AN ALLIANCE EVOLVES

ANNUAL REPORT 2012

AN ALLIANCE

EVOL

For thirteen solid years we've been changing people's perceptions of how insurance can be delivered. Many of the industry benchmarks we have set remain unchallenged to this day. That's because we've always been willing to embrace change. To grow. To transform. To maintain our relevance.

VES

Today we see ourselves soaring to a new level of industry capability as we join the powerful Softlogic Group; a corporate fusion that brings us immeasurable strength, reach and added value in all we do.

Asian Alliance. The Alliance Evolves.

Asian Alliance Insurance
Rest Assured
A Softlogic Group Company

The power of PROFESSIONAL PEOPLE

At Asian Alliance we demand expertise, responsibility and integrity from every professional who joins our Company. A balanced mix of youthful energy and experienced maturity ensures that our team is truly exceptional.

Thilini Wijesekara

Senior Executive, Process Management Unit

"I joined Asian Alliance as a trainee two years ago, when I was an undergraduate, and I received broad exposure to the practical aspects of management. This is a learning-friendly organization with a warm culture that helped me to identify the right profession for myself. Working at Asian Alliance hasn't just been about experiencing new things. It has helped me find my own identity as well."

The power o
PROFESS
PEOPLE

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team is truly exceptional.

Rumesh Modarage
Financial Analyst

"I always wanted to do something strategic - something related to forward thinking and taking the initiative…not reactive or corrective work. Asian Alliance Insurance gave me the opportunity to do just that. This work keeps me energetic and excited about what I do.

At AAI, finance is not just about number crunching. It also involves analyzing what the numbers are saying about company performance. I know the experience I'm acquiring at this early stage of my career is invaluable and it will be the foundation of my future success."

Key Figures

Ram Rating
BBB-

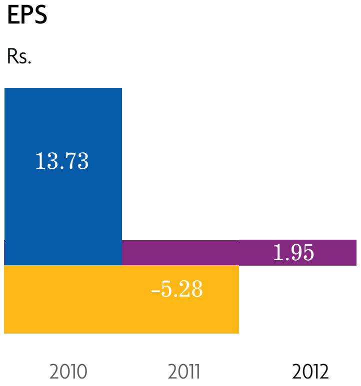
Net Profit
137%

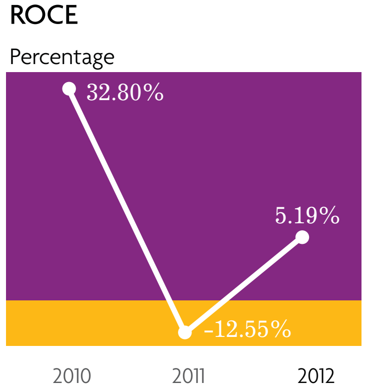
Topline
46%

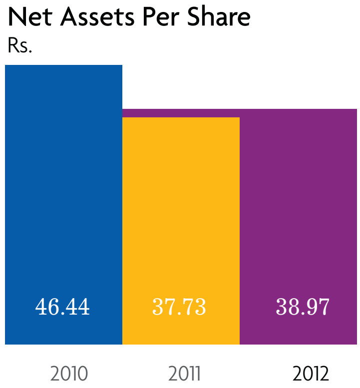
Investment Income
30%

In Rs. '000	2012	2011	2010	2009	2008
Gross Written Premium - Life	2,034,084	1,579,191	1,242,608	1,009,031	970,077
Gross Written Premium - Non Life	1,190,392	628,163	430,666	496,749	459,771
Profit Before Tax	74,702	(194,324)	370,576	147,107	131,146
Total Assets	5,701,104	4,646,633	4,413,700	2,732,163	2,147,847
Total Net Assets	1,461,503	1,414,900	1,741,453	517,540	404,060
Life Fund	2,904,345	2,353,008	1,929,352	1,560,395	1,203,968
Non Life Fund	681,514	392,777	275,668	275,602	263,441

In Rs.					
EPS	1.95	(5.28)	13.73	5.73	5.42
ROCE	5.19%	(12.55)%	32.80%	31.92%	32.45%
Net Assets Per Share	38.97	37.73	46.44	20.7	16.16
Solvency - Life	1.88	1.44	1.16	2.21	2.93
Solvency - Non Life	2.37	3.86	17.43	5.67	5.76







Vision

To be the benchmark provider of quality financial solutions

Mission

To provide quality products and services through quality people and processes

The story of
OUR HISTORY

1999
Launch of Asian Alliance Insurance PLC with Non Life Insurance operations

2000
Commencement of Life operations

2001
Brand positioned as a provider of tailor made insurance

2002
Asian Alliance acquires 3% of the market share

2003
Year of record profitability

2004
Introduction of 'Auto Plus' product in Non Life

2005

Bonus declared for the first time for Life policyholders

2006

The Company achieves the Rs.1 billion mark in GWP

2007

Obtains a rating for its claim paying ability

2008

Deployment of the home-grown Non Life IT system.

2009

Life GWP crosses Rs. 1 billon mark

2010

Oracle smart suite product was successfully implemented and integrated with the frontend product ISYS

2011

Acquisition of the Company by Softlogic Group, a diversified conglomerate in strategic growth sectors

In this REPORT

Ashok Pathirage
Chairman

Executive REPORTS

Ramal Jasinghe
Chief Executive Officer

MESSAGE from Ashok Pathirage

Chairman's Message

The year 2012 began on a note of optimism buoyed by Central Bank of Sri Lanka's assurance that Sri Lanka would achieve a GDP growth rate of 7.5% for the year 2012. This announcement shored up business confidence and infused an air of expectancy in business circles. The year 2012 had seemingly set the stage for further consolidation and growth backed by heavy investments in infrastructure and a budget for 2013 that would stimulate economic growth.

Scan this to hear the Chairman speak...

Unfavourable Economic Conditions in 2012

Unfortunately, the events that unfolded subsequently indicated that perhaps the Central Bank had set its sights too high. The widening trade gap was the first omen of difficult economic times in the days ahead. In addition, the pressure on the exchange rate was intense, with the rupee depreciating by as much as 18% during the year. The economic unraveling further gathered speed when interest rates climbed up by 2-3%. These unfavourable factors resulted in an uncertain operating environment, as the vision of a lucrative 2012 marked by stable exchange and interest rates on top of strong economic growth started to fade.

On cue, the rest of the year witnessed turbulence in corporate circles, further buffeted by rising inflation which reached 9.8% during the year. As a direct corollary, this additional pressure impacted the disposable incomes of people, thereby negatively impacting their purchasing power, for example, in the realm of insurance. Despite the economic doom and gloom, the insurance industry forged ahead strongly, demonstrating resilience, as steep interest rates enabled companies and the industry as a whole to lock in higher yields and improve earnings in investment income to benefit overall operations.

Asian Alliance Attracts Top of the Line Investors

I am happy to report that Asian Alliance Insurance was not affected by the turbulent macro economic conditions that prevailed during the year. In contrast, your Company reported the best-ever year in terms of operational and financial excellence in both - Life and Non Life divisions. We achieved a significant milestone during the year in the form of new partners. Your Company has been keen to elevate its profile and towards this objective we invited minority investors with superb credentials to express their interest in investing in Asian Alliance Insurance. These investors are currently in partnership with our parent company, Softlogic. The response we received was overwhelming, but after much consideration we entered into an agreement with DEG and FMO, both unilateral development finance companies demonstrating strong financial fundamentals and also AAA entities owned by the governments of Germany and Netherlands respectively.

The two eminent investors have agreed to acquire 19% stake each and with an overall share of 38% the two entities will be our main investors. We are delighted by the fact that their international expertise will also be available to us in taking our insurance proposition forward and provide additional leverage in taking your Company to the next level. Our common goal for your Company is sustainable growth while maintaining exceptional levels of profitability. More significantly, as institutional investors, these entities are not merely commercial in nature, but are long term investors in Sri Lanka interested in developing the market

Our reputation for innovation, value and integrity lands us on top of the rankings as industry leaders every year. How do we maintain this level of excellence? We hire exceptional people and invest in their growth.

EVOLVE

while uplifting the insurance industry. Our new partners will offer international expertise in business strategy and stronger reinsurance arrangements and technical assistance. The investors have pledged to cover more than half of the cost that your Company will incur in enhancing its technical prowess.

The fact that reputed investors such as DEG and FMO have chosen to partner with us strengthens our credentials in Sri Lanka's insurance industry. Furthermore, we are proud that this has consequently raised Sri Lanka's investor profile as well and we hope this will have a snowballing effect in terms of attracting long term investors of this nature to our shores. These high profile investors obviously perceive Softlogic as a conglomerate with a strong future and as one that epitomizes the entrepreneurial spirit of Sri Lanka. This has been the single-most important achievement amongst several significant milestones that your Company achieved during the period under review.

Achieving Record Profitability

We have much to be proud of during the year. 2012 was essentially a record-breaking year for us on every count. I am also delighted to declare that Life GWP grew by 29% during the period under review, which is far in excess of what the industry achieved during the corresponding period. This achievement is all the more commendable because it was achieved against the turbulent macro economic conditions, when disposable incomes had plummeted. The credit for this performance goes to the experienced Life team which has seemingly mastered its sales strategies and aligned its sales drive to the Company's niche segments.

The Non Life division boosted your Company further by doubling its GWP from Rs. 628 Mn in 2011 to reach Rs. 1.2 Bn within 12 months. Life business was the mainstay of your Company up until the time of Softlogic's acquisition of Asian Alliance Insurance, but since then we have managed to leverage on the parent group's extensive islandwide network to grow our Non Life portfolio by leaps and bounds. The Softlogic Group intends to add a further 250 stores to its network within the next two years, which will open newer opportunities for our insurance business and help us capture a greater proportion of the market.

Non Life insurance is an ultra competitive environment and price undercutting remains a key factor in the cut throat environment. AAI has always opted out of the price war in the past and we believe that once the chief regulatory requirements are achieved in 2015, pricing too will even out and reflect the risk being underwritten. We have been fortunate to gain captive business from group finance company, Softlogic Finance and this has raised our profitability further.

During the year under review, we had to deal with the residual portion of bad investments that we inherited. Your Company was able to significantly clear up its equity portfolio, which stood us in good stead during the period. As investment markets were offering good returns, we managed our fixed income investments efficiently and even met our income targets despite the underperforming equity markets. We realigned our equity portfolio suitably and performed well in other investments. Insurance continues to hold tremendous potential in Sri Lanka which is further substantiated by the recent entry of big players in the region into Sri Lanka. These companies have paid a significant sum to enter the country in which they see potential, and as a company, we welcome these initiatives as industry as a whole will benefit and enable insurance companies to improve business volumes.

Product Innovation

Your Company fielded its medical insurance products in the market with some measure of success. We are looking at developing a market for these promising products and see much potential for them in the days and months ahead. The group company, Asiri Hospitals, is a market leader in private healthcare with its retinue of hospitals and this offers unique synergies in medical insurance which is not available to any other company in Sri Lanka in terms of a combined proposition of healthcare and insurance in the same fold.

Future Outlook

As a Company, we expect to reach critical mass by the year 2015, so that when pricing changes come into force, we will be in a position to reap the rewards. We intend to maintain a similar business mix by building on health insurance, although it is early days to achieve any significant gains. However, our early start implies that we will be in the position of market leader in this segment.

We are in the process of setting up an islandwide retail network so as to gain a head-start in our Non Life segment. Further, your Company is gearing its systems and processes so that Asian Alliance Insurance PLC becomes a significant driver of insurance in the market. Already, our outstanding premium growth in both Life and Non Life during the year has catapulted us into the 6th place in industry rankings as endorsed by the Insurance Association of Sri Lanka.

Towards the end of 2012 there were indications of the macro economic situation easing up, with factors such as inflation subsiding and lowering of interest rates. Further, the signal from the Central Bank that interest rates should slide downwards offers greater maneuverability for companies in tandem with greater stability of exchange rate. We think Sri Lanka will come out of the dip it finds itself in and that economic growth will bounce back to 7.5% in 2013 given the government's stated objective to achieve the US$ 4,000 per capita GDP mark by 2016. This increase in per capita GDP augurs well for the much-needed expansion of the Life industry. On the whole, we look forward to a promising year ahead in terms of improving economic climate and another exceptional year in the history of your Company.

Acknowledgements

I would like to express my gratitude to the Board of Directors for their guidance and counsel through what can best be described as a thoroughly challenging year. Your Company's exceptional performance during the year can be attributed to the dedicated efforts of all our stakeholders to realise our strategic goals. The Life and Non Life teams have exceeded set targets and demonstrated a passion for winning which has made us immensely proud. The year 2012 was one of transformation for the Company on various levels both quantitative and qualitative, and I can say with complete satisfaction that your Company has emerged a stronger, more profitable one. I believe our performance during the periods under review has awarded us the necessary confidence to guide our future growth.

(Sgd.)
Ashok Pathirage
Chairman

12 February 2013

STATEMENT of
Ramal G. Jasinghe

CEO's Message

The year under review was a voyage of learning and discovery which has infused a sense of excitement of stretching our skills and the thrill of strategising, as we challenged ourselves by stepping out of our comfort zone. The year commenced at the bottom of the learning curve, as we came to grips with the nuts and bolts of our new health insurance product while concurrently bridging synergies with our parent company, Softlogic. Truly, the alliance evolved in nuanced ways during this year, as we learnt to give and take in equal measure, eventually settling in a dynamic equation which offers mutual support and assurance. Despite the pressure of learning to expand our skills a new and strategise for our foray into a new segment of insurance, we not only survived, but thrived, during the year, with the Company reaching unprecedented heights in financial and operational performance.

Increased Profitability

Profitability rose by as much as 137% due to prudent underwriting skills, review of reinsurance capacity and astute actuarial strategies in Life insurance. We focused on enhancing the mechanics of our products to sustain profitability and value to stakeholders and policyholders, further validated by due diligence and commended by prospective shareholders - FMO and DEG, who are backed by the governments of Netherlands and Germany respectively. Two of the biggest donors globally, they have agreed to acquire a joint shareholding of 38% in Asian Alliance Insurance PLC. This investment in equity is a landmark for DEG and FMO who have for the first time invested in an insurance company in Sri Lanka. Their decision to invest in us underscores the trust and confidence in our people and processes. This acquisition, it is believed, will add value to the Company in terms of ushering in best practices, assisting and strengthening our technical capabilities taking the company to the next level of professionalism and all the while propelling it ahead as a world-class insurance company. The direct consequence of this investment has been AAI's rise as a force to be reckoned with and it is our firm belief that this investment will further enhance the global profile of Sri Lanka's insurance industry.

Scan this to hear the CEO speak...

The year 2012 culminated with the Life Insurance arm of Asian Alliance Insurance PLC recording the highest-ever growth in its recent history by delivering above and beyond Rs. 3 Bn in Gross Written Premium (GWP) for the period. The Company's non life division too performed exponentially well, growing by 90% during the year. A benchmark provider of quality insurance solutions, AAI has repeatedly proved itself to be a trail-blazer in setting industry benchmarks. Over the last five years, the Company has been growing 3 times the rate of the insurance industry, which reflects the rapid strides the Company is making in carving out a growing market share in the insurance industry. Our focus was on optimal performance and to achieve this goal we leveraged on the three strategic areas of the right infrastructure, precision in processes and superior skills. By honing these three operational areas, we have managed to achieve the perfect balance to optimize business opportunities. The Life Sales and Services team deserve congratulations for their passion and dedication in achieving and surpassing set targets. The Life team pursued new business opportunities aggressively through the year and this resulted in new business growth of 35% measured on the basis of the first year premium, which is the highest-ever growth recorded by the Life arm in its consistent growth stream.

CEO's Message

Our reputation for innovation, value and integrity lands us on top of the rankings as industry leaders every year. How do we maintain this level of excellence? We hire exceptional people and invest in their potential.

Due to the prudent decisions taken by the Board Investment Committee the Company was able to significantly resilience to price fluctuations of its equity portfolio, which stood us in good stead during the period. As investment markets were offering good returns, we managed our fixed income investments efficiently and even met our income targets despite the underperforming equity markets. We realigned our equity portfolio suitably and performed well in other investments.

We expect greater market segmentation and emphasis in the non life segment to be the trend in the future. In response to this, we have segmented our target markets into corporate, regional and SME categories. Supported by the islandwide network of Softlogic outlets, AAI is now in a position to service the full spectrum of the non-life market in the backdrop of emerging trends of prosperity by keeping in line with Central Bank's target to achieve per capita GDP of US$4,000 by 2016.

