose of producing to the Securities & Exchange Commission of Sri Lanka and Colombo Stock Exchange.

Terms of Reference

Our terms of reference and scope of work with regard to the assignment would be to carry out a Review of Ordinary Share Valuation carried out by Capital Alliance Partners Limited, as at the valuation date of February 28, 2019, for the purpose of producing to the Securities & Exchange Commission of Sri Lanka and Colombo Stock Exchange.

Our Deliverables

Our deliverables pertaining to the Review of Ordinary Share Valuation of AIA Insurance Lanka PLC as at February 28, 2019 would be a report (the 'Report') encompassing the following:

- Summary corporate information and current operations of the company
- Review of valuation methodologies
- Review of valuation approaches adopted by CAL
- Review of results obtained by CAL.

A background image showing the silhouettes of six people sitting around a long table in a modern office or conference room. Large windows in the background reveal a bright sunset or sunrise, with the sun low on the horizon, creating a warm, golden glow. The people are engaged in a meeting, with one person gesturing while speaking. The overall atmosphere is professional and collaborative.

5

AIA Insurance Lanka PLC

Corporate Information



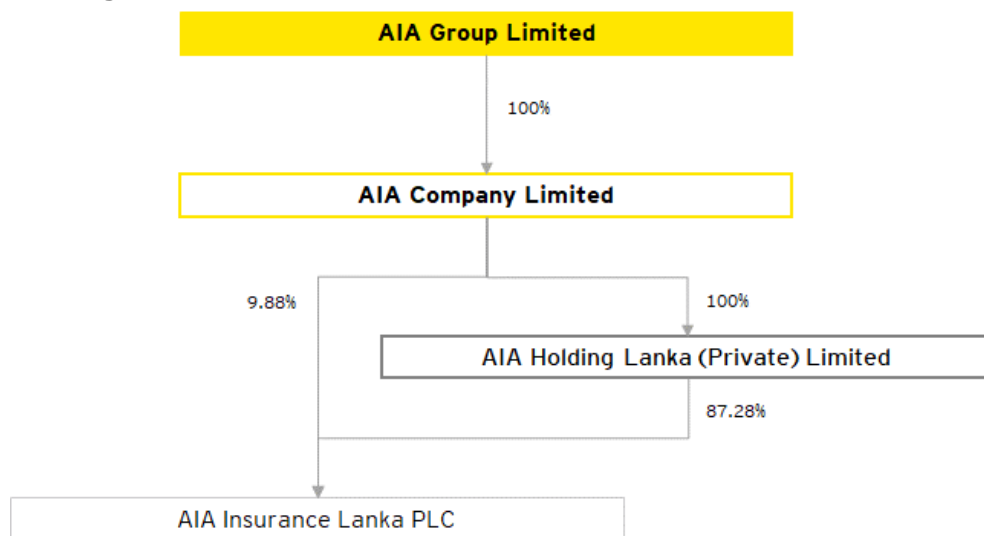
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Holding Structure



Investor Information

	2013	2014	2015	2016	2017	December 31, 2018
Return on net assets	12%	7%	5%	9%	88%	N/A
Net assets per share	149.1	158.9	207.1	174.5	367.0	608.1
Market price per share - 31 December	250.7	302.0	292.0	280.1	327.5	1,707.6
Basic earnings per share	6.0	8.6	9.9	16.6	239.4	N/A
Dividend per share	2.5	2.0	7.1	49.5	50.0	N/A
Dividend payout ratio	42%	23%	72%	298%	21%	N/A
Earnings yield	2%	3%	3%	6%	73%	N/A
Dividend yield	1%	1%	2%	18%	15%	N/A

Source: CSE

- ▶ AIA Insurance Lanka PLC is a public company with limited liability, incorporated in Sri Lanka on December 12, 1986 under the companies act no. 17 of 1982 and re-registered under the companies act no. 7 of 2007.
- ▶ AIA Company Limited based in Hong Kong owns an effective shareholding of 97.16% in AIA Insurance Lanka PLC.
- ▶ Percentage of shares held by the public - 2.84%
- ▶ A change in the valuation methodology from net premium valuation to gross premium valuation resulted in a one-off reduction in the insurance liability has lead to an increase in net asset value per share in 2016.

6

Valuation Results



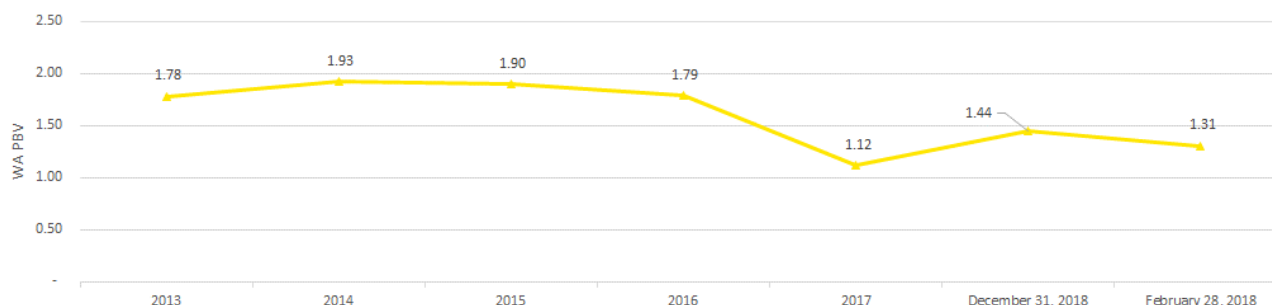


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Weighted average Peer price to book value [weighted based on market capitalization]