As the last 10 years have evidenced, growth potential lies in the motor insurance portfolio. Hence, given the strong synergy with Asiri Group of Hospitals, AAI believes that healthcare insurance will be its new frontier of growth. The Company will also be serving responsibly to lessen the healthcare burden on the state with our health insurance proposition. AAI is in a supreme position to introduce more sophisticated and affordable health care solutions for both life and non life segments.

Insurance continues to hold tremendous potential in Sri Lanka which is further substantiated by the recent entry of multi nationals in the region into Sri Lanka. These companies have paid a significant sum to enter the country in which they see potential, and as a company, we welcome these initiatives as the industry as a whole will benefit and enable insurance companies to improve business practices, service and as a result increased demand due to better awareness.

Product Innovation

Your Company fielded its medical insurance products in the market with a measure of success. We are looking at developing a market for these promising products and see much potential in the days and months ahead. Asiri Group of Hospitals, is a market leader in private healthcare with its retinue of hospitals and this offers unique synergies in medical insurance which is not available to any other conglomerate in Sri Lanka in terms of a combined proposition of healthcare and insurance in the same fold. The technical and marketing staff of the Company is in a continuous quest to search and mine the field for new markets and opportunities to create a value based niche to ensure continued growth.

Our People

The backbone of AAI is and will always be its people. A recently undertaken independently conducted employee satisfaction survey reflects AAI as an employer that truly nurtures its career development and education for its staff. Your Company has seen year on year growth of young talent enrolling for professional insurance exams from Foundation level up to the Chartered Insurer status. Organizations build their key differentiators in many ways and AAI is creating a base of knowledge workers, encouraging employees to enhance technical skills in insurance and providing attractive incentives. In fact, the Company holds the distinction of being the only insurance company to have the highest number of employees enrolled for further technical qualifications in insurance as affirmed by the Sri Lanka Insurance Institute. It is with pride that we announce that Mr. Hashra Weerawardene, Deputy General Manager – Corporate Operations & Legal and Mr. Sithumina Jayasundara, Senior Manager – Re-insurance qualified as Chartered Insurers in 2012. At present we have total of 85 employees (Insurance Foundation Certificate – 33, Diploma in Insurance Practice – 19, Indian Insurance Institute – 21, Chartered Insurance Institute, UK – 12) reading for insurance qualifications. Asian Alliance is of the strong view that by encouraging more young people to enroll in Insurance studies, that it would create a 'virtuous cycle' of professionalism and professionals within an industry that holds much promise for development and growth in the near future hence leading the way.

Future Outlook

During the year, strategic thinking and management percolated down to all levels of staff at all locations staff held the company in good stead in terms of delivering performance and would be the driving force of healthy growth and development in 2013 and beyond. Our company has a well scripted and thought through business plan for the long term which has been communicated to the entire staff and towards achievement of which the team is committed. Our growing confidence is further supplemented by our shareholders. We believe that the Softlogic group together with FMO and DEG ownership will make the Company stand out as unique in the insurance industry.

Going ahead, we envisage the economy retaining resilience with growth targets lowered. The year looks good for the industry against the backdrop of enhanced infrastructure growth which will stimulate business growth. As disposable incomes grow and customers demand becomes sophisticated, we will be ideally poised to offer cutting edge insurance products and services.

In Appreciation

The Company has taken some bold steps and challenged itself on various fronts through the period under review. I attribute the credit for this firmly to the Chairman and Board of Directors for their faith in the AAI team and their wise counsel in ensuring that the Company remains a dynamic entity whilst pursuing prudent financial discipline. The entire AAI staff deserves a special mention for their passion for winning and ability to adapt and strategize growth in new segments. The Company houses an exceptional blend of youth and experience and this dynamic combination of talent will provide the boost the Company needs to forge ahead as a strong contender for the top. We have built a reputation as an attractive employment option in the industry with professional and young aspirants searching opportunity and career progression at AAI.

I take this opportunity to make special mention of fellow Director and Managing Director of the finance cluster of the Softlogic Group Iftikar for the ready assistance and for translating the shareholder perspective in the operation. My colleagues, Chula, who has since been promoted to Chief Operating Officer – Life, Saliya, Udeni, Khan, Victor, Hashra, Annesly, Amal, Suranga, Piyal G. and Piyal H. contributed immensely to the outstanding perfomance of the Company. I welcome the new members of our team with much trust and confidence of their position contribution towards the intended growth of AAI.

(Sgd.)
Ramal G. Jasinghe
Chief Executive Officer

12 February 2013

VOLVES

The BOARD Members

From Left to Right / Iftikar Ahamed, Suraj Fernando, Mohan Ray Abeywardena,, J. H. Paul Ratnayeke, Ashok Pathirage, Ramal G. Jasinghe, Sujeewa Rajapakse

The PROFILES of BOARD Members

Mr. Ashok Pathirage, Chairman

Mr. Ashok Pathirage co-founded Softlogic in 1991 and has served the Softlogic Group as the Managing Director from the inception. He was appointed as the Chairman of the Group in 2000. He is the Managing Director of Asiri Hospital Holdings PLC and is the Chairman of other hospitals in the group. He is also the Chairman of Softlogic Capital PLC and Softlogic Finance PLC besides being the Chairman of many other Group Companies that operate in Leisure, Retail, Automobile and ICT sectors.

He also serves as the Deputy Chairman of National Development Bank PLC and the Chairman of the NDB Capital Holdings PLC.

He started his career at a leading blue chip company in Sri Lanka and has over 25 years of experience in a senior managerial capacity in the Information Technology industry and in the business world.

Mr. Paul Ratnayeke, Deputy Chairman

Mr. Paul Ratnayeke is a leading commercial lawyer and a Senior Partner and Founder of Paul Ratnayeke Associates, an established law firm in Sri Lanka. Mr. Ratnayeke graduated with Honours from the University of Ceylon (Colombo) and has also been awarded a Masters Degree in Law by the University of London. He is a Solicitor of the Supreme Court of England and Wales and an Attorney-at-Law of the Supreme Court of Sri Lanka. Mr. Ratnayeke specializes in corporate and commercial areas of law including in the fields of mergers and acquisitions, aviation, insurance and shipping.

Currently, Mr. Ratnayeke holds directorships in several companies in some of which he has been appointed as the Deputy Chairman or Chairman.

Mr. Ramal Jasinghe, Director/Chief Executive Officer

With a career experience exceeding over 30 years in the fields of manufacturing, marketing and general management , which includes over 18 years in the Insurance industry, Mr. Jasinghe started off his career in the manufacturing industry and thereafter in industrial marketing. He holds a MBA from the University of Sri Jayewardenepura and is a Chartered Marketer; Fellow of The Chartered Institute of Marketing, UK (FCIM) and the Academy of Marketing Sciences, USA (FAMS). Mr. Jasinghe is an alumni of the Stanford Executive Business School California, and has trained in The Top Management Programme on Strategic Management at the Indian Institute of Management, Ahmadabad.

He serves as a member of the Financial System Stability Consultative Committee at the Central Bank (FSSCC), Chairman of the Insurance Committee of The National Chamber of Commerce of Sri Lanka (NCCSL) Mr. Jasinghe serves in the Council of the National Chamber of Exporters and the National Chamber of Commerce (NCE). Mr. Jasinghe is an active member of the Sri Lanka Institute of Marketing, serving on their Executive Committee for many terms and has served as a judge at the SLIM awards. He was one of the Architects of the National Business Excellence Awards conducted by the National Chamber of Commerce. Mr. Ramal Jasinghe presently serves as the President of the Insurance Association of Sri Lanka (IASL).

In recognition of his professional Excellence in the field of Management, and contribution to executive knowledge he was recognized by the Alumni Association of the Postgraduate Institute of Management University of Sri Jayawardenapura, with the prestigious Platinum Award in 2012. Mr. Jasinghe was invited by the global re insurer Munich Re to address the International Executive Forum held in Cape Town, South Africa, which was a unique privilege extended to a Sri Lankan.

Mr. Suraj Fernando, Director

He joined the Softlogic Group in 2009 as an Executive Director. Mr. Fernando heads the Group's Special Projects, whilst overlooking the Automobile Sector and Office Automation Division. He also serves on the Board of a few subsidiary Companies and Chairs the Enterprise Risk Management Committee, at Softlogic. His many years of experience as a Managing Director and CEO at a number of diverse companies assists the Group to discover new eras in business. Mr. Suraj Fernando is a Fellow of the Chartered Institute of Management Accountants, UK (CIMA), the Chartered Association of Certified Accountants, UK (ACCA) and The Chartered Institute of Marketing, UK (CIM). He has served as the President of CIMA and the Chairman of the Ceylon Chamber of Commerce – Import Section.

Mr. Mohan Ray Abeywardena, Director

Mr. Abeywardena holds an MBA from the University of Wales and a Post Graduate Diploma in Marketing from The Chartered Institute of Marketing, UK (CIM). He serves as the Group Managing Director/CEO of Acuity Partners (Pvt) Ltd.; a Joint Venture Investment Banking firm equally owned by the DFCC Bank and Hatton National Bank PLC. Mr. Ray Abeywardena served as the Managing Director of DFCC Stockbrokers (Pvt) Ltd. (now Acuity Stockbrokers (Pvt) Ltd.) in 2008, when the firm was ranked the number one Stock Broker in Sri Lanka. Possessing over 25 years of work experience in the capital markets in Sri Lanka, Mr. Abeywardena has established a strong and loyal client base both locally and internationally. He is the Chairman of Acuity Stockbrokers (Pvt) Ltd. and holds Directorships at Acuity Securities Ltd., Guardian Acuity Asset Management, Lanka Ventures PLC and Asia Siyake PLC.

Mr. Iftikar Ahamed, Director

Mr. Ahamed joined the Softlogic Group in 2010 as an Executive Director. He is responsible for overseeing the Group Treasury and its Financial Sector. With over 27 years of experience in the financial services industry, including senior positions at reputed banks, both in Sri Lanka and abroad, he has extensive insights in the Treasury and Banking sectors. Mr. Ahamed holds an MBA from the University of Wales, UK.

Mr. Sujeewa Rajapakse, Director

A Fellow of the Institute of Chartered Accountants of Sri Lanka and the Society of Certified Management Accountants of Sri Lanka, Mr. Sujeewa Rajapakse is the Managing Partner of BDO Partners (Formerly known as BDO Burah Hathy), a Firm of Chartered Accountants. He holds a MBA from the Postgraduate Institute of Management, University of Sri Jayewardenepura. Mr. Rajapakse is the President of the Institute of Chartered Accountants of Sri Lanka and a Board Member of the South Asian Federation of Accountants (SAFA). He is also a Technical Advisor to the Confederation of Asia Pacific Accountants (CAPA). Mr. Sujeewa Rajapakse represents the Monitory Policy Consultative Committee of Central Bank of the Sri Lanka as a member and is a Board member of NDB Bank. Mr. Rajapakse was also the Treasurer of Sri Lanka Cricket and Cricket World Cup 2011. He is an old boy of Richmond College, Galle.


CHA

The EXCO Members

From Left to Right / Udeni Kiridena, Saliya Wickremasinghe, Ramal G. Jasinghe, Asaf Khan, Chula Hettiarachchi

The EXECUTIVE COMMITTEE
Members Profiles

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Mr. Chula Hettiarachchi, Chief Operating Officer, Life

He holds B.Com. and M.Com degrees from the University of Kelaniya and also holds a Postgraduate Diploma in Finance and Business Management from the Institute of Chartered Accountants of Sri Lanka. He has received extensive overseas training with Allied Dunbar UK, FALIA Japan, and OLIS Japan, as well as the Indian Insurance Institute, Pune, and Munich Re Germany. His career spans a period of 30 years, 17 of which is in the life insurance field. He spearheads the Life distribution operations in an astute and professional manner.

Mr. Saliya Wickremasinghe, General Manager, Finance

Mr. Saliya Wickramasinghe is a Fellow of the Chartered Institute of Management Accountants (FCMA) and a member of the Certified practicing Accountants (CPA), and has a BSc degree from the University of Colombo. His career spans over 30 years including exposure in local blue chip companies as well as 5 years in a multi national company in Australia. His varied experience brings a wider perspective to the finance operations of the Company. He has participated in the Top Management Programme conducted by FALIA (Japan) and AOTS (Japan). Mr. Wickramasinghe presently serves as a Non-Executive Director at Softlogic Finance PLC.

Mr. Asaf Khan, General Manager, Sales & Operations

Mr. Asaf Khan commenced his career in the insurance arm of Carson Cumberbatch & Co. Ltd as a school leaver. Experiencing rapid progression in his career, Mr. Khan headed both the Life and Non Life Divisions of the Company. Consequent to the privatisation of the Insurance Industry, Mr. Asaf Khan headed the Carsons branch of Union Assurance PLC (UAL) and following the merger of the insurance operations was absorbed as Regional Manager - Colombo of UAL. He later progressed to the position of Assistant General Manager - Operations and subsequently led the Customer Relationship Management Division of UAL as General Manager. Mr. Khan possesses over 40 years of experience in the insurance industry. He has served as the Treasurer, Secretary and Vice President of the Sri Lanka Insurance Institute.

Mr. Udeni Kiridena,
General Manager, Non Life

Mr. Udeni Kiridena is a Chartered Insurer and an Associate Member of the Chartered Insurance Institute of UK. He is also a Senior Associate of the Australian and New Zealand Institute of Insurance & Finance and an Associate member of the Indian Insurance Institute. Additionally he holds a Diploma in Business Management from the National Institute of Business Management.

He began his career in Insurance in 1985 and has received training at the College of Insurance in Singapore and at Lloyds syndicates in the UK.

Presently Mr. Kiridena is the President of the Sri Lanka Insurance Institute, which is affiliated to the Chartered Insurance Institute of the UK.

He is a product of Trinity College, Kandy, who excelled in sports, especially in boxing and represented Sri Lanka in many tournaments as a qualified International Referee/Judge. He has also served as the President of the Boxing Association of Sri Lanka.

The MANAGEMENT

From Left to Right / Annesly Arsakulasuriya, Suranga Waduge, Victor Colombage, Amal Dharmapriya, Piyal Gunawardena, Hashra Weerawardena, Piyal Hewapathirana

Mr. Victor Colombage, Deputy General Manager, Non Life

He is a Chartered Insurer (U.K) and Associate Member of Chartered Insurance Institute London (ACII). His career spans a period of 50 years, of which 6 years was spent overseas. He overlooks the Non Life technical operations of the Company, with diligence and proficiency.

Mr. Hashra Weerawardena, Deputy General Manager, Corporate Operations & Legal

BA (Col), MBA (Col), MCIM (UK), ACII, Chartered Insurer & Attorney-at-law

He bears a career of 18 years serving in various capacities from Marketing to Legal within the Insurance industry. He is a multi-talented personality, who heads his functions with great detail.

Mr. Annesly Arsakulasuriya, Assistant General Manager, Corporate Business

He cut his teeth in the insurance industry as a school leaver serving in various capacities. He bears hands on experience in corporate insurance sales of 24 years, and is considered a veteran insurance salesman with an unblemished record of success. Client testimonies of his service levels have proved to be impeccable, which is a strength to the Company's distribution efforts.

Mr. Amal Dharmapriya, Assistant General Manager, Information & Communication Technology

He has a M.Sc. in Computer Science, University of Colombo School of Computing and a BSC in Applied Sciences from the University of Sri Jayewardenepura. He is a passed finalist of Certified Information Security Manager (CISM) – ISACA 2012 and a member of the Australian computer society (MACS). Mr. Dharmapriya has 13 years of ICT experience of which, 8 years of hands-on experience in System Design, Development and Implementation. His career in the insurance industry spans a period of 8 years. The high point of his career in Asian Alliance is considered as spearheading the development of an in-house complete Non Life insurance solution for the Company and which is considered to be a pioneering effort within the local insurance industry.

Mr. Suranga Waduge, Assistant General Manager, Life

Mr. Suranga Waduge holds a MSc in Mathematics and Statistics from the University of Missouri Kansas City, USA and a BSc (Hons) in Business, Financial and Computational Mathematics from the University of Colombo. Mr. Waduge began his career at Asian Alliance Insurance as a Management Trainee in 2004 and left to USA in 2006 to read for his MSc. Having gained foreign exposure for 3 years he returned to Asian Alliance as the Manager Actuarial. During his 6 year career in Insurance, he has participated in many foreign and local training programmes on Life Insurance and Reinsurance including FALIA (Japan). At present, he is working towards becoming an Associate member of the Institute and Faculty of Actuaries (UK).

Mr. Piyal Hewapathirana, Assistant General Manager – SME

Piyal Hewapathirana started his career as a management trainee in 1996 in the insurance industry and has worked in numerous sales and marketing related functions. Then he joined the banking industry and has worked in many areas of retail banking arms of local and multinational banks. He has specialised in distribution of different financial services and products using non traditional channels. He has received extensive overseas training with Indian Insurance Institute – Pune and HSBC training centers in different parts of Asia.