1. The historical implied PBV consists of exclusive long term insurance companies which used to operate in general insurance sector

Source: Annual Reports - CSE

Peer Multiple Screening

Peer Company	PBV Multiple					
	2013	2014	2015	2016	2017	PBV - Dec 31, 2018
Amana Takaful Life PLC				1.24	0.96	0.97
Arpico Insurance PLC			1.46	1.05	1.21	1.15
HNB Assurance PLC	1.24	1.73	1.63	1.09	0.95	1.15
Ceylinco Insurance PLC	1.98	1.81	1.68	1.45	1.12	1.15
Janashakthi Insurance PLC	1.02	1.62	1.16	0.99	0.76	0.74
Softlogic Life Insurance PLC	1.75	2.26	2.91	3.96	2.03	2.52
Union Assurance PLC	1.74	2.26	2.81	2.18	0.66	1.50
AIA Insurance Lanka PLC	1.68	1.90	1.41	1.61	0.89	2.81

Source: CSE

Screening Criteria

- ▶ The initial screening of peer companies was limited to the Sri Lankan insurance market due to varying macro factors/parameters such as insurance penetration, insurance density, demographics of consumers, cost of healthcare, regulatory framework etc. of the regional counterparts compared to Sri Lanka.
- ▶ The insurance sector of Sri Lanka consists of 26 companies, of which 12 companies are exclusively engaged in long term insurance, 12 in general insurance and 2 engaged in both.
- ▶ Furthermore, 10 companies are listed in the Colombo stock exchange, of which 7 are exclusively engaged in long term insurance, 2 in general insurance and Ceylinco Insurance PLC engaged in both.
- ▶ For the purpose of deriving a suitable peer multiple, we have considered all listed long term insurers excluding AIA Life [Refer table to the left].
- ▶ Implied PBV multiple was deemed most appropriate in concluding on a value per share based on relative market approach compared to an implied PE multiple as book values of long term insurance companies are revalued more frequently and therefore is a better representation of a fair value, whereas volatility in earnings inherent to long term insurance business limits the derivation of a sustainable EPS and thereby a sustainable PE multiple.
- ▶ Thus in deriving a suitable peer multiple, we have taken the weighted average PBV of the peer companies based on market capitalization.

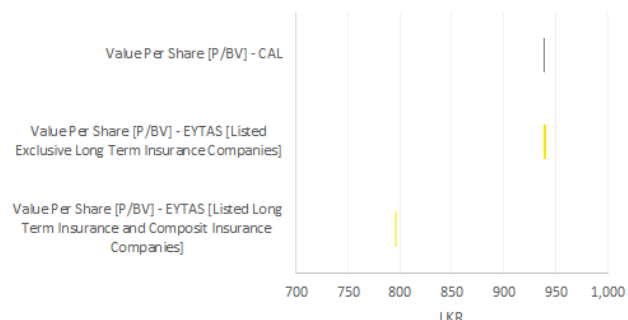


6 Valuation Results

Relative Market Approach

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Valuation Results - Relative Market Approach



Source: EYTAS

Value Conclusions

	February 28, 2019	Premium/(Discount) to the Revised Offer Price [LKR 2,500]
Value Per Share based on Relative Market Approach - CAL	LKR 938	166%
Value Per Share [P/BV] - EYTAS [Listed Exclusive Long Term Insurance and Composite Insurance Companies]	LKR 795	215%
Value Per Share [P/BV] - EYTAS [Listed Exclusive Long Term Insurance Companies]	LKR 938	166%

Source: EYTAS

- ▶ As per our review, the value per share based on relative market approach of listed exclusive long term insurance companies stood at LKR 938 as at the valuation date of February 28, 2019. As such, the market capitalization weighted, peer price to book value multiple stood at 1.54x.
- ▶ The value per share based on relative market approach of listed exclusive long term insurance and composite insurance companies stood at LKR 795 as at the valuation date of February 28, 2019. As such, the market capitalization weighted, peer price to book value multiple stood at 1.31x.
- ▶ The value conclusion by CAL based on relative market approach as at February 28, 2019 stood at LKR 938 per share.
- ▶ Based on the information provided to us by the management and review procedures carried out by us, nothing has come to our attention that causes us to believe that the value parameters concluded by CAL are not reasonable.
- ▶ Note that the above conclusion is based on assumptions governing relative market approach, where the variation in prospective cash flows and profit of peer companies were assumed to be similar, thus assuming the value per share derived based on relative market approach reflects the intrinsic value per share. In that regard, an appropriate methodology to estimate the intrinsic value per share [taking into consideration the company specific risks and characteristics in estimating the prospective cash flows and profit] of a long term insurance company, such as Embedded Valuation should be used to further validate a fair value for an ordinary share of AIA Insurance Lanka PLC as at February 28, 2019.



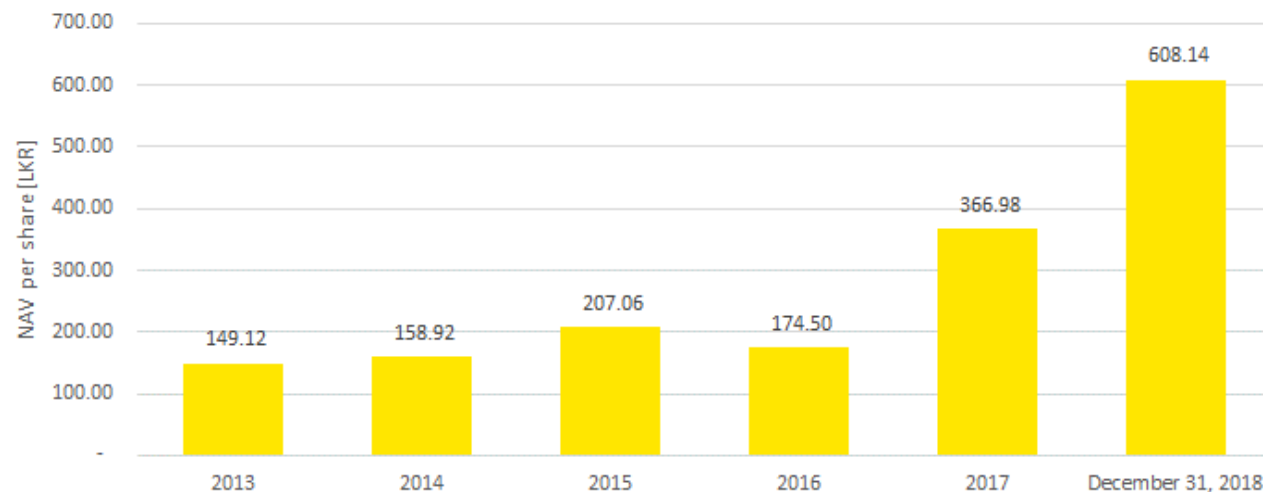
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Cost Approach

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Cost Approach - NAV per share



Source: CSE

- ▶ The value per share estimated using cost approach was based on the net asset value per share from the latest financials [as at December 31, 2018] published by AIA Insurance Lanka PLC as at the date of valuation [February 28, 2019].
- ▶ Thus the value per share based on Cost Approach stood at LKR 608.14 as at February 28, 2019.
- ▶ We have used the cost approach as a secondary valuation methodology to corroborate the value range concluded based on the relative market approach.



6 Valuation Results

Volume Weighted Average Price

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Volume Weighted Average Price

Monthly VWAP	LKR [Per Share]
High [6 month to February 28, 2019]	1,807
Low [6 month to February 28, 2019]	525
High [3 month to February 28, 2019]	1,807
Low [3 month to February 28, 2019]	960
As at February 28, 2019	1,756
Closing Price as at February 28, 2019	1,555

Source: CSE

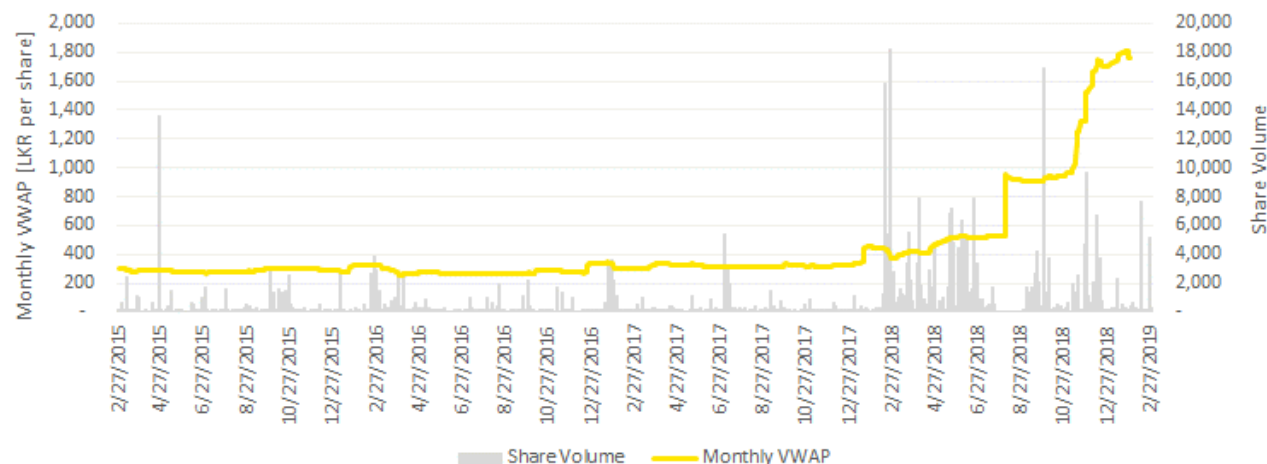
Conclusion

The free float of AIA is the lowest amongst its peer companies.