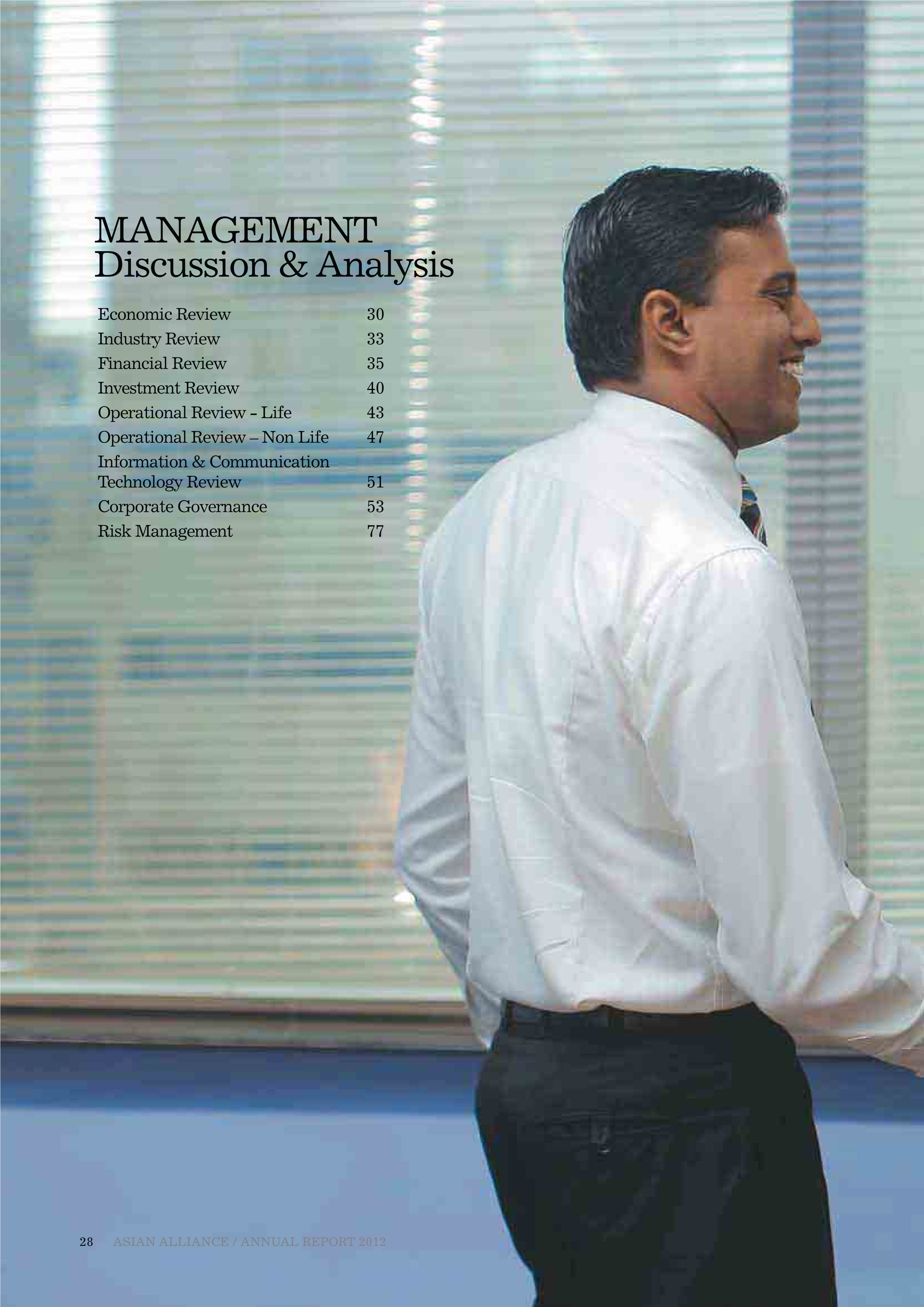
He holds a MBA from the Post Graduate Institute of Management, University of Sri Jayewardenepura, a BSc (Special) Degree from the University of Sri Jayewardenepura and a membership of Chartered Institute of Marketing UK. Further, Piyal is a Chartered Marketer and studying towards his Chartered Membership of the Insurance Institute UK.

Mr. Piyal Gunawardena - Assistant General Manager, National Distribution and Business Development - Non Life

Piyal Gunawardena counts for over 15 years experience in the Insurance Sector and prior to that in the FMCG sector. He has wide exposure in the areas of Sales & Distribution, Business Development, setting up agency distribution channels and Sales Training & Development.

He has also spearheaded key international and local projects related to business development and business transformation. Piyal holds an MBA of the Postgraduate Institute of Management, University of Sri Jayewardenepura and has a BA Special Degree (Hons) from the University of Colombo. He is a certified moderator for Agency Management Training Course (AMTC) and Producer Development Series (PDS). He has gained many professional qualifications, including the prestigious title of Charted Insurance Agency Manager (CIAM) and Professional Financial Advisor (PFA) from LIMRA – USA. Piyal has also received wide international training exposure from various prestigious organisations.

EVOLVES



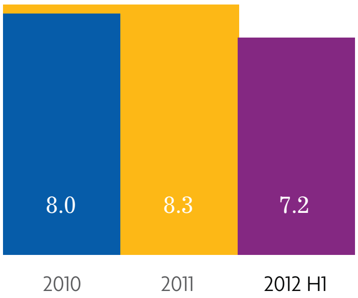
MANAGEMENT Discussion & Analysis

ECONOMIC Review

The year 2012 proved to be extremely challenging for Sri Lanka's economy, although the year began on an optimistic note following two consecutive years of robust growth of 8 per cent in 2010 and 8.3 per cent in 2011. The stage seemed to be set for surpassing the growth rate of the previous years; but as the year progressed, it became amply clear that the economy was growing at a much slower rate than envisioned.

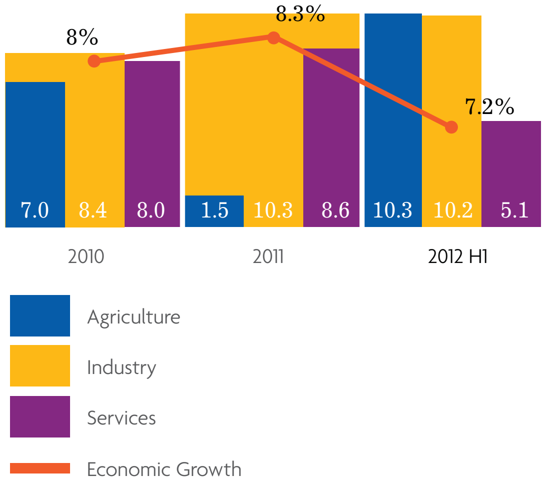
Economic Growth

Percentage



GDP and Sectorial Performance (Growth Rates)

Percentage



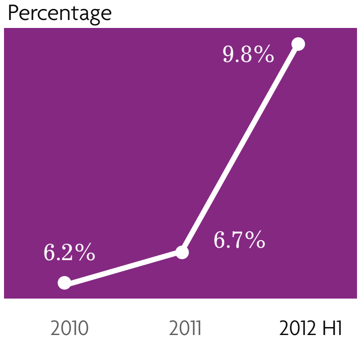
Derailed Growth after a Head Start

At the outset, the economy continued to maintain a high growth momentum, recording a growth of 7.2% in the first half of 2012. One of the main contributors to this growth was the Agriculture sector, which rebounded, growing by 10.3% in the first half of 2012 from a contraction of 1.4% in the first half of 2011. The Industry sector also registered a robust growth of 10.2% during the first half of 2012, which was on top of the growth of 10.3% in the corresponding period of 2011. However, the Services sector witnessed a deceleration to 5.1 per cent during the first half of 2012 from 9.1 per cent in the corresponding period of 2011 due to a host of reasons, chief being the dampening effect of weak global trade on exports and the reduction of imports in response to policy measures implemented.

However, these economic gains turned in the beginning of the second half of the year, when there was a visible slowing down of the economy. Consequently, inflation gradually edged up to a peak of 9.8% in July 2012. This was mainly due to the upward adjustment of several administratively determined prices to reflect developments in international commodity markets; the pass-through of the depreciation of the rupee, supply disruptions on account of drought conditions that have prevailed in major cultivation areas; and the high monetary expansion in 2011.

Inflation

Percentage



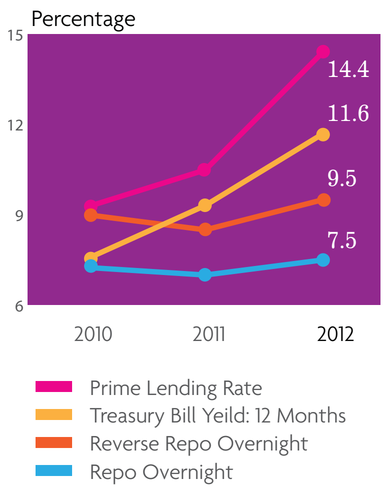
CBSL Adopts Tough Stance

By then, the Central Bank of Sri Lanka, in a bid to rein in possible demand side inflationary pressures arising from high credit and monetary expansion, had already tightened its monetary policy stance by raising policy interest rates and imposing a ceiling on rupee lending during the year. Thus, in response to policy measures adopted, money supply growth and growth of credit extended to the private sector began to decelerate.

Under the Central Bank's policy package of early 2012, more flexibility in the exchange rate was allowed from February 2012, whereby the Central Bank's intervention was limited only to financing part of the petroleum bill payment obligations. Further, policy interest rates were increased and a ceiling on rupee credit growth was imposed to curtail credit expansion which was fuelling imports, while import tariffs were also increased to curb import demand.

The Central Bank raised its policy rates twice during the year, once in February 2012 by increasing the Repurchase rate and the Reverse Repurchase rate by 50 basis points each and again in April 2012 by raising the Repurchase rate by 25 basis points and the Reverse Repurchase rate by 75 basis points. However, to bring about a more rapid curtailment of credit, the Central Bank issued a Direction in March to all licensed banks under Section 101(1) of the Monetary Law Act, imposing a ceiling on rupee lending during the year. Accordingly, credit growth was to be restricted to 18% or Rs. 800 million, whichever is higher while 23% or Rs. 1 billion was allowed for banks that mobilised funds from abroad.

Policy Interest Rates



The policy package has been successful, in that the trade deficit has narrowed since the second quarter of 2012 with the sharp deceleration in import expenditure, despite the decline in earnings from exports. Earnings from exports, which expanded substantially in 2011, declined in the first eight months of 2012 partly as a result of a significant fall in the price of commodities such as cotton and rubber in the world market. The slowing down of economic activity in major economies, particularly in Europe, has also weighed down on export performance.

The exchange rate policy in 2012 was aimed at allowing more flexibility in exchange rate determination, while limiting Central Bank intervention in the domestic foreign exchange market. This policy stance was mainly intended to allow the exchange rate to adjust in line with market developments to rationalise import expenditure, while enhancing export competitiveness. Accordingly, the rupee depreciated by 12.24% against the US dollar during the first nine months of 2012 movements, the rupee depreciated against most other major currencies.

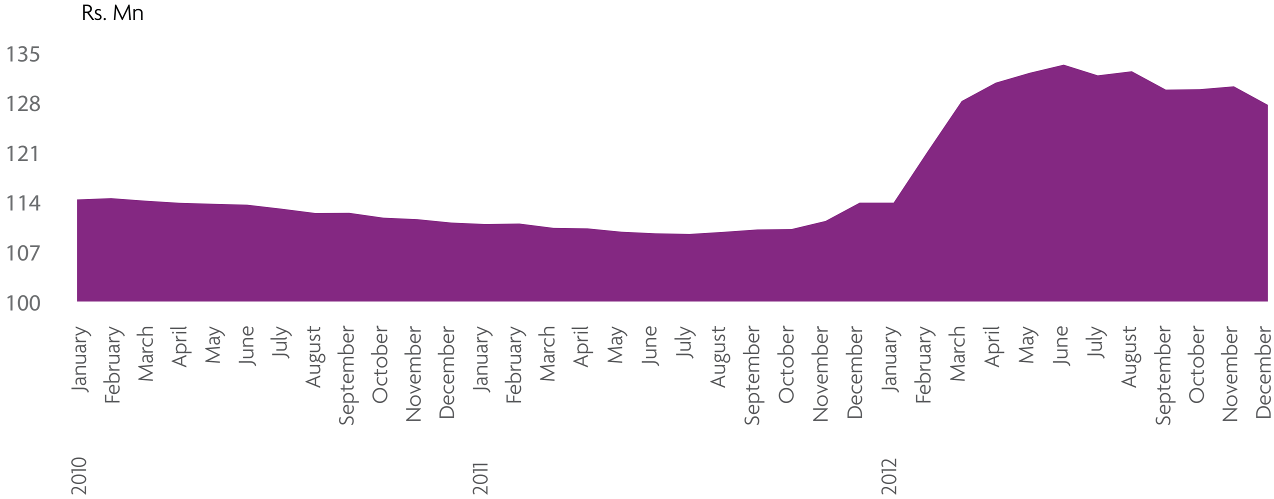
Prospects for 2013

Supported by the gradual recovery of global demand, the Sri Lankan economy is expected to return to its high growth trajectory, expanding by around 7.5 per cent in 2013 and by over 8 per cent in the medium-term. In addition, over the medium-term, consolidation efforts in the fiscal, monetary and external sectors in 2012 are expected to help reorient the economy to its post-war high growth momentum with policy space and automatic macroeconomic stabilisers to face any adverse shocks emanating from global developments or supply disruptions in the domestic market. Growth is expected to be broad based in 2013 with the performance in all sectors of the economy expected to improve.

Benefitting from the recent policy measures taken by the Central Bank and the government to improve export competitiveness, curtail imports and attract foreign financial flows, the external sector is expected to perform well in 2013. Exports are expected to grow with the gradual recovery in global demand, improved export competitiveness and favourable commodity prices. Expenditure on imports, which began to decline from the second quarter of 2012 with the policy measures adopted to curtail imports, is expected to grow at a moderate pace in 2013. The combined outcome of these developments would be an overall improvement in the trade deficit.

ECONOMIC Review

Movement of LKR vs USD



The satisfactory performance in the services account in recent years is expected to continue in 2013, facilitated by higher earnings from tourism, port and airport related activities and information technology services. Earnings from port related activities are expected to increase substantially with the expansion of the capacity of the Colombo port and the maximum utilisation of the Hambantota Port. Earnings from passenger fares and travel and tourism are expected to increase with the growth in tourist arrivals which are projected to exceed 1.25 million in 2013. Meanwhile, workers' remittances, which have grown at a rapid pace during the recent past, are expected to increase further, supported by the expansion of banking facilities, which would help increase the receipt of remittances through formal channels.

The governments' vision to achieve per capita GDP of US$4,000 by the year 2016 seems feasible and once this threshold is achieved, greater disposable incomes and a growing middle class will augur extremely well for the insurance industry. Greater purchasing power will drive demand for sophisticated lifestyle products and Asian Alliance Insurance will be ideally positioned to offer product innovations such as health insurance and senior citizen's insurance to leverage on these emerging opportunities.

The expected gradual recovery in the global economy, improved infrastructure facilities, the gradual liberalisation of capital account transactions and improved investor confidence with a stable macroeconomic environment are expected to improve capital inflows to the country in 2013. Consequently, the overall BOP is expected to record a surplus and accordingly, gross official reserves are expected to rise in terms of equivalent months of imports to a more comfortable level in 2013.

INDUSTRY Overview

The insurance industry demonstrated its characteristic resilience amidst the tough economic conditions that marked 2012-13 and performed satisfactorily. Sri Lanka's insurance industry consists of 22 insurance companies registered with the Insurance Board of Sri Lanka (IBSL), which regulates the industry through the mandate of the Regulation of Insurance Industry Act No. 43 of 2000. There were 41 Insurance Broking Companies and approximately 37,000 insurance agents during the same period.

The financial year under review was noted for conversion of Sri Lankan companies' financial reporting and accounting in accordance with IFRS standards which came about from 1st January 2012. Despite the initial teething troubles arising out of the challenges associated with the adoption, most insurance operators in the industry managed to climb onboard IFRS. This move will be a positive factor whilst inviting foreign investors to invest in the industry as IFRS is an internationally recognized and accepted financial and accounting standard – in essence, a common financial language.

Composition of Industry GWP - 2012

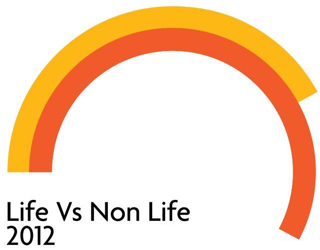
Percentage

14%	Fire
3%	Marine
21%	Medical
62%	Motor

Industry Performance

The total Premium Income from Life insurance reflected a positive growth of 5.46% over 2011 to reach Rs. 37,046 Mn in 2012. The long-term nature of Life insurance makes it a significant contributor towards national development. Life insurance penetration was steady at 1.2%, a percentage of GDP, which reveals the tremendous scope for growth that exists in this segment. The number of policies increased marginally by 1.18% in 2012 to reach 521,220 as compared to 515,084 in the preceding year.

In 2012, the premium income from Non Life grew by Rs. 6,640 Mn over the previous year Rs. 51,989 Mn in contrast to Rs. 45,346 Mn 2011. Motor Insurance continues to sustain a substantial proportion of the industry's Gross Written Premiums, growing by as much as 16.58% despite the increase in vehicle import taxes. Marine insurance registered a negative growth of -0.02% while medical insurance grew at a healthy over 12.29% rate, led strongly by the stand alone medical insurance products introduced by AAI over the last two years.



Life Vs Non Life 2012

Percentage

42%	Life
58%	Non Life

INDUSTRY Overview

Industry Overview

In industry developments during the year, the acquisition of Aviva NDB Insurance by the UK-based AIA reflects the innate attractiveness of the Sri Lankan insurance industry for foreign investors, who are also looking ahead expectantly to Sri Lanka attaining USD 4,000 per capita GDP in 2016, for the market to boom. A growing middle class is expected to spur demand for sophistication and differentiation. In another historic milestone, the bilateral donor agencies FMO and DEG, backed by their respective governments of Netherlands and Germany, has agreed to aquire a joint shareholding of 38% in Asian Alliance Insurance PLC, making it the first insurance company to get institutional investors of this magnitude.

In 2009, IBSL had taken a strategic decision to upgrade their supervisory system with the assistance of the World Bank, to a Risk Sensitive Capital Model for insurance industry supervision in line with international best practices and emerging standards of the International Association of Insurance Supervisors (IAIS). The year under review witnessed a voluntary test drive for this new model based on RBC rules. It was encouraging to see that most insurance companies are in the process of complying with this model, which reflects the high level of preparedness in adopting it completely in the 2013 financial year. This new model will serve to further strengthen the risk management system of insurance companies.

The year also witnessed greater revenue cession to National Insurance Trust Fund (NITF) as ceding of insurance premium increased from 20% to 30% from January 2013. The industry came together to express their concerns through the IBSL and Chambers of Commerce and the Central Bank of Sri Lanka. The fact remains that NITF does not have sufficient retrocession. In the event of a natural calamity, the government-held NITF would have more pressing priorities and perhaps be unable to settle claims in large volumes. The industry is hopeful that this matter will be suitably addressed and resolved to the mutual satisfaction of the industry and the government.

Meanwhile, the dearth of qualified insurance professionals dogged insurance companies through the year. Chartered Insurers are few and far between and this situation is expected to be further aggravated once the splitting of insurance companies into life and non life divisions comes about in 2016. The industry bodies are working closely with Sri Lanka Institute of Information & Technology (SLIT) to attract talent in actuarial sciences. The industry continues to work closely with the Ombudsman to engender a positive and ethical eco system which will eventually help insurance companies to achieve their potential and grow business.

FINANCIAL Review

Belying a very competitive and challenging business environment, Asian Alliance Insurance PLC achieved a Gross Written Premium of Rs.3.2 billion during the financial year under review.

Both Life and Non Life insurance recorded significant top line growth, exceeding Rs.2 billion and Rs.1 billion respectively.

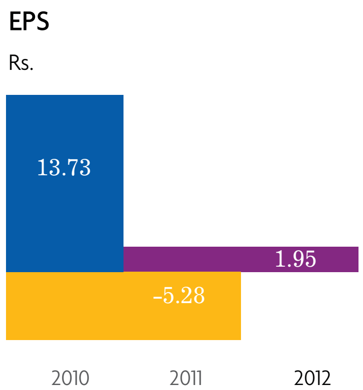
The Company was able to surpass Rs.2.6 Bn in Net Written Premium as a result of the aggressive top line growth strategy adopted during the previous two years. The Company reported a turnaround in profitability in the period under review with a growth of 137% to Rs.73 Mn, driven mainly by robust premium growth of 46%, coupled with a sharp improvement in investment income. The Company achieved a profit of Rs. 156 Mn from its life business for the year, slightly lower as compared to Rs. 200 Mn in the previous year, due to an increase in reserving requirements, while losses in its Non Life business narrowed to Rs. 83 Mn during the year.

In a welcome development, RAM Ratings Lanka has re-affirmed the company's claim paying ability of BBB- for the third consecutive year. This reflects the stability and strength of the Company balance sheet and performance, where the net assets have grown to Rs. 1.5 Bn while the total assets experienced a growth of 23% to end up at Rs. 5.7 Bn.

FINANCIAL PERFORMANCE

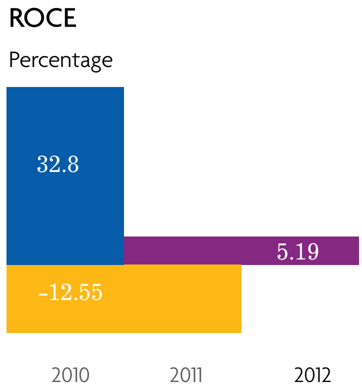
Earnings per Share

Earnings per share refers to the portion of a Company's profit allocated to each issued ordinary share and is also considered to be the most important variable in determining the price of a share. The Company's EPS grew by 137% from negative Rs. 5.28 to Rs. 1.95 in 2012.



Return on Capital Employed (ROCE)

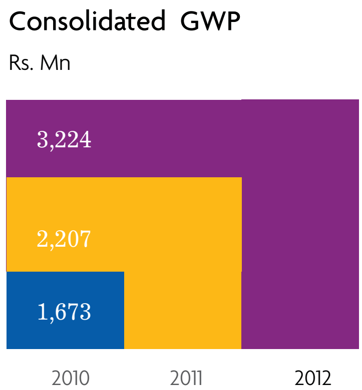
ROCE indicates the efficiency and profitability of a Company's capital investments. During the period under review, the Company increased its ROCE to 5.19% due to an increase in Earnings Before Tax. In light of the negative ROCE in year 2011, the Company has changed its direction once again to provide a return to the shareholders.



Gross Written Premium (GWP)

While most local insurers reported a slowdown in GWP growth in 2012 in both its Life and Non Life business, we continued to post strong premium growth in both segments during the year.

The Company achieved a combined GWP growth of 46% against last year. Life insurance contributed 63% towards the Company's top line. The contribution of Non Life Insurance has significantly improved in the current year to 37%, as against 28% in the previous year. As a result, the Company was ranked at the No. 5 position in the Life insurance industry and placed 6th overall in the insurance rankings as per the figures released by Insurance Association of Sri Lanka.



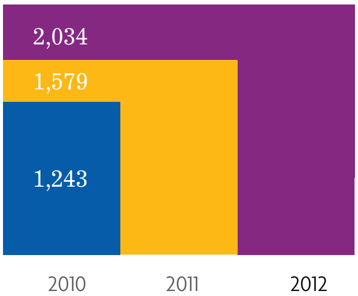
Life Insurance - GWP

In the year under review, the Life division continued to be the major contributor fuelling the Company's growth propelling the Company forward.

In a historic achievement, the Life arm surpassed the Rs.2 Bn GWP for the first time in the history of the Company. As a result, it successfully achieved a growth of 29% against the previous year. This steady growth was equally driven by new business and improved premium persistency rates.

Life GWP

Rs. Mn

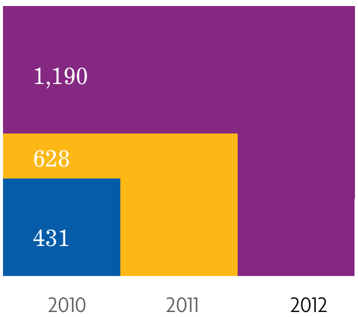


Non Life Insurance - GWP

The Company's Non Life arm surpassed Rs.1 Bn in GWP for the first time in its history, with a growth of 90%. This achievement was a result of investments made in the current year in its distribution capacity.

Non Life GWP

Rs. Mn



An analysis of the class wise performance of the Non Life business indicates that the Miscellaneous class grew by 113%, while Motor recorded a growth of 88% and Fire registered an improvement of 72%.

Class (Rs. Mn)	2011	2012	Growth
Fire	95	163	72%
Marine	41	61	49%
Motor	329	620	88%
Misc	163	346	113%
Total	628	1,190	90%

Reinsurance

The reinsurance outgo as a percentage of GWP in Life insurance has remained constant. In contrast in the Non Life division, reinsurance outgo as a percentage of GWP has dropped by 7 percentage points due to high retention on Motor and Medical classes in Non Life Insurance.

Net Earned Premium

Significant growth in Non Life GWP, which gained momentum from the second half of 2011, has resulted in 138% growth in unearned premium charge, amounting to Rs.270 Mn. Despite the charge, Company Net Earned Premium increased to Rs.2.4 Bn with a growth of 43% due to the increase in Gross Written Premium and reinsurance arrangements.

The unearned premium reserve of the current year will earn its premium in the following year to meet the future claims and acquisition cost of the policies underwritten in 2012.

The Life division contributed Rs.1.7 Bn to the earned premium as against the contribution of Rs. 685 Mn by the Non Life arm.

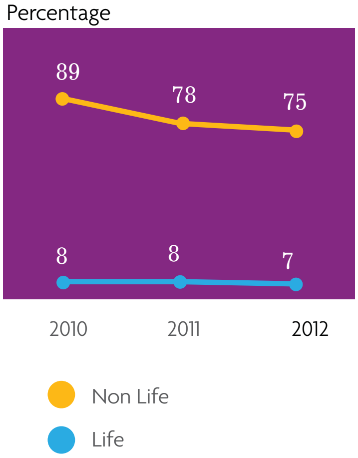
Net Benefits and Claims

Total benefits and claims paid during the period under review was Rs. 796 Mn. It indicates a growth of 59% against Rs 499 Mn in the previous year. From the total benefits and claims paid, Non Life amounted to Rs.535 Mn and Life amounted to Rs.261 Mn. The increase in benefits and claims paid was predominantly due to increase in claims paid of Non Life by 87%. Despite the increase in claims paid, the Non Life arm was able to reduce the claim ratio by 3 percentage points, from 78% in 2011 to 75% in 2012.

Life benefits and claims paid for the year amounted to Rs. 261 Mn, an increase of 23% over the previous year. In the year 2012, 47% of the benefits and claims were related to medical claims, which demonstrates the Company's commitment towards ensuring the 'Living Benefits' of our policyholders.

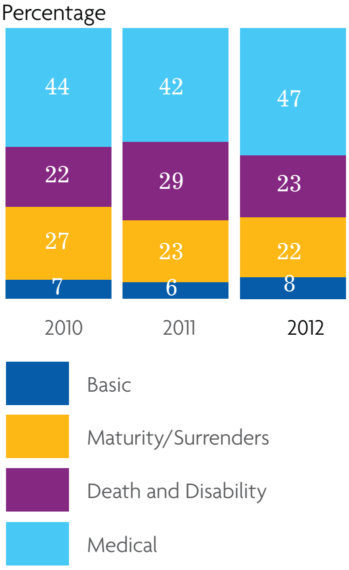
Claim Ratio

Percentage



Life Claims Mix

Percentage

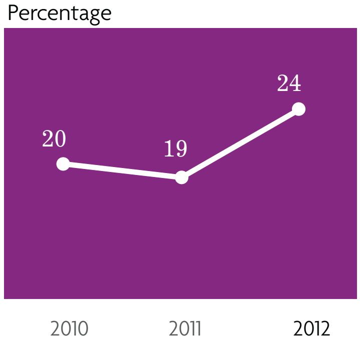


Net Acquisition Cost

The Company incurred a Net Acquisition Cost of Rs. 568 Mn during current year, the net acquisition cost as a percentage to Net Earned Premium was 24% against 19% in the previous year. This increase was mainly due to growth in new business attracted by both Life and Non Life segments.

Net Acq Cost as a % of NEP

Percentage



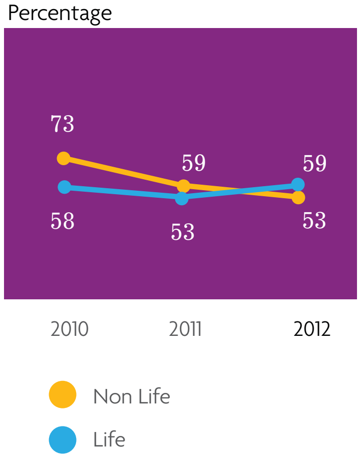
Operating and Administration Expenses

During the financial year, the Operating and Administration expenses of the Company increased by 40% against the previous year, from Rs. 710 Mn to Rs. 993 Mn.

This increase was mainly due to branch expansions, new recruitment in both Life and Non Life sales staff and other cost increases due to inflation.

Expense Ratio

Percentage



FINANCIAL Review

Despite the expansion undertaken within the Non Life division, the expense ratio declined from 59% in 2011 to 53% in the current year. Also significant growth in net earned premium contributed to reduce the expense ratio of the Non Life division.

Investment Income

The Company managed the Life Fund and Non Life Fund as per the guidelines issued by the Insurance Board of Sri Lanka. Accordingly, the bulk of the above two funds was invested in government securities and other in fixed income securities. The Company recorded a total of Rs.452 Mn income on investments.

Life Operating Surplus

Over the past few years, the Life operating surplus has been growing significantly due to high policy value, retention rates, prudent management of insurance claims, surrenders, expenses and the return on investment in the Life segment. During the period under review, the Company recorded a Life operating surplus of Rs.707 Mn, which is a growth of 13% compared to the previous year.

(Rs '000')	2008	2009	2010	2011	2012
Life Operating Surplus	475,577	551,427	622,567	623,656	707,218
Life Surplus to Shareholders	160,000	195,000	253,610	200,000	155,879

Insurance Provision

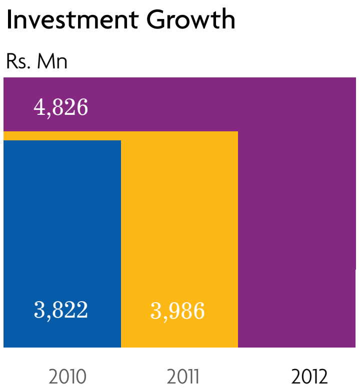
The Company has diligently paid out insurance claims and benefits, and allocated revisionary bonus to its policyholders. After meeting its obligations, the Company has managed to increase the Life fund to the Rs.2.9 Bn mark by the year end, which indicates a year on year growth of 23%. The above provision includes bonus to policyholders and other contingencies as certified by the consultant actuary.

The insurance provision of Non Life has also increased to Rs.682 Mn, an increase of 74% YOY. This growth is a result of increase in new business. In the above provision, the management has taken reasonable steps to ensure adequate provision for Unearned Premium and Claims Outstanding Reserves. The provisions of IBNR, IBNER and UPR have been certified by the consultant actuary.

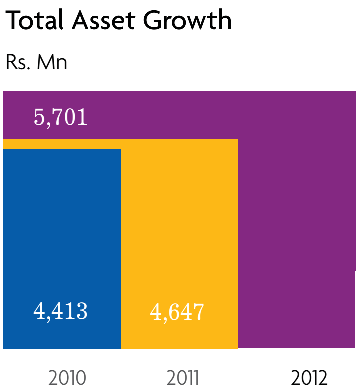
(Rs '000')	2008	2009	2010	2011	2012
Insurance Provision Life	1,203,968	1,560,395	1,929,352	2,353,008	2,904,345
Insurance Provision Non Life	246,139	275,602	275,668	392,777	681,514

Investment and Asset Growth

The total investment of the Company increased to Rs.4.8 Bn, a 21% increase against the corresponding period. Majority of the Life and Non Life Insurance fund was invested in government securities and other fixed income securities according to the guidelines issued by Insurance board of Sri Lanka. The overall combined fund base amounted to Rs.4.82 Bn, of which fixed Income securities consisted of 67.5%, Unit Trusts of 5.3% and 27.2% to equity.



The total assets of the Company increased by 23% to reach Rs. 5.7 billion as at 31st December 2012. Investments represent 85% of the total assets of the Company.