Further, the average daily share volume traded is significantly less in contrast to the number of shares held by the public.

Therefore, the current market price may not be representative of a reasonable estimate of fair value for ordinary shares of AIA.

Monthly Volume Weighted Average Price



Source: CSE

Key Highlights as at December 31, 2018

- ▶ Number of ordinary shares in issue - 30,749,370
- ▶ Percentage of shares held by the public - 2.84%
- ▶ Number of ordinary shares held by the public - 873,282
- ▶ Six month average daily share volume traded - 1,041
- ▶ Three month average daily share volume traded - 772

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Appendix





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Sector Screening

Name of Insurer	Abbreviations	Status [Listed or Non-listed]	Class of Insurance	Effective date of Licence	M&A Activity	Total Assets - 2017	GWP - 2017
AIA Insurance Lanka PLC	AIA Life	Listed	Long Term Insurance	16th December 1987		52,576,947	11,510,581
AIG Insurance Ltd.	AIG	Public Limited	General Insurance	13th December 1999 [No longer accepting any new insurance business and are in the process of exiting from Sri Lanka]		55,380	-
Allianz Insurance Lanka Ltd.	Allianz Gen.	Public Limited	General Insurance	1st January 2015	AIA General Insurance Lanka Limited has been amalgamated with Janashakthi General Insurance Limited with effect from 29th January 2016. Subsequently, Janashakthi General Insurance Limited has been amalgamated with Allianz Insurance Lanka Limited with effect from 28th September 2018	7,333,401	5,593,322
Allianz Life Insurance Lanka Ltd.	Allianz Life	Public Limited	Long Term Insurance	01st of July 2008		4,072,925	1,178,828
Amana Takaful PLC	Amana Gen.	Listed	General Insurance	01st February 2002		3,141,550	1,739,936
Amana Takaful Life PLC	Amana Life	Listed	Long Term Insurance	1st January 2015		2,928,702	792,174
Arpico Insurance PLC	Arpico	Listed	Long Term Insurance	20th October 2011		2,106,353	1,038,085
Ceylinco General Insurance Limited	Ceylinco Gen.	Public Limited	General Insurance	1st June 2015		25,572,536	17,012,087

Source: IBSL



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Name of Insurer	Abbreviations	Status [Listed or Non-listed]	Class of Insurance	Effective date of Licence	M&A Activity	Total Assets - 2017	GWP - 2017
Ceylinco Life Insurance Limited	Ceylinco Life	Public Limited	Long Term Insurance	1st June 2015		106,094,508	15,765,484
Continental Insurance Lanka Ltd.	Continental	Public Limited	General Insurance	18th December 2009		4,369,211	3,892,991
Cooperative Insurance Company Ltd.	Cooperative Gen.	Public Limited	General Insurance	18th September 1998		4,669,447	2,966,680
Cooplife Insurance Limited.	Cooplife	Public Limited	Long Term Insurance	1st January 2015		2,188,203	636,178
Fairfirst Insurance Limited.	Fairfirst	Public Limited	General Insurance	1st January 2015	Union Assurance General Limited has been amalgamated with Fairfirst Insurance Limited with effect from 28th February 2017	15,836,675	9,610,990
HNB General Insurance Ltd.	HNB Gen.	Public Limited	General Insurance	1st January 2015		4,385,775	3,748,215
HNB Assurance PLC	HNB Life	Listed	Long Term Insurance	30th August 2001		15,419,280	3,963,642
Janashakthi Insurance PLC	Janashakthi Life	Listed	Long Term Insurance	12th August 1994		20,384,326	2,902,873
Life Insurance Corporation (Lanka) Ltd.	LIC	Public Limited	Long Term Insurance	18th December 2002		2,682,943	582,114
LOLC General Insurance Limited	LOLC Gen.	Public Limited	General Insurance	01st October 2015		5,113,204	3,795,106
LOLC Life Assurance Limited	LOLC Life	Public Limited	Long Term Insurance	30th April 2010		4,102,317	2,467,166

Source: IBSL



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Sector Screening

Name of Insurer	Abbreviations	Status [Listed or Non-listed]	Class of Insurance	Effective date of Licence	M&A Activity	Total Assets - 2017	GWP - 2017
National Insurance Trust Fund	NITF	Trust Fund	General Insurance	7th February 2011 (Came under the purview of the Commission)		17,508,792	8,114,417
Orient Insurance Limited	Orient	Public Limited	General Insurance	15th October 2011		1,726,427	1,179,000
People's Insurance PLC.	People's	Listed	General Insurance	02nd December 2009		7,745,115	4,584,347
Seemasahitha Sanasa Rakshana Samagama	Sanasa	Public Limited	Long Term Insurance/General Insurance	08th July 2003/06th January 2005		2,558,905	377,690
Sri Lanka Insurance Corporation Ltd.	SLIC	Public Limited	Long Term Insurance/General Insurance	03rd February 1993		190,895,173	12,517,119
Softlogic Life Insurance PLC	Softlogic Life	Listed	Long Term Insurance	08th March 2000		12,478,446	7,530,935
Union Assurance PLC	Union Life	Listed	Long Term Insurance	08th January 1987		43,067,007	10,117,630

Source: IBSL

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SUPPLEMENTARY EMBEDDED VALUE INFORMATION

Cautionary statements concerning Supplementary Embedded Value Information

This report includes non-IFRS financial measures and should not be viewed as a substitute for IFRS financial measures.