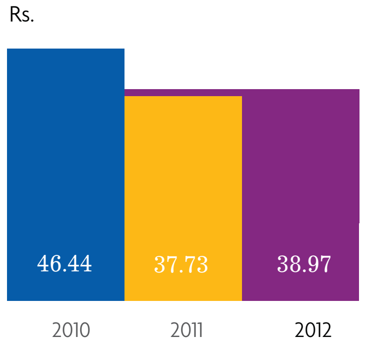
Shareholder Fund

During the year, the Company recorded a 3% increase in the Shareholder's fund, increasing from Rs. 1.4 Bn in 2011 to Rs. 1.5 Bn in 2012. The Shareholder fund mainly consists of Stated Capital and Revenue Reserve, whereby during the period under review retained earnings increased by 142% from Rs.122 Mn in the previous year to Rs. 295 Mn in the current year.

Net Assets per Share

The Company was able to achieve a growth on net assets per share by increasing it by 3% to reach Rs. 38.97 in the current period against the Rs. 37.73 recorded in the previous year.

Net Assets Per Share



Solvency

The Company continued to maintain its solvency margin well above the statutory minimum solvency margin in both Life and Non Life divisions. The statement of solvency and approved assets covering both Life and Non Life division is presented below.

STATEMENT OF SOLVENCY AND APPROVED ASSETS

Statement of Solvency

The statement of solvency for Non Life Insurance and Life insurance has been prepared in accordance with solvency margin (Non Life Insurance) Rules-2004 and solvency margin (Life Insurance) Rules – 2002 and the amendment rules 18th March 2011, which is in line with the formats stipulated by the Insurance Board of Sri Lanka.

	2012 Rs.'000	2011 Rs.'000
Non Life Insurance Business		
Value of Admissible Assets	1,289,432	1,031,026
Amount of Total Liabilities	836,682	674,687
Available Solvency Margin	452,750	356,339
Required Solvency Margin	191,160	92,281
Solvency Ratio	2.37	3.86
Life Insurance Business		
Value of Admissible Assets	3,580,312	2,711,175
Amount of Total Liabilities	3,311,333	2,554,989
Available Solvency Margin	268,979	156,186
Required Solvency Margin	142,881	108,592
Solvency Ratio	1.88	1.44

Statement of Approved Assets

Determined as per section 25 (1) of the regulation of Insurance Industry Act, No.43 of 2000 and the Determination made by the IBSL in terms of the said Act.

	2012 Rs.'000	2011 Rs.'000
Non Life Insurance Business		
Approved assets maintained in Non Life insurance Business	661,080	516,761
Technical Reserve	592,088	323,920
Approved assets in Excess of the technical Reserve	68,992	192,841
Approved assets as a % of the technical Reserve	112%	160%
Required Ratio	100%	100%
Life Insurance Business		
Approved assets maintained in Life insurance Business	3,170,510	2,476,720
Life Insurance Fund	2,904,345	2,353,008
Approved assets in Excess of the Life Insurance Fund	266,165	123,712
Approved assets as a % of Life Insurance Fund	109%	105%
Required Ratio	100%	100%

INVESTMENT Review

Industry

The Insurance Board of Sri Lanka (IBSL) focused on sustainability of the insurance industry with particular emphasis on the financial stability of insurance companies and insurance broking companies, whilst strengthening the regulatory framework, with a view to safeguarding the interests of the policyholders and potential policyholders and the growth of the industry.

The regulations of the Insurance Board of Sri Lanka were last revised to include additional classes of assets, so as to allow insurance companies more options to invest in while diversifying their investment portfolios, albeit along stringent risk-averse guidelines with the objective of protecting policy holders. The significant change implies that from now on, investments in asset-backed securities will be included as admissible assets for investment purposes.

Company

The financial year under review witnessed changes to the composition of the portfolios of each fund. Here, weightage was shifted from government securities to higher yielding fixed income instruments, such as deposits and corporate debt, in addition to a policy change on the Fixed Income Securities portfolio – making a paradigm shift from that of a passive trading stance to an actively traded portfolio.

With the above shift in the management of the Fixed Income Portfolio the Company benefited immensely in an environment of fluctuating rates and an underperforming stock market. Forecasting and taking positions based on fixed income fluctuations helped in reaping the benefits of an actively managed Fixed Income Securities portfolio and allowed the Company and each division in turn to enhance investment income, which in turn served to recuperate some losses incurred on the equity portfolios of both funds.

In the realm of equity, a continuation of the policies adopted by the Investment Committee of focusing on fundamentally strong counters with a bullish view on financial sector stakes, prevailed through the year.

As a result, yields on the equity portfolio showed a remarkable resilience to price fluctuations, especially when taking into account the YTD loss on the All Share Price Index of -7.1. However, certain investments carried over from early 2011 continued to weigh down the equity portfolio as reflected in the financials.

Portfolios under Management

The composition of the funds witnessed a pivotal shift, with an allocation of part of the stated capital for Life division. This was a strategic move by the management with Insurance Board approval in readiness for splitting the Company in to separate entities. As such, in the context of investment and for the purpose of monitoring performance of each fund, the composition is as follows:

Life Portfolio

Non Life Portfolio

Life Shareholders' Fund

Non Life Shareholders' Fund

Life Portfolio

In order to capitalise on market fluctuations the Investment Committee decided to allocate significant quantum of the Life Fund government securities portfolio for trading purposes. The volatility in rates witnessed through the year allowed the fund to earn returns significantly over budgeted yields, through both interest and capital gains on trading. In order to diversify the portfolio and earn higher yields within the Insurance Board guidelines, additional funds were routed to maximise investments in deposits, unit trusts and corporate debt.

This resulted in the equity portfolio of the fund reducing both as a percentage of the overall base as well as in comparison to previous year. Further, continued restructuring resulted in disposal of unprofitable equities.

The asset mix of the fund at year end is as follows:

Life Investments 2012

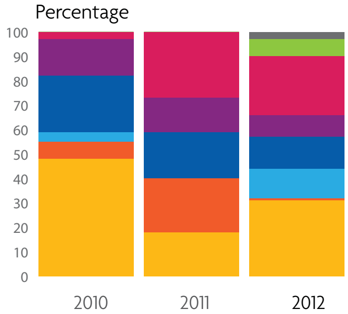
Percentage

- 31% Treasury bonds
- 1% Repo
- 12% Treasury bills
- 13% Listed Equity
- 9% Debentures
- 24% Term Deposits
- 7% Unit Trust
- 3% Commercial papers

The fund grew by 24% due to the steady growth of GWP and performance of its investment portfolio, which resulted in an enhanced investment income of 37%. The increase in the fund base is shown below:

Investment Fund Base - Life

Percentage



- Treasury bonds
- Repo
- Treasury bills
- Listed Equity
- Debentures
- Term Deposits
- Unit Trust
- Commercial papers

Non Life Portfolio

The fund diversified its portfolio to include in investments in deposits and unit trusts, which allowed it to spread risk and achieve higher yields. In addition, investments were made in fundamentally sound equities, which in turn outperformed the All Share Price Index for the year. Weightage given to corporate debt was maintained in order to take advantage of high corporate borrowing yields due to limitations placed on lending of banks.

The asset mix of the fund at year end is as follows:

Non Life Investments 2012

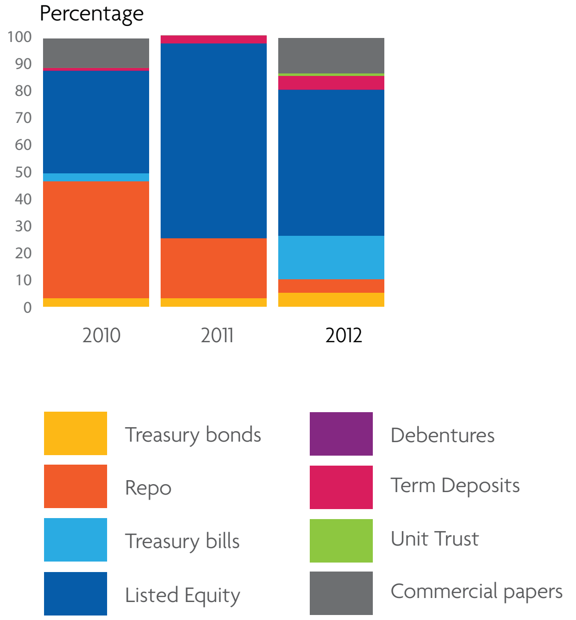
Percentage

- 5% Treasury bonds
- 5% Repo
- 16% Treasury bills
- 55% Listed Equity
- 0% Debentures
- 5% Term Deposits
- 1% Unit Trust
- 13% Commercial papers

Meanwhile, the investment base grew due to the significant growth of Non Life business and recorded a 14% YOY growth. Further, it demonstrated an impressive growth of investment income of 143% as a result of restructuring both the equity portfolio as well as the Fixed Income Securities portfolio. Growth of the investment base can be seen below:

INVESTMENT
Review

Investment Fund Base - Non Life



Shareholders' Funds

Shareholder's funds continued to have a higher weightage towards equity, although the composition allowed the fund to realise an increase in yield through appreciation of said portfolio. Further the allocation of part of teh stated capital of Life Division to support the new business strain of the Life operations through the creation of Life shareholders' funds. This will assist the Company in its preparations towards splitting the operations into two separate entities.

Forecast

The macro economic targets that the country has set for itself hinge on vibrant growth in all sectors combined with a balanced interest rate and inflation rate regime. Obviously, the achievement or non-achievement of one target will have a knock-on effect on other economic factors. Going ahead, forecasted action plans on investments will be adjusted through close monitoring of macro factors. Central Bank action taken during the year in terms of policy decisions will also be studied in order to optimise investment strategies and portfolio management.

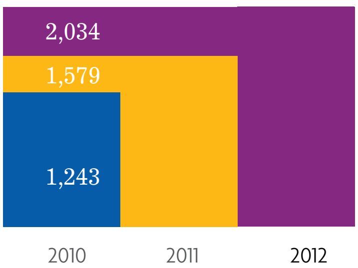
Operational Review - Life

Operational Review –Life

The Life division had earmarked clear goals for the period under review: consolidate core competencies, maintain above industry customer satisfaction levels and set benchmarks for GWP growth. We are pleased to report that all these milestones were achieved during the year 2012 and Life experienced its highest new business growth in the last 5 years. This financial year has been particularly noteworthy because of the fact that the Company was able to rise together as a cohesive unit to aspire for and achieve corporate goals and exceed targets for key performance indicators. We were successful in maintaining a keen focus on enhancing the quality of our portfolio whilst simultaneously achieving quantitative growth. The Life division has performed exceptionally well across all its key performance indicators (KPIs), namely, new business growth, GWP, client value (Average Policy Value) and operational profits.

GWP

Rs. Mn

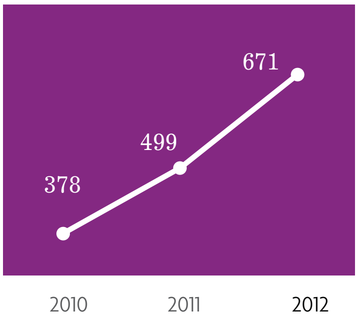


Record New Business Levels

The division recorded new business growth of 34% and revenue growth of 29%, which indicates the velocity of growth we experienced during the year. The Company forged ahead to carve out a bigger slice of the insurance market by recording 29% on the total GWP growth against an industry average of 5.5% (Source: Insurance Association of Sri Lanka, IASL, statistics as at December 2012). This phenomenal growth in market share reflects the rapid rate at which AAI's Life business is capturing new business.

New Business-
First Year Premium

Rs. Mn



Further, Life new business increased by 29%, from Rs. 1,579 Mn. in 2011 to Rs. 2,034 Mn. in 2012. The average premium size per Life policy sold now stands at Rs. 74,000, up from Rs. 63,000 in the previous year, which is the highest in the industry. Statistics released by IASL reveal that this is four times higher than the industry average uptil the third quarter in 2012.

GWP **29%** Growth

Due to the nature of our unique Life products, we were able to further strengthen our positioning on the protection platform, steering clear of providing investment products deceptively disguised as Life products. Our customers' well being and prosperity is paramount and our protection based approach to selling insurance guarantees customers' peace of mind and security of their hard-earned monies. AAI's Life fund now stands at Rs. 2.9 Bn. During the financial year under consideration, 13,427 new Life policies were sold, which marks an increase of 16% over the previous year.

We worked closely with our reinsurers to maintain good underwriting standards and sales excellence, which has awarded us the distinction of giving an excellent claims experience for the customers. AAI has been awarded a higher reinsurance automatic acceptance limit of Rs. 15 Mn, which provides us enough scope for

OPERATIONAL Review - Life

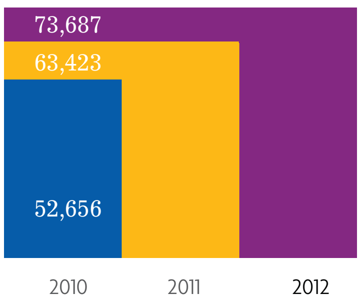
leveraging further. As a result of prudent selection of risks in the past years, the Company was able to revise the retention limit upto Rs. 1 Mn.

Customer Retention

Refusing to compete on price by cutting corners in customer service, AAI has forged ahead by offering world-class customer service and security of investment without stooping to make quick gains. As a result of this approach, the Company has, within a short time span of 11 years, been able to command a loyal base of customers. Our customer retention indicated by persistency rates, have risen to 78% which is indicative of our superior customer service and product innovation. During the period, we were able to pursue excellence in improving the average policy value and enhancing productivity per advisor, both of which we are proud to say are the highest in the industry. Our advisors were able to generate an industry record average productivity of Rs 1 Mn GWP, which reflects the dynamism of the team of advisors, underscored by the professional training that they receive at AAI.

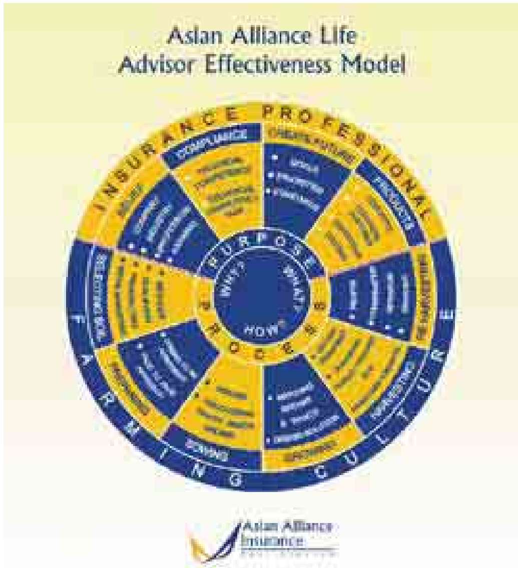
Average Policy Value

Rs.



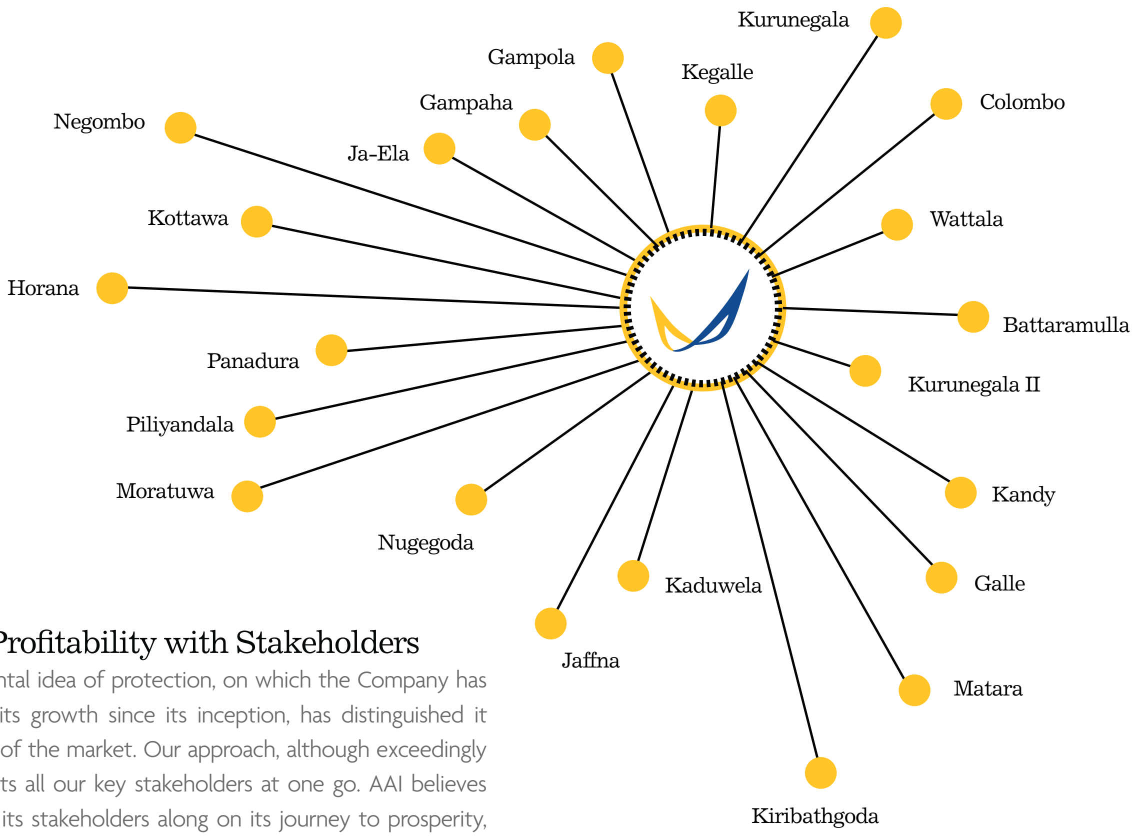
Professional Advisors

The AAI team of advisors undergoes comprehensive and rigorous training in all aspects of their operation and they are deployed in the market only after the expert trainers are satisfied that they have been equipped with the necessary knowledge and skills to be the face of the Company. This heavy investment in training and development is bearing fruit today, as AAI possesses the highest operational profitability in our history. As the Company's IT system is integrated fully, we will have even greater insights into employee aspiration and thereby be in a better position to build a winning team.



National Congress 2012

Quality Awards 2012



Sharing Profitability with Stakeholders

The fundamental idea of protection, on which the Company has consolidated its growth since its inception, has distinguished it from the rest of the market. Our approach, although exceedingly simple, benefits all our key stakeholders at one go. AAI believes in carrying all its stakeholders along on its journey to prosperity, and fittingly, employers, shareholders and customers alike receive a slice of the pie. This win-win approach unleashes multiple benefits amongst all stakeholders and feeds into a positive cycle, where each one strives to benefit the other so that they can all share the resultant benefits. This year as well, we have had a record number of qualified insurance professionals who expressed eagerness to join the Company, which indicates that AAI is now a preferred employer in the insurance industry. As a Company operating ethically, strong customer and employee loyalty levels are just desserts we would like to savour and preserve.

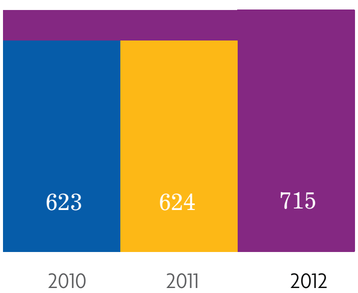
10 New Branches in 2013

Strategic Distribution

AAI will establish 10 new branches in 2013 with the aim of driving productivity and expanding operations to reach a wider range of customers and market segments.

Operating Surplus

Rs. Mn



OPERATIONAL Review - Life

Products

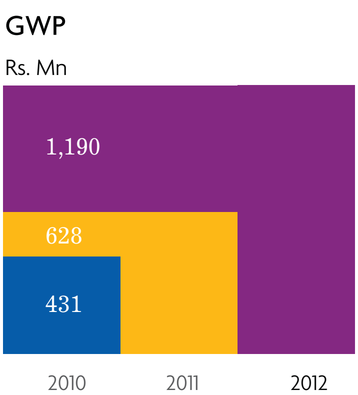
AAI continues to offer tailor-made insurance solutions and prides itself on its attention to discerning selected customers who value the protection platform on which the Company functions. The Life business continues to operate on the Protection platform which has proved success in 2012. New market diversification strategy, AAI Life arm announced the launch of its new life insurance solutions, broad basing the healthcare platform of the Company.

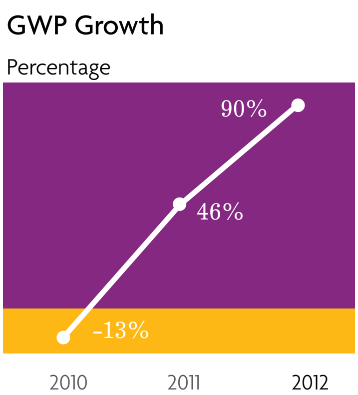
Favourable Outlook

The future prospects look bright for life insurance in the country and the exceptional profitability of AAI's Life division during the year under review reflects this potential. The low penetration levels of Life insurance and Sri Lanka's ageing population provide the necessary platforms for brisk growth. As the per capita income rises, greater disposable income will dictate the demand for life and health insurance products and services. The private health care sector can do much to alleviate this burden, while functioning as a safety net as well as to supplement the medical insurance needs of an individual or a family unit, in the absence of a national contributory medical insurance scheme. The life division shifted 20% of its new business to medical insurance from 10% in the previous year. We are placing an aggressive thrust on long-term health care policies along with life policies. We expect to maintain growth at a steady clip of 30% over the next three years. In fact, the senior management took a strategic decision to moderate growth levels at a sustainable rate. We will consolidate gains achieved during the year by enhancing our enterprise structure, honing processes and stepping up capacity development. The year 2013 will be about developing team strengths backed by the strongest systems and best practices to position AAI amongst the top 3 players in the industry.

Operational Review - Non Life

During 2012, the Non-Life division was able to leverage ambitiously on the Softlogic Group alliance to cross the billion-rupee target. Our landmark journey from a Rs. 600 mn division 12 months ago into a Rs. 1.19 bn as at end of 2012 is marked by courageous expansion, strategic growth and unparalleled commitment by every single employee and stakeholder. In the previous year, we proudly announced a GWP growth of 40% for the Non Life division and an increase in technical reserves by 64%; but during the year under review, we have been able to improve on those notable figures even further. In recording the strongest financial results in 2012, we demonstrate immense faith in the conviction that the mammoth effort channeled into achieving our ambitious topline growth will propel the Company into the league of big players in the near future.

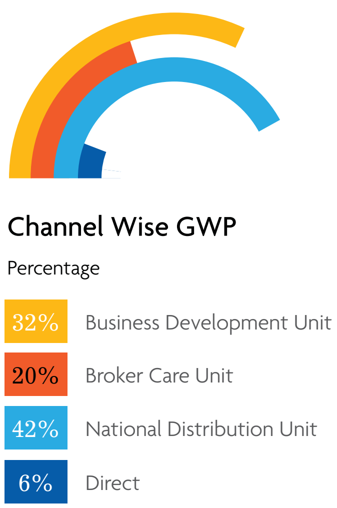




We are proud to declare that the Non Life division succeeded in boosting and sustaining our competitive advantage in GWP growth and channel wise distribution. The profile of the Company has been strengthened further with its acquisition by Softlogic Group and we have wasted no time in harnessing the goodwill and enhanced financial credibility by staking claim to key clients via retail, corporate and broking channels.

Key Challenges

Motor insurance forms a major proportion of Non Life business and the division faced a host of challenges in the industry during the period under review, the salient challenge being the government's move to raise import duties on vehicles. This resulted in a reduction on revenues from motor insurance coupled with the fact that we also felt severe pressure from claims on motor spare parts, which



have become more expensive due to a combination of devalued currency and higher import duties. Keeping in mind that about 52% of premium is derived from motor insurance, it was a hard-won battle to keep the healthy topline. Some of the strategies we employed were concentrating and aggressively working on certain categories of motor vehicles, focusing on retail market and developing of new channels.

OPERATIONAL Review - Non Life

New Products

- Free consultation with the world's 5000 best doctors
- Only local insurer to offer individual medical cover of up to one million rupees

Novel Health Insurance

In 2012, we took our newest product offering - Asiri Alliance health insurance - to the people. As one-of-a-kind stand alone health insurance solutions, our products are revolutionising the health insurance market in the country and exposing people to greater convenience and security. AAI enjoys the unique advantage of having the reputed Asiri Group of Hospitals as a group company, which has strengthened our positioning and underscored the undeniable benefits offered for availing medical care at Asiri Hospital, Asiri Surgical Hospitals, The Central and Asiri Hospital Matara (Pvt) Ltd. This is probably the only instance in Sri Lanka of a Group of Companies owning both a hospital group as well as a listed insurance company and will naturally result in opportunities to provide and innovate useful health care insurance products. Considering the fact that Asiri and The Central Hospitals possess a large client base, providing attractive healthcare plans would significantly contribute towards alleviating the increasing burden on healthcare costs, as well as to improve standards of preventive healthcare.

Medical insurance has vast potential in Sri Lanka, with its high ageing population, second only to Japan. The life expectancy for Sri Lankan females and males has increased up to 80 and 76 years respectively, according to latest Health Ministry statistics. Therefore, it is important to address the emerging health care needs through affordable medical insurance schemes

Exploring Alternative Business Channels

However, although health insurance products generated a buzz and attracted hundreds of queries, they did not perform to the extent envisaged at the time of their launch. In our view, this was largely due to higher cost of living, compounded by high interest rates and pressure on currency rates, which put a squeeze on disposable incomes. Judging by the enthusiastic response to the products, we remain bullish about the future and see bright prospects ahead for our pioneering health insurance solutions. There is no doubt that rising medical fees demand affordable healthcare insurance solutions to eliminate the financial burden. However, translating the 'need' into actual purchase requires a multi-pronged strategy that will roll out early next year. We have realised the need for out-of-the-box thinking and the need for new innovation in sales, such as via credit cards, work site marketing, premium installments and so on. Now that we have reached critical mass as a billion rupee division, we are in the process of scrutinising our systems and processes closely to ensure we have best practices in place.

Product-wise Income

Motor and health insurance were the two classes where high growth levels are expected and brought in substantial revenue to the Company. However, there was a corresponding increase in claims in these two classes as well, which required expert claims management skills. We plan to mitigate these emerging challenges by installing a team of internal assessors who are tasked with streamlining claims management whilst infusing greater transparency in the entire procedure. The Company is also looking to forge strong relationships with spare parts dealers so that our expense ratios remain manageable in the face of increasing costs of spare parts due to extraneous economic conditions.

Branch Expansion

Class Wise GWP-

Percentage

14% Fire

5% Marine

29% Miscellaneous

52% Motor

The year under review witnessed rapid branch expansion in strategic locations to bring in maximum revenue. As a result of this aggressive branch proliferation, expenses remained relatively high during the year compared to the previous year. We expanded branches from 08 in 2011 to 34 by end of 2012 in addition to leveraging on 07 outlets of the Softlogic Group. As a result, customer service levels will be enhanced further with the additional resources to serve customers faster. The coming financial year will consist of ensuring our branches are working to maximum capacity whilst taking care to maintain our presence at Softlogic branches for convenience of customers.

Branch Expansion in the National Distribution Unit

2 Standalone Branches

25 Life Branches

7 Softlogic Branches

Developing Our Talent Pool

Our transformation into a billion rupee company in respect of Non-Life operations is a reflection of our committed team. Further, we have 06 trained Associate Members of Chartered Insurance Institute UK and between them possess a wealth of expertise adding heft to our service and evoking confidence amongst all stakeholders. Our brokers, intermediaries and staff were a source of immense support through the year, rising beyond expectations by exerting full throttle cooperation to ensure the division achieved its target of one billion rupees. Training and development of our people is the cornerstone of our success and as such Asian Alliance boasts the highest percentage of staff engaged in enhancing professional qualifications in the field of insurance. The Company has planned strategic development of its talent pool and in time to come we aim to have the most highly skilled technical and sales teams in the sector.

OPERATIONAL Review - Non Life

Enhanced Reinsurance Capacity

One of the key contributors to our robust topline growth was the enhanced reinsurance capacity granted to the Company at the beginning of 2012, which helped us significantly in attracting corporate business rather than taking recourse to coinsurance. Our treaty panel is led by Non Life Insurance Corporation of India, Trust RE, Best RE, Malaysian RE, Asian RE and New India Assurance. These entities are reputed in their own right and now this formidable consortium backs reinsurance for AAI's customers, which is a testimonial to our core strengths. This achievement is all the more notable as many of these reinsurers were affected by steep claims due to catastrophic natural disasters during the year, and yet, they were willing to partner our growth. Furthermore, Lloyds of London is onboard AAI's panel of reinsurers to support and protect its marine cargo customers. . In addition we were also successful in securing a reinsurance facility for medical Insurance from Munich Re which is unique to Sri Lanka and we aim to aggressively pursue this line of business in the new financial year.

Future Outlook

As a division, we are naturally excited about having surpassed the billion-rupee mark. It automatically places the Company on a sound financial track which empowers us to step back and critically assess our client base, shed any unproductive business and strengthen the quality of our portfolio by taking on discerning customers who appreciate service over price points. We will be actively seeking out growth avenues in the coming months and plan to restructure our entire claims processing systems for motor and health insurance solutions.

The Company has taken a decision to approach the new financial year on multiple strategic paths with the aim of leap-frogging into the top 8 players from our 13th position as at 3rd quarter. The induction of a team of specially trained assessors will be the highlight of this endeavour to gain profitability. We have been working with freelance assessors thus far and now our dedicated team of assessors will usher in much needed consistency in assessments. Stronger claims management processes and control of expenses are high on our list of priorities in the upcoming financial year.

Casting a glance at the insurance industry, we hope sanity will prevail in the market with regard to under-cutting of prices. The impending splitting of life and non life businesses in 2015 demands a move away from price point competition to risk-based capital. In our view, all insurance players should be gearing towards the transition if they wish to retain their competitive edge. We also hope that there will be a greater level playing field when it comes to bidding for large scale infrastructure projects. As of now, only the state insurer benefits from large infrastructure projects in the country. Greater focus on Retail, Small and Medium scale entities will define our march into the new financial year whilst maintaining close scrutiny of expenses and claims.

INFORMATION & Communication Technology Review

The strategic implementation of IT as a partner in our business has altered our perception of how much more technology can work for the business beyond mere deployment of technology. As the Softlogic alliance evolves and matures, we are strategically exploring how wide and deep we can leverage on IT to unleash best practices across all our functions. There is no doubt about the fact that under the period under review AAI has derived agility and fluidity from this unwavering focus on IT, enabling us to optimize the company's systems and processes to surmount tomorrow's technological challenges with ease. Today, AAI's leadership in technology implementation and the competitive advantages it is distilling as a result has made it a model group company. The transformation of our IT capacity as a conduit for future profitability is being cited as a model to be emulated by other companies in the group.

In the Global Spotlight

During the period under review, AAI remained focused on strengthening IT infrastructure with the objective of meeting its evolving business needs. We consistently set high standards in IT operations to deliver quality real-time insurance solutions to our portfolio of customers. The successful integration of the Oracle E-business suite into our home-grown front-end operational system, iSYS, has perfected our service offering of core insurance transactions and our customer databases. In fact, the Oracle implementation at Asian Alliance Insurance is being touted as one of Oracle's success stories and is being given global publicity by the world renowned company. (View the case study on Oracle website: http://www.oracle.com/us/corporate/customers/customersearch/asian-alliance-insurance-1-ebs-cs-1578387.html)

Empowering the HR Function

During 2012, the IT team handed over the successfully designed HR Time, Attendance and Recruitment system to the HR department. This implementation has enhanced the HR function manifold, providing a clear snapshot of an employee's complete history - which includes appraisals, balanced scorecard and so on. The level of transparency that this system has infused in the HR function is evident and renders future career planning for employees an easy task. We are also currently in the process of upgrading the data centre and installatiing of a new security division to undertake information security.

The IT team was also successful in designing a new balanced scorecard system to evaluate employee performance tailored to the Company's business goals. This dynamic and improved balanced scorecard system is a highlight of the year's unique system development by the ITC department in conjunction with the HR department. The fully customised system is proving beneficial in helping leverage the Company's employee assessment mechanism.

Technical Support for Underwriters

During the year, we also achieved the challenge of deploying industry standard firewall systems to safeguard our IT assets and networks from cyber security threats...

INFORMATION & Communication Technology Review

The Company has also established strong links with the Disaster Management Centre to be able to gain real-time information on natural disasters occurring around the country, such as flash floods, landslides and so on, so that this information strengthens our underwriters who can then make informed judgments. Our system is being designed as a risk based intelligent system through which our underwriters will be able to make informed decisions. Once the underwriter receives a geographical snapshot and underwrites in accordance, the Company gains reinsurance benefits.

Boosting IT Security

We sustained our focus on enhancing IT security in our system through 2012/13. Installing new features to strengthen a watertight IT system is an ongoing need and AAI ensures it remains on the cutting edge of IT security. Globally, methods of committing fraud are getting more sophisticated and we are making sure that we remain abreast of the latest trends in securing sensitive information.