The results shown in this report are not intended to represent an opinion of market value and should not be interpreted in that manner. This report does not purport to encompass all of the many factors that may bear upon a market value.

The results shown in this report are based on a series of assumptions as to the future. It should be recognised that actual future results may differ from those shown, on account of changes in the operating and economic environments and natural variations in experience. The results shown are presented at the valuation dates stated in this report and no warranty is given that future experience after these valuation dates will be in line with the assumptions made.

1. Highlights

The embedded value (EV) is a measure of the value of shareholders' interests in the earnings distributable from assets allocated to the in-force business after allowance for the aggregate risks in that business. The Company uses a traditional deterministic discounted cash flow methodology for determining its EV. This methodology makes an implicit overall level of allowance for risk including the cost of investment return guarantees and policyholder options, asset-liability mismatch risk, credit risk, the risk that actual experience in future years differs from that assumed, and the economic cost of capital, through the use of a risk discount rate. The equity attributable to shareholders of the Company on the embedded value basis (EV Equity) is the total of EV, goodwill and other intangible assets attributable to shareholders of the Company. More details of the EV results, methodology and assumptions are covered in later sections of this report.

(All LKR millions)	As at 30 June 2018
Embedded value (EV)	[21,562]
Adjusted net worth (ANW)	[19,512]
Value of in-force business (VIF)	[2,050]

2. EV Results

2.1 EMBEDDED VALUE BY COMPONENTS

Summary of EV by Components (LKR millions)

	As at 30 June 2018				
	ANW	VIF before CoC	CoC	VIF after CoC	EV
AIA Sri Lanka	[19,512]	[4,053]	[2,002]	[2,050]	[21,562]

2.2 BREAKDOWN OF ANW

The breakdown of the ANW for the Company between the required capital, as defined in Section 4.3 of this report, and the free surplus, which is the ANW in excess of the required capital, is set out below:

	As at 30 June 2018
	Business Unit
Free surplus	[16,232]
Required capital	[3,279]
ANW	[19,512]

2.3 EARNINGS PROFILE

The table below shows how the after-tax distributable earnings from the assets backing the statutory reserves and required capital of the in-force business of the Company are projected to emerge over future years. The projected values reflect the consolidated reserving and capital requirements.

Profile of projected after-tax distributable earnings for the Company's in-force business (LKR millions)

	As at 30 June 2018	
Expected period of emergence	Undiscounted	Discounted
1 – 5 years	[5,135]	[3,633]
6 - 10 years	[2,790]	[929]
11 – 15 years	[3,401]	[532]
16 – 20 years	[2,307]	[196]
21 years and thereafter	[1,501]	[40]
Total	[15,133]	[5,330]

The profile of distributable earnings is shown on an undiscounted and discounted basis. The discounted value of after-tax distributable earnings of LKR[5,330] million plus the free surplus of LKR[16,232] million in Section 2.2 of this report is equal to the EV of LKR[21,562] million shown in Section 2.1 of this report.

2.4 ANALYSIS OF EV MOVEMENT

	Half Year ended 30 June 2018		
	ANW	VIF	EV
Opening EV	[20,952]	[611]	[21,563]
Value of new business	[850]	[(294)]	[556]
Expected return on EV	[1205]	[(78)]	[1,127]
Operating experience variances	[(43)]	[(2)]	[(45)]
Operating assumption changes	[0]	[0]	[0]
Finance costs	[0]	[0]	[0]
EV operating profit	[2,012]	[(374)]	[1,638]
Investment return variances	[(2,279)]	[591]	[(1,688)]
Effect of changes in economic assumptions	[0]	[0]	[0]
Other non-operating variances	[(888)]	[1,222]	[334]
Total EV profit	[(1,156)]	[1,439]	[283]
Dividends	[(285)]	[0]	[(285)]
Other capital movements	[0]	[(0)]	[0]
Effect of changes in exchange rates	[0]	[0]	[0]
Closing EV	[19,512]	[2,050]	[21,562]

Operating ROEV (LKR millions)

Operating return on EV (Operating ROEV) is calculated as EV operating profit expressed as a percentage of the opening EV.

	Half Year ended 30 June 2018
EV operating profit	[1,638]
Opening EV	[21,563]
Operating ROEV	[7.6]%

3. Sensitivity Analysis

The EV as at 30 June 2018 has been recalculated to illustrate the sensitivity of the results to changes in certain central assumptions discussed in Section 5 of this report.