In a step to boost IT security to the maximum, the Company underwent a review by Sri Lanka Computer Emergency Readiness Team (SLCERT), to assess our level of IT security and recommended measures to fill any gaps that were identified in the process. In a bid to demonstrate the Company's commitment to protecting and securing sensitive client information, the Company is planning to set up a separate Security unit, based on the recommendation of the IT Security Review. Equipped with specialised skill sets, this unit will provide end-to-end IT security solutions to effectively mitigate any security risks and protect critical business processes. During the year, we also achieved the challenge of deploying industry standard firewall systems to safeguard our IT assets and networks from cyber security threats.

Vision for the Future

Our endeavour going ahead is to fully revamp the legacy infrastructure and elevate AAI to a virtualised environment to support envisaged business growth and manage large volumes of business expected in the months and years ahead. Our expectation is that these focused investments in technology will give returns on investments in time to come. Now that the Company's IT division has become a true business partner, shouldering the responsibility of taking the company closer to realising its business objectives, our roadmap for the future is clear. A concentrated effort will be made to improve business intelligent MIS tools which will help us to mine valuable information to enable us to make informed and strategic decisions.

As the alliance evolves and matures, group synergies are coming to the fore. Impressed by the implementation and integration of AAI's systems, the Softlogic Group has sought our expertise in driving similar efficiencies in other group companies. Keeping in mind that the Group is very diverse, the eventual vision is to bring about as much integration as is possible by driving scalability and optimising Group resources. We are single-minded about the fact that this IT overhaul will offer substantial synergy and greater accessibility to customers. We expect AAI's state of the art technology to lend greater agility to the Company, thereby giving it a competitive edge through enhanced business intelligence.

Corporate GOVERNANCE

Asian Alliance Insurance PLC is a quoted, public limited liability Company engaged principally in the business of Insurance. It is regulated and governed by Regulation of Insurance Industry Act No. 43 of 2000 as amended by Act No.27 of 2007 and Act No.03 of 2011, Companies Act No.7 of 2007, Financial Transaction Reporting Act No.6 of 2006 and the Listing Rules of the Colombo Stock Exchange (CSE). Whilst Your Company's compliance status with corporate governance allies with CSE Rules on Corporate Governance and the code of best practices of corporate governance jointly issued by the Securities and Exchange Commission (SEC) and the Institute of Chartered Accountants of Sri Lanka (CA), where compliance is carried out voluntarily basis, your Company also practices high standards of Corporate governance based on the following guidelines:

- Respecting the Rights of the shareholders and helping shareholders to exercise those rights
- Recognizing the legal, contractual, social and market-driven obligations to non-shareholder stakeholders
- Skilled Board Members with relevant understanding to review and challenge management performance
- Integrity in choosing corporate officers and board members and working within the Code of Conduct which promotes ethical and responsible decision-making
- Disclosure of material matters in a timely manner and ensuring all investors have access to clear and factual information with a high level of accountability and transparency

Your Company is internally governed mainly by the Articles of Association. Code of Conduct for Employees is laid down in the Staff Handbook which is handed over at their appointment and awareness of the internal policies is created during the employee engagement programme. The Staff Handbook, together with internal Human Resource communications on Code of Conduct, sets out in detail the business ethics in relation to avoidance of conflict of interests, insider dealings, acceptance of gifts, misuse of confidential information and unfair business practices.

Your Company adheres to the Corporate Governance Practices recommended by Code of Best Practices issued jointly by the SEC and the Institute of Chartered Accountants Sri Lanka (CA) and Section 7.10 of the Listing Rules of the CSE relating to Corporate Governance.

Shareholder Rights & Equitable Treatment

Rights of the shareholders are protected by allowing them to transfer shares freely subject to any restriction placed by Companies Act No 07 of 2007 and CSE Rules, providing access to financial and other relevant information with published annual report, half-yearly statements in the CSE and adhering to CSE Rules. Shareholders equitably exercise their voting power in the Annual General Meeting. All shareholders of Asian Alliance are treated equally on the basis of one vote per ordinary share. Asian Alliance has not issued any non-voting ordinary shares or preference shares.

Obligations to Other Stakeholders

Every other stakeholder group including Customers, Employees, Regulators and Social Network are given due recognition when taking decisions. By adhering to the Code of Ethics for Insurance Companies (Best Practices), your Company ensures that following principals are met:

- Security of Compliance with Companies Act No 07 of 2007, Regulation of Insurance Industry Act, No 43 of 2000, Strike, Riot, Civil Commotion & Terrorism Constitution
- Conducting business honestly and fairly and with due diligence in the best interest of customers and the integrity of the market
- Strengthening the Financial Position, Solvency Position of the Company in an ongoing manner
- Ensuring that no conflict of interest arises in the related party transaction
- Providing adequate disclosures to customers by presenting policies factually and accurately to customers and fairly dealing with the claims
- Having systems to 'know our customers' and there by adhering to Anti-Money Laundering Rules
- Always maintaining Privacy & Confidentiality of Customers

- Compliance with IBSL Regulations on relationships with intermediaries
- Conducting all activities in a socially responsible manner
- Adhering to the Insurance Board of Sri Lanka Code of Best Practices for Advertising and Marketing Communications.

Employees of your Company are governed by the performance culture, where this is initiated as a strategic planning process to set organizational direction and objectives aimed at business risk management. The strategic planning process within Your Company is a bottom-up process, achieved by obtaining the cooperation and contribution from staff at different levels, thereby creating a sense of belonging and commitment whilst harnessing their creative talents. Based on corporate strategies, the Board sets objectives for the year in consultation with the Executive Committee. In setting the strategies and objectives, the Board reviews the Company's vision, mission, competitive position and internal and external market through a SWOT analysis. Based on this information the Board and the Executive Committee identify the future direction of the Company in the planned period and formulate business strategies and objectives to drive your Company within the defined parameters.

Every employee in Your Company is provided with a target, linked to objectives and a dead line to achieve the allocated targets. The achievement of these targets is monitored closely at different levels on a periodic basis throughout the year, which demonstrates management by objective and contribution plus compensation culture within the Company. Rewards are strongly linked to performance. Mechanisms used to evaluate performance are stated below;

- Evaluating the Company performance on a monthly basis at Executive Committee meetings
- Providing the Board with monthly management information together with a variance analysis and KPIs.
- Performance of employees are measured using the balanced scorecard system

Weekly discussion with Management regarding weekly performance and the growth achieved in each week compared to the same week in the previous year and also performance measured as budget vs. actual.

Skilled Board

The Board of Directors assumes the primary duty of promoting the success of the Company by directing and supervising its affairs in a responsible and effective manner. Composition of your Board adheres to the Code of Best Practices jointly issued by SEC and ICASL, whereby the majority of the Board Members are non-executive directors and one-third of the Board composition is Independent Non-Executive Directors. All Board Members are experts in their respective fields, bringing their skills and experience to the Board in diverse areas and as such their cumulative input is beneficial in directing the Company towards success. The Board performs its supervisory function through the sub-committees such as Nomination Committee, Remuneration Committee, Audit Committee and Investment Committee.

Integrity

Effective Governance in Human Resources Policy has led us to recruit skilled employees who will be drivers of success. The Company competes with the best in the industry for skills development and strives to attract, motivate and retain the right caliber of people. In your Company, we believe our ability to achieve success depends on engaged and high performing employees. Employees at AAI remain our most valuable resource and therefore we believe in recognizing and rewarding them for their performance and contribution towards the success of the business. We are only able to achieve this in a culture of recognition and acknowledgement along with a proper Human Resource governance process. The Board of the Company has delegated its financial authority to the Director/CEO and the management through a comprehensively documented Manual of Financial Authority (MOFA). The CEO is authorized to delegate his authority to the Executive Committee of the Company as necessary for the efficient functioning of the operations of the Company. The Executive Committee will be responsible and accountable for the financial transactions and commitment made for and on behalf of the Company. The scope and extent of such responsibility and accountability is to be precisely set out and approved by the Board of Directors of the Company. The authority delegated in the manual to the Executive Committee have three definable stages, these are:

- Recommendation
- Approval
- Payment

An Authorized Officer at each stage will be responsible and held accountable to the Board of Directors and the Directors/CEO via the operational aspect.

Disclosure & Transparency

Your Company discloses financial statements as per the listing rules. The accuracy of financial reporting is heavily dependant on a well controlled Information Technology (IT) platform. We have implemented the following IT controls over financial reporting to ensure accuracy and integrity of information used for financial reporting:

- Access security controls in order to prevent unauthorized use of the system.

- New integrated IT system in place (ie Oracle) which provides customized reports on time for decision-making.

- Periodic back-up facility for confidential data which is stored both on-site and off-site in the Company.

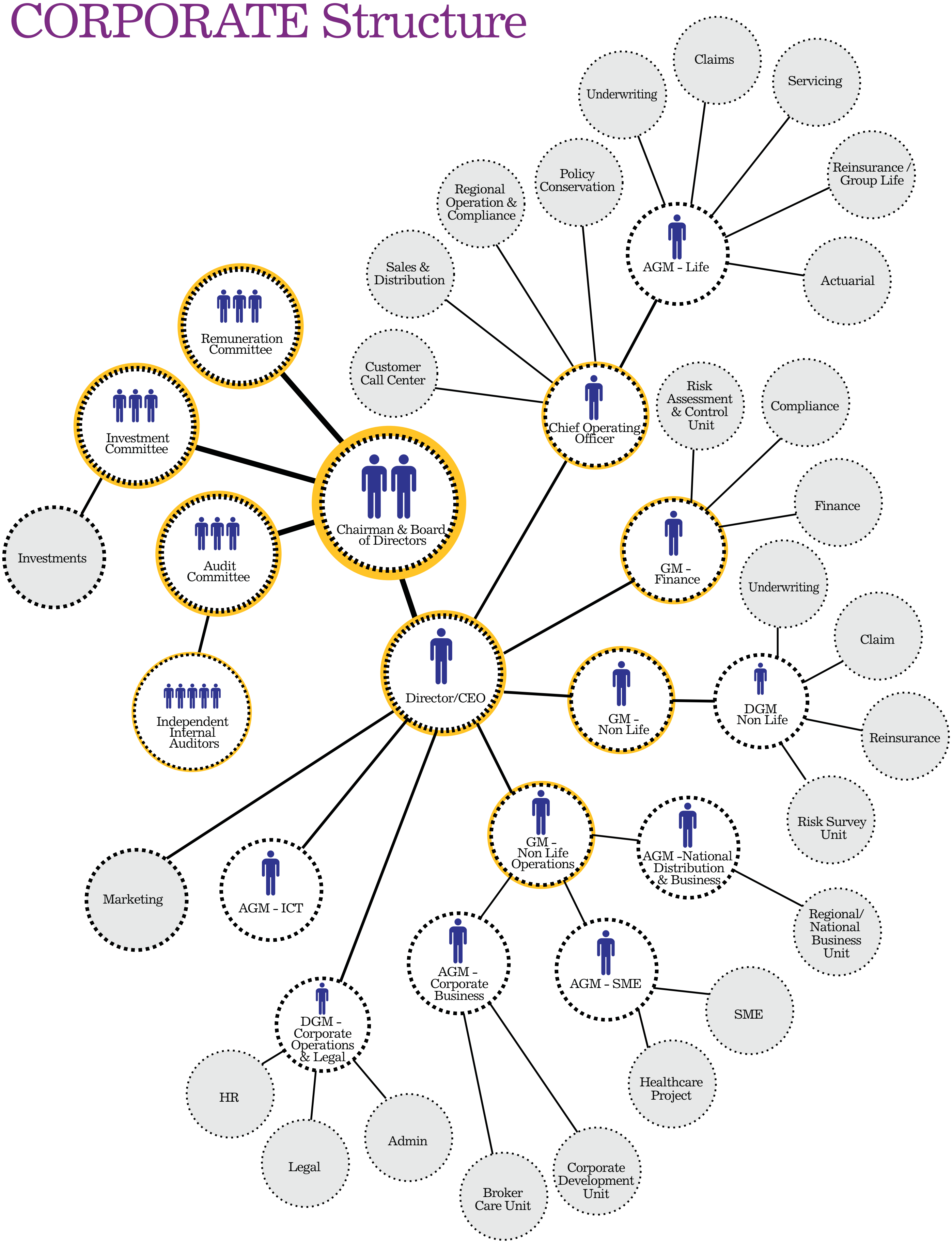
- Replicate server (Real-time, online) at SLT-IDC for the back up of Life and Non-Life systems.

- System software controls over effective acquisition, implementation and maintenance (according to industry best practice) of system software, security software and utility software.

- A new firewall has been installed in order to protect the corporate network from external system penetration and threats

- An IT security review has been conducted by a third party institution (Sri Lanka Cert) in order to identify any gaps or security shortcomings in the Company's IT System.

CORPORATE Structure



AAI Compliance with the Code of Best Practice on Corporate Governance issued jointly by ICASL and SEC is given below;

Section No.	Principle	Status	Company's Commitment
1	THE COMPANY		
A	DIRECTORS		
A.1	THE BOARD		
Principle A.1	Every public company should be headed by an effective Board.	√	The Board of Directors of AAI comprises of 07 Directors. The CEO is an Executive Director and other directors hold office in a Non-Executive capacity. The day to day monitoring of operations of the organization has been delegated to the Director/CEO and the Executive Committee governed by policies, procedures and authority given by the Board of Directors. The Directors are responsible to shareholders for ensuring that the Company is appropriately managed and that it achieves its objectives. It meets regularly to determine the Company's operating and financial performance and to provide oversight that the Company is adequately resourced and effectively controlled. The specific duties of the Board are clearly set out in its terms of reference that address a wide range of corporate governance issues and lists those items that are specifically reserved for decision by the Board. Some of the important matters requiring Board approval include : Company Objectives, strategies and business plans ; Transactions outside delegated limits of the management ; Financial reporting and internal controls ; Capital structure ; Dividend policy ; Investment policy ; The constitution of management sub-committees and key business policies, including the remuneration policy.
A. 1.1	The Board should meet regularly (at least once every quarter)	√	During the year the Board met on 04 occasions. Apart from this, the sub committees met on a regular basis. (Audit Committee 05 times, Remuneration Committee 02 times)

Section No.	Principle	Status	Company's Commitment
A.1.2	The Board should , • Ensure formulation and implementation of a sound business strategy; • Ensure that the CEO and management team possess the skills, experience and knowledge to implement the strategy; • Ensure an effective succession strategy is in place for CEO and senior management; • Ensure effective systems are set up to secure integrity of information, internal controls and risk management; • Ensure compliance with laws, regulations and ethical standards; • Ensure all stakeholder interests are considered in corporate decisions; • Ensure that the Company's values and standards are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations; • Fulfill other Board functions that are vital, given the scale, nature and complexity of the business concerned.	√	The entire Board of Directors is collectively responsible for the formulation, implementation and monitoring of business strategies of your Company. In order to do so, the Board appoints sub committees of the main Board to assist the main Board in fulfilling its stewardship function by reviewing systems of internal control, internal and external audit, risk management, IT system and financial reporting to shareholders. The main responsibilities of the Board include: Setting, reviewing, directing, approving and monitoring corporate strategies. Providing guidance to Director/CEO and senior management and ensuring they possess the relevant skills, experience and knowledge to implement the strategies. Setting strategic targets and implementation plans and evaluating its effectiveness via periodic Board meetings with the Management Ensuring the effectiveness of internal controls and risk management via review of internal audit reports, compliance reports and management letters(external auditors) Appointing CEO and succession planning of senior Management Discharging its duties through various sub committees of the main Board Monitoring performance against budgets on a regular basis via monthly review of financial performance reports Compliance with laws, regulation (IBSL) and statutory payments via review of compliance reports Reporting to shareholders on their stewardship Reviewing the effectiveness of annual and interim financial statements for reporting purpose Reviewing Company's values and standards that are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations Ensuring the integrity of financial information, internal controls, risk management and financial statements

Section No.	Principle	Status	Company's Commitment
A.1.3	The Board, collectively, and Directors, individually, must adhere to the laws of the Country. There should be a procedure to obtain independent professional advice where necessary.	√	The Board is collectively and individually committed to meet all compliance requirements applicable to the Company. Furthermore, the Board is empowered to seek independent professional advice from external parties whilst performing their duties for effective directorship functions at the Company's expense.
A.1.4	All Directors should have access to the advice and services of the Company Secretary. Any question of the removal of the Company Secretary should be a matter for the Board as a whole.	√	PR Secretarial Services (Pvt) Ltd is the Corporate Secretary for the Company.
A.1.5	All Directors should bring independent judgment to bear on issues of strategy, performance, resources (including key appointments) and standards of business conduct.	√	All Directors are expected to make decisions objectively and independently in the best interest of the Company.
A. 1.6	Every Director should dedicate adequate time and effort to matters of the Board and the Company, to ensure that the duties and responsibilities owed to the Company are satisfactorily discharged	√	The Board Members dedicate adequate time for the affairs of the Company by attending Board meetings, Board sub-committee meetings and by making decisions via circular resolutions. In addition, the Board members have meetings and discussions with management as and when required.
A. 1.7	Every Director should receive appropriate and comprehensive training when first appointed to the Board of a Company, and subsequently as necessary.	√	Every new Director, who is inducted into the Company is given comprehensive training and further existing directors are also provided with training opportunities in order to ensure that they could discharge their duties effectively.
A.2	CHAIRMAN AND CHIEF EXECUTIVE OFFICER (CEO)		
Principle A.2	There should be a clear division of responsibilities at the head of the Company, which will ensure a balance of power and authority.		
A.2.1	A decision to combine the posts of Chairman and CEO in one person should be justified and highlighted.	√	The Chairman and CEO roles are separate at the Company.