The sensitivities analysed were:

- Risk discount rates 200 basis points per annum higher than the central assumptions;
- Risk discount rates 200 basis points per annum lower than the central assumptions;
- Interest rates 50 basis points per annum higher than the central assumptions;
- Interest rates 50 basis points per annum lower than the central assumptions;
- Lapse and premium discontinuance rates increased proportionally by 10 per cent (i.e. 110 per cent of the central assumptions);
- Lapse and premium discontinuance rates decreased proportionally by 10 per cent (i.e. 90 per cent of the central assumptions);
- Mortality/morbidity rates increased proportionally by 10 per cent (i.e. 110 per cent of the central assumptions);
- Mortality/morbidity rates decreased proportionally by 10 per cent (i.e. 90 per cent of the central assumptions);
- Maintenance expenses 10 per cent lower (i.e. 90 per cent of the central assumptions); and
- Expense inflation set to 0 per cent.

The EV as at 30 June 2018 has been further analysed for the following sensitivities:

- Equity prices increased proportionally by 10 per cent (i.e. 110 per cent of the prices at 30 June 2018); and
- Equity prices decreased proportionally by 10 per cent (i.e. 90 per cent of the prices at 30 June 2018).

For the interest rate sensitivities, the investment return assumptions and the risk discount rates were changed by 50 basis points per annum; the statutory reserving bases at 30 June 2018 and the values of debt instruments held at 30 June 2018 were changed to be consistent with the interest rate assumptions in the sensitivity analysis, while all the other assumptions were unchanged.

For the equity price sensitivities, the values of equity securities and equity funds held at 30 June 2018 were changed to be consistent with the equity price assumptions in the sensitivity analysis, while all the other assumptions were unchanged.

For each of the remaining sensitivity analyses, the statutory reserving bases as at 30 June 2018 was changed to be consistent with the sensitivity analysis assumptions, while all the other assumptions remain unchanged.

The sensitivities chosen do not represent the boundaries of possible outcomes, but instead illustrate how certain alternative assumptions would affect the results.

As at 30 June 2018

Scenario	EV	Ratio
Central value	[21,562]	
<i>Impact of:</i>		
200 bps increase in risk discount rates	[(411)]	[(1.9)]%
200 bps decrease in risk discount rates	[491]	[2.3]%
10% increase in equity prices	[13]	[0.1]%
10% decrease in equity prices	[(13)]	[(0.1)]%
50 bps increase in interest rates	[(428)]	[(2.0)]%
50 bps decrease in interest rates	[455]	[2.1]%
10% increase in lapse/discontinuance rates	[(271)]	[(1.3)]%
10% decrease in lapse/discontinuance rates	[289]	[1.3]%
10% increase in mortality/morbidity rates	[(444)]	[(2.1)]%
10% decrease in mortality/morbidity rates	[445]	[2.1]%
10% decrease in maintenance expenses	[670]	[3.1]%
Expense inflation set to 0%	[1,137]	[5.3]%

4. Methodology

4.1 ENTITIES INCLUDED IN THIS REPORT

The following is a list of the entities included in this report.

- AIA Sri Lanka refers to AIA Insurance Lanka PLC.

4.2 EMBEDDED VALUE

The Company uses a traditional deterministic discounted cash flow methodology for determining its EV. This methodology makes an implicit overall level of allowance for risk including the cost of investment return guarantees and policyholder options, asset-liability mismatch risk, credit risk, the risk that actual experience in future years differs from that assumed, and the economic cost of capital, through the use of a risk discount rate. Typically, the higher the risk discount rate, the greater the allowance for these factors. This is a common methodology used by life insurance companies in Asia currently. Alternative valuation methodologies and approaches continue to emerge and may be considered by AIA.

The business included in the calculations includes all life business written by the Company. The projected in-force business included in the VIF also incorporates expected renewals on short-term business with a term of one year or less.

The EV is the sum of the ANW and VIF. The ANW is the market value of assets in excess of the assets backing the policy reserves and other liabilities of the life (and similar) business of the Company, plus the IFRS equity value of other activities, less the value of intangible assets. It excludes any amounts not attributable to shareholders of the Company. The market value of investment property and property held for own use that is used to determine the ANW is based on the fair value disclosed in the Company's IFRS financial statements as at the valuation date. It is the Company's policy to obtain external property valuations annually except in the case of a discrete event occurring in the interim that has a significant impact on the fair value of the properties.

The VIF is the present value of projected after-tax statutory profits emerging in the future from the current in-force business less the cost arising from holding the required capital (CoC) to support the in-force business. CoC is calculated as the face value of the required capital as at the valuation date less the present value of the net-of-tax investment return on the shareholder assets backing required capital and the present value of projected releases from the assets backing the required capital.

EV Equity is the total of EV, goodwill and other intangible assets attributable to shareholders of the Company.

4.3 REQUIRED CAPITAL

The Company's assumed level of required capital is set out in the table below.

	Required Capital
AIA Sri Lanka	120% of regulatory Risk-Based Capital requirement

5. Assumptions

5.1 INTRODUCTION

This section summarises the assumptions used by the Company to determine the EV as at 30 June 2018.

5.2 ECONOMIC ASSUMPTIONS

Investment returns

The Company has set the assumed long-term future returns for fixed income assets to reflect its view of expected returns having regard to estimates of long-term forward rates from yields available on government bonds and current bond yields. In determining returns on fixed income assets the Company allows for the risk of default, and this allowance varies by the credit rating of the underlying asset.

The Company has set the equity return and property return assumptions by reference to the return on 10-year government bonds, allowing for an internal assessment of risk premia that vary by asset class and by territory.

The non-linked portfolio is divided into a number of distinct product groups, and the returns for each of these product groups have been derived by considering current and future targeted asset allocations and associated investment returns for major asset classes.

For unit-linked business, fund growth assumptions have been determined based on actual asset mix within the funds at the valuation date and expected long-term returns for major asset classes.

Risk discount rates

The risk discount rates can be considered as the sum of the appropriate risk-free interest rate, to reflect the time value of money, and a risk margin to make an implicit overall level of allowance for risk.

The table below summarises the current market 10-year government bond yields referenced in EV calculations.

Business Unit	Current market 10-year government bond yields referenced in EV calculations (%)
	As at 30 June 2018
AIA Sri Lanka	[10.53]

The table below summarises the risk discount rates and long-term investment returns assumed in EV calculations. The same risk discount rates were used for all the EV results shown in Section 1 and Section 2 of this report.

	Risk discount rates assumed in EV calculations (%)	10-year government bonds	Local equities
	As at 30 June 2018	As at 30 June 2018	As at 30 June 2018
AIA Sri Lanka	[15.70]	[10.00]	[12.00]

5.3 PERSISTENCY

Persistency covers the assumptions required, where relevant, for policy lapse (including surrender), premium persistency, premium holidays and partial withdrawals.

Assumptions have been developed by the Company based on recent historical experience, and best estimate expectations of current and expected future experience. Persistency assumptions vary by policy year and product type with different rates for regular and single premium products.

Where experience for a particular product was not credible enough to allow any meaningful analysis to be performed, experience for similar products was used as a basis for future persistency experience assumptions.

In the case of surrenders, the valuation assumes that current surrender value bases will continue to apply in the future.

5.4 EXPENSES

The expense assumptions have been set based on the most recent expense analysis. The purpose of the expense analysis is to allocate total expenses between acquisition and maintenance activities, and then to allocate these acquisition and maintenance expenses to various product categories to derive unit cost assumptions.

Where the expenses associated with certain activities have been identified as being one-off, these expenses have been excluded from the expense analysis.

Expense assumptions have been determined for acquisition and maintenance activities, split by product type, and unit costs expressed as a percentage of premiums and an amount per policy. Where relevant, expense assumptions have been calculated per distribution channel.

Expense assumptions do not make allowance for any anticipated future expense savings as a result of any strategic initiatives aimed at improving policy administration and claims handling efficiency.

Assumptions for commission rates and other sales-related payments have been set in line with actual experience.

5.5 EXPENSE INFLATION

The assumed expense inflation rates are based on expectations of long-term consumer price and salary inflation.

AIA Sri Lanka

As at 30 June 2018

[6.5]

5.6 MORTALITY

Assumptions have been developed by the Company based on recent historical experience, and expectations of current and expected future experience. Where historical experience is not credible, reference has been made to pricing assumptions supplemented by market data, where available.

Mortality assumptions have been expressed as a percentage of either industry experience tables or, where experience is sufficiently credible, as a percentage of tables that have been developed internally by the Company.

5.7 MORBIDITY

Assumptions have been developed by the Company based on recent historical experience, and expectations of current and expected future experience. Morbidity rate assumptions have been expressed as a percentage of reinsurance tables or as expected claims ratios.

5.8 REINSURANCE

Reinsurance assumptions have been developed based on the reinsurance arrangements in force as at the valuation date and the recent historical and expected future experience.

5.9 POLICYHOLDER DIVIDENDS AND INTEREST CREDITING

The projected policyholder dividends and interest crediting assumptions set by the Company that have been used in calculating the EV results presented in this report, reflect contractual and regulatory requirements, policyholders' reasonable expectations (where clearly defined) and the Company's best estimate of future policies, strategies and operations consistent with the investment return assumptions used in the EV results.

5.10 TAXATION

The projections of distributable earnings underlying the values presented in this report are net of corporate income tax, based on current taxation legislation and corporate income tax rates. The projected amount of tax payable in any year allows, where relevant, for the benefits arising from any tax loss carried forward.

The local corporate income tax rates used are set out below:

Corporate income tax rates (%)

AIA Sri Lanka

As at 30 June 2018

[28.0]

The tax assumptions used in the valuation reflect the local corporate income tax rates set out above. Where applicable, tax payable on investment income has been reflected in projected investment returns.

5.11 STATUTORY VALUATION BASES

The projection of regulatory liabilities at future points in time assumes the continuation of the reserving methodologies used to value policyholder liabilities as at the valuation date.

5.12 PRODUCT CHARGES

Management fees and product charges reflected in the VIF have been assumed to follow existing scales.

Report prepared by:

A handwritten signature in black ink, appearing to read 'FM', followed by a long horizontal line that tapers off to the right.

Frank Munro

Fellow, Institute and Faculty of Actuaries UK

28th February 2019



SM/0008038/2019

28 February 2019

The Board of Directors
AIA Insurance Lanka PLC
92, AIA Tower, Dharmapala Mawatha
Colombo 07

Dear Sirs

We have completed the review of Embedded Value for AIA Insurance Lanka Plc ("Company") that was carried out in accordance with our letter of engagement signed with you dated 31 October 2018 for the purpose of fulfilling requirements of the Colombo Stock Exchange ("CSE") in connection with the delisting offer made by the Company to its minority shareholders.

The scope of our work, resulting findings and the inherent limitations in engagements of this nature are summarised below.

Scope of our work

We performed the following procedures in relation to the embedded value of the Company calculated by management as at 30 June 2018 ("EV calculation"):

- Checked the methodology used by the statutory Actuary of the Company in the EV valuation as at 30 June 2018 and checked its compliance to AIA Group's methodology for EV calculations.
- Checked the reasonableness of the actuarial assumptions of mortality/ morbidity, lapses, expenses and interest rate used in the EV calculation against results of the annual experience analysis conducted by the Company, and the actuarial assumptions used in the valuation of insurance contract liabilities included in the audited financial statements of the Company for the three months ended 31 March 2018.
- Obtain from management the cash flows for valuation models of 2 products from each line of business which contributes maximum to the embedded value of the Company; build parallel excel models and checked that the projected cash flows are consistent with the cash flows generated from Company's internal models.
- Obtained from management a list of controls in place over validity of data used in the EV calculation and obtained evidence from management to confirm exercising of those controls relating to data used as input to the EV calculation as of 30 June 2018.
- Checked the mathematical accuracy of addition of the components of Adjusted Net Worth (ANW) and Value of In-Force business (VIF) balance calculations.

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S. Gajendran FCA, Ms. S. Hadgie FCA, Ms. S. Perera ACA, T.U. Jayasinghe ACA

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Results of work performed

Pursuant to the above work done we concluded that:

- The methodology used for the calculation of embedded value by the Company is consistent with that of AIA Group's EV methodology. The Company follows the Traditional embedded value (TEV) method which is based on discounted values of projected deterministic after-tax cash flows. The Company uses a risk adjusted discount rate to discount the cash flows which implicitly allows for the cost of investment return guarantees and policyholder options, asset / liability mismatch risk, credit risk and the economic cost of capital.
- The operating assumptions have been set giving appropriate consideration to past, current and expected future experience, taking into account the nature of the business and relevant data available. The Company has performed an experience investigation exercise based on the group methodology and have set-up the best estimate assumptions in light of the results of these investigations, considering the past assumptions and the recommendations from the AIA group (parent company).
- The calculation of adjusted net worth (ANW) is mathematically accurate and consistent with the methodology outlined by AIA Group. We were able to reconcile its results with the balance sheet of the Company for the quarter ended 30 June 2018 that amounts to LKR 21,562 million.
- The Company maintains an embedded value template which is used to validate the EV calculations and review the accuracy of the data and reported embedded value. We are satisfied with those checks and the controls which are in place in the template.

PwC has performed the above high-level checks on the results of the calculations, without undertaking detailed checks on the models and processes involved. Based on the results of the work, no issues came to our attention that we believe will have a significant impact on the disclosed EV of the Company as at June 30, 2018.

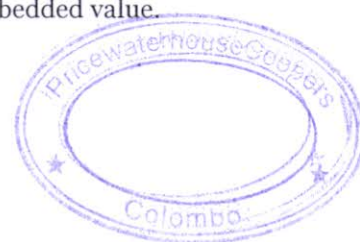
Limitations

The procedures carried out did not constitute an audit or a review performed in accordance with Sri Lanka Auditing standards or Sri Lanka Standards on Review Engagements, the objective of which is the expression of an opinion on the financial statements or specified elements, accounts or items thereof. Accordingly, we are providing no opinion, conclusion or other form of assurance with respect to the financial statements or the EV calculation of the Company at the conclusion of our work.

It is important to recognise that there are inherent limitations in this type of engagements. For example, such testing procedures are generally based on the concept of selective testing of the data being examined and are, therefore, subject to the limitation that material errors, fraud and other non-compliances having a direct and material financial impact, if they exist, may not be detected. Also, our engagement is based on unaudited information received from AIA Insurance Lanka Plc and we did not verify or audit such information provided to us.

The checking of models is based on the two major products from each line of business of the Company and we have assumed that all other products are modelled in a consistent manner

The work carried out relate to embedded value of the Company as at 30 June 2018 hence our engagement is limited to calculated embedded value at that date. Thus the work do not cover the analysis of movement over time and the sensitivity analysis of the embedded value.





Our deliverables prepared pursuant to our engagement letter, is solely for the use and benefit of management and the board of directors of AIA Insurance Lanka PLC, and is not intended or authorized for any other use or party. PwC disclaims any contractual or other responsibility to others based on its use and, accordingly, this information may not be relied upon anyone other than AIA Insurance PLC.

Yours truly

A handwritten signature in blue ink, appearing to read 'D. Shreejith', followed by a horizontal line.