Section No.	Principle	Status	Company's Commitment
A.3	CHAIRMAN'S ROLE		
Principle A.3	The Chairman should preserve order and facilitate the effective discharge of Board functions.		
A 3.1	The Chairman should conduct Board proceedings in a proper manner and ensure, inter-alia, that: • There is an effective participation of both Executive and Non-Executive Directors • All Directors are encouraged to make an effective contribution, • A balance of power between executive and non-executive Directors is maintained; • The views of Directors on issues under consideration are ascertained; • The Board is in complete control of the Company's affairs and alert to its obligations to all shareholders and other stakeholders.	√	The Chairman is responsible for leading the Board and for its effectiveness. The Chairman ; Maintains the balance of power between Executive and Non-Executive Directors Ensures the appropriate composition of the Board Supports the CEO to manage day-to-day operations of the Company. Ensures that the Board is in full control of the Company's affairs Sets agenda for the Board meeting with the support of the Company Secretary The Chairman is also the ultimate point of contact for shareholders at the AGM.
A.4	FINANCIAL ACUMEN		
Principle A.4	The Board should ensure members within it possess sufficient financial acumen and knowledge to offer guidance on matters of finance.	√	The Board consists of qualified, experienced and knowledgeable members on matters of finance. Members of the Board with financial knowledge are as follows : Asoka Pathirage – Over 25 years experience at senior managerial capacities J. H. P Rathnayeke- Independent Non-Executive Director, LL.B (University of Colombo), LL.M. (University of London), Attorney-at-Law of the Supreme Court of Sri Lanka, Solicitor of England and Wales Ramal Jasinghe – Executive Director, MBA, University of Sri Jayawardenapura, Chartered Marketer, FCIM, FAMS Mohan Ray Abeywardena – Independent Non-Executive Director, MBA (University of Wales), CIM (UK) T. M. Ifthikar Ahamed – Non-Executive Director, MBA, University of Wales Sujeewa Rajapakse – Independent Non-Executive Director, MBA (PIM), FCA Suraj N. Fernando – Non-Executive Director, FCMA, FCCA, DIPM, MCIM

Section No.	Principle	Status	Company's Commitment
A.5	BOARD BALANCE		
Principle A.5	It is preferable for the Board to have a balance of Executive and Non-Executive Directors.		
A.5.1	At least two or one-third of the total number of Directors on the Board, whichever is higher, should be Non-Executive Directors.	√	The Board comprise of 06 Non-Executive Directors and 01 Executive Director .
A.5.2	Two or one-third of Non-Executive Directors, whichever is higher, should be independent.	√	Three Directors are independent out of the 06 Non-Executive Directors. This is more than the required one-third composition.
A.5.3	For a Director to be deemed 'independent' they should be independent of management and free of any business or other relationship that could materially interfere with the exercise of their unfettered and independent judgment.	√	The three independent Non-Executive Directors fulfill the criteria of being deemed independent and free from any business relationship.
A.5.4	Each Non-Executive Director should submit a signed and dated declaration annually of his/her independence or non-independence against the specified criteria.	√	Each Non-Executive Director submits a signed and dated declaration annually of his independence or non-independence against specified criteria as set out in Appendix 7A of Colombo Stock Exchange listing rule section 7.10.2(b)
A.5.5	The Board should make a determination annually as to the independence or non-independence of each Non-Executive Director based on the above declaration and other information available to the Board.	√	The Board's determination of the independence or non independence of each of the directors is declared on page 108 in the Annual Report.
A.5.6	In the event the Chairman and CEO is the same person, the Board should appoint an independent Non-Executive Directors to be the "Senior Independent Director".	N/A	These roles are separate in The Company
A.5.7	The Senior Independent Director should make himself available for confidential discussions with other Directors who may have concerns .	N/A	Please refer above comment

Section No.	Principle	Status	Company's Commitment
A.5.8	The Chairman should hold meetings with the Non-Executive Directors only, without the Executive Directors being present, at least once each year.	√	Board meets with the Remuneration Committee twice a year to evaluate Directors / Chief Executive Officer's performance and to agree on his remuneration package.
A.5.9	Where Directors have concerns about the matters of the Company which cannot be unanimously resolved, they should ensure their concerns are recorded in the Board Minutes.	√	All decisions were taken unanimously during the year.
A.6	SUPPLY OF INFORMATION		
Principle A.6	The Board should be provided with timely information in a form and of a quality appropriate to enable it to discharge its duties.		
A.6.1	Management has an obligation to provide the Board with appropriate and timely information.	√	Management provides the Board with timely Financial and Non-Financial information on a regular basis. In addition to this, they provide ad hoc information as requested by the Board.
A.6.2	The minutes, agenda and papers required for Board Meetings should be provided at least 07 days before the meeting.	√	Board papers, agenda and Board Minutes (previous) to be tabled one week prior to Board meeting.
A.7	APPOINTMENTS TO THE BOARD		
Principle A.7	There should be a formal and transparent procedure for the appointment of new Directors to the Board.		
A 7.1	A Nomination Committee should be established to make recommendations to the Board.	√	The Board has appointed a Nomination Committee. It comprises of three Non-Executive Directors. Namely; Mr. Asoka Pathirage – Chairman (Non-Executive Director) Mr. Paul Rathnayake- Member (Independent Non-Executive Director) Mr. Ray Abeywardena – Member (Independent Non Executive Director)
A 7.2	The Board Composition should be assessed annually by the Board.	√	Board Composition is subject to be reviewed annually and new appointments carried out as necessary.
A 7.3	Upon the appointment of a new Director, the Company should disclose information to shareholders.	√	Any appointments of new Directors are disclosed to the Colombo Stock Exchange. Further the Annual Report includes profiles of each Director which would provide information to the shareholders.

Section No.	Principle	Status	Company's Commitment
A.8	RE-ELECTION		
Principle A.8	All Directors should be required to submit themselves for re-election at regular intervals and at least once every three years.		
A.8.1	Non-Executive Directors should be appointed for specified terms subject to re-election and to the provisions in the Companies Act	√	In agreement with the Articles of Association, each Director other than the CEO and any nominee Director will retire by rotation and will stand for re-election.
A.8.2	All Directors, including the Chairman of the Board, should be subject to election by shareholders at the first opportunity after their appointment, and to re-election thereafter at intervals of no more than 03 years.	√	To comply with the Article of Association, the Directors who have been appointed to the Board during the year hold office until the next AGM, and are required to retire and make themselves available for re-election by the shareholders.
A.9	APPRAISAL OF BOARD PERFORMANCE		
Principle A.9	Boards should periodically appraise their own performance.		
A.9.1	The Board should annually appraise itself on its performance in the discharge of its key responsibilities.	√	The performance of the Board and its sub-committees are evaluated by the Chairman.
A.9.2	The Board should also undertake an annual self-evaluation of its own performance and that of its Committees.	√	The performance Evaluation of the Chief Executive Officer, who is the only Executive Director is conducted by the Remuneration Committee.
A.9.3	The Board should state how such performance evaluations have been conducted in the Annual Report.	√	The Performance of the Chief Executive Officer is carried out based on the Balance Score Card.
A.10	DISCLOSURE OF INFORMATION IN RESPECT OF DIRECTORS		
Principle A.10	Shareholders should be kept advised of relevant details in respect of Directors.		
A.10.1	The Annual Report should include Details of all Directors.	√	Information regarding Directors is disclosed in the Annual Report. This includes profiles of the Board members (page 20), details of Directors Interests in Contracts (page 111), details of Board meetings (page 57) and Board Sub Committee meetings (page 57)

Section No.	Principle	Status	Company's Commitment
A.11	APPRAISAL OF CHIEF EXECUTIVE OFFICER (CEO)		
Principle A.11	The Board should be required, at least annually, to assess the performance of the CEO.		
A 11.1	Every fiscal year, the Board, in consultation with the CEO, should set, in line with the short, medium and long-term objectives of the Company, reasonable financial and non-financial targets that should be met by the CEO during the year.	√	The Board in Consultation with the Director/CEO sets out both Short term and Long term targets for the company that are aligned to the mission and vision of the Company. The achievement of each of these objectives is monitored and necessary proactive and reactive action taken.
A 11.2	The performance of the CEO should be evaluated by the Board at the end of each year.	√	Based on the agreed targets and objectives the performance of Director/CEO is evaluated by the Chairman and the Remuneration Committee.
B	DIRECTORS' REMUNERATION		
B.1	REMUNERATION PROCEDURE		
Principle B.1	Companies should establish a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his/her own remuneration.		
B.1.1	The Board should set up a Remuneration Committee to make recommendations to the Board.	√	A Remuneration Committee has been appointed together with agreed terms of reference, policies and responsibilities of the Committee are set out on page 117 of this Annual Report.
B.1.2	Remuneration Committees should consist of Non-Executive Directors and should have a Chairman.	√	The Remuneration Committee consist of Non- Executive Directors. Details of the Committee are provided in the Remuneration Committee Report on page 117.
B.1.3	The Chairman and members of the Remuneration Committee should be listed in the Annual Report.	√	This information is provided in the Remuneration Committee Report.
B.1.4	The Board as a whole should determine the remuneration of Non-Executive Directors, including members of the Remuneration Committee, within the limits set in the Articles of Association.	√	The details of the Remuneration Committee's composition, policies and responsibilities are set out on page 117 of this Annual Report.
B.1.5	The Remuneration Committee should consult the Chairman and/or CEO and/or professional consultant in discharging their responsibilities.	√	The Committee consults Director/CEO where necessary and has access to professional consultants.

Section No.	Principle	Status	Company's Commitment
B.2	THE LEVEL AND STRUCTURE OF REMUNERATION		
Principle B.2	Levels of remuneration of both Executive and Non-executive Directors should be sufficient to attract and retain the Directors needed to run the Company successfully. A proportion of Executive Directors' remuneration should be structured to link rewards to corporate and individual performance.		
B.2.1	Remuneration Committee should provide attractive packages to Executive Directors.	√	The remuneration package of the Director/CEO who is the only Executive Director is in accordance with market rates.
B.2.2	The Remuneration Committee should determine remuneration relative to industry standards and Company performance.	√	The Remuneration Committee studies the industry standards and structures the remuneration package accordingly.
B.2.3	The Remuneration Committee should be sensitive to remuneration and employment conditions and remuneration in the Company or Group when determining remuneration.	√	Remuneration Committee considers the Group remuneration levels when deciding the Company remuneration package, keeping in mind market rates.
B.2.4	The performance-related elements of remuneration of Executive Directors should be designed and tailored to align their interests with those of the Company and main stakeholders.	√	Performance related elements of the remuneration package of the Director/CEO and Management staff is linked to corporate and individual performance.
B.2.5	Executive share options should not be offered at a discount.		N/A
B.2.6	Remuneration Committee should follow the provisions set out in the code in designing schemes of performance-related remuneration.	√	Director/CEO and employees at all levels are eligible for an annual performance linked bonus based on achievement of business and profitability targets.
B.2.7	Remuneration Committees should determine appropriate compensation commitments.	√	There are no terminal compensation commitments other than gratuity payments.
B.2.8	Compensation commitments should be decided, where initial contract does not explicitly provide for them.	√	As above.
B.2.9	Levels of remuneration for Non-Executive Directors should reflect the time commitment and responsibilities of their role, taking into consideration market practices.	√	All Non-Executive Directors are paid a monthly Director fee in line with the market practice.

Section No.	Principle	Status	Company's Commitment
B.3	DISCLOSURE OF REMUNERATION		
Principle B.3	The Company's Annual Report should contain a Statement of Remuneration Policy and details of remuneration of the Board as a whole.		
B.3.1	Details of the Remuneration Committee, Remuneration policy and aggregate remuneration paid to Directors should be stated in the Annual Report.	√	The Remuneration Committees' report together with the Remuneration Policy adopted by the Company is given on page 117.
C	RELATIONS WITH SHAREHOLDERS		
C.1	CONSTRUCTIVE USE OF THE ANNUAL GENERAL MEETING (AGM) AND CONDUCT OF GENERAL MEETINGS		
Principle C.1	Boards should use the AGM to communicate with shareholders and should encourage their participation.		
C.1.1	All proxy votes should be counted.	√	The Company records proxy votes together with other shareholder votes.
C.1.2	Companies should propose a separate resolution at the AGM for each substantially separate issue.	√	The adoption of the Annual Report together with the Financial Statements is proposed as a separate resolution.
C.1.3	The Chairmen of the sub committees should be present at the AGM to answer any questions.	√	The Chairman of the Board ensures that the Chairmen of Board Sub Committees and External Auditors are present at the AGM to answer any queries raised by the shareholders.
C.1.4	Notice of the AGM and related papers should be sent to shareholders before the meeting, within the determined notice period.	√	The Annual Report together with the notice of meeting and related documents are sent to shareholders at least 15 days prior to the date of the AGM.
C 1.5	A summary of the procedures governing voting at General Meetings should be sent with every notice.	√	An Agenda including the procedures of the meeting is also sent with the Agenda.
C.2	MAJOR TRANSACTIONS		
Principle C.2	Directors should disclose all proposed corporate transactions, which if entered into, would materially alter/vary the Company's net assets base.		
C.2.1	Prior to a company engaging in or committing to a 'Major Transaction', Directors should disclose to shareholders all material facts of such transaction.	√	As per the disclosure requirement of Company's Act, No. 7 of 2007 of section 192, the Board of Directors disclose all transactions that they have with the Company.

Section No.	Principle	Status	Company's Commitment
D	ACCOUNTABILITY AND AUDIT		
D.1	FINANCIAL REPORTING		
Principle D.1	The Board should present a balanced and understandable assessment of the Company's financial position, performance and prospects.		
D.1.1	The Board's responsibility to present a balanced and understandable assessment extends to interim and other price-sensitive public reports and reports to regulators, as well as to information required to be presented by statutory requirements.	√	The interim financial statements and Annual Report are published according to Sri Lanka Financial Reporting Standards (SLFRS) and circulated to shareholders and Colombo Stock Exchange within the stipulated time period.
D.1.2	The Directors' Report should contain declarations by the Directors.	√	Directors Report includes a declaration by the Directors addressing the provisions set out in the code.
D.1.3	The Annual Report should contain a statement setting out the responsibilities of the Board for the preparation and presentation of financial statements, together with a statement by the Auditors about their reporting responsibilities.	√	The Auditors Report is on page 121 and the report containing the Directors responsibilities in the preparation and presentation of financial statements is provided on page 108.
D.1.4	The Annual Report should contain a "Management Discussion & Analysis".	√	Management Discussion & Analysis section is included on page 28.
D.1.5	The Directors should report that the business is a going concern.	√	This information is set out in the Directors' Report on page 108 of this Annual report.
D.1.6	If the net assets of the Company fall below 50% of the value of the Company's shareholders' funds, the Directors shall summon an EGM to inform shareholders.	√	If such a situation does arise, an EGM will be called.
D.2	INTERNAL CONTROL		
Principle D.2	The Board should maintain a sound system of internal control to safeguard shareholders' investments and Company's assets.		
D. 2.1	The Board should review the effectiveness of the internal control system annually.	√	The Audit Committee regularly monitors the effectiveness of internal controls and the Board is collectively responsible for sound establishment of internal controls. Assurance of this is achieved via meetings between Internal audit and Management representatives with the Audit Committee.

Section No.	Principle	Status	Company's Commitment
D. 2.2	Companies which do not have an internal audit function should from time to time review the need for one.	√	The Company's internal audit function has been outsourced to an independent auditor - Ernst & Young Advisory Services (Pvt) Ltd, which is permanently stationed at the Company and it reports the audit findings with Management responses to the Audit Committee.
D.3	AUDIT COMMITTEE		
Principle D.3	The Board should establish formal and transparent arrangements for considering how they should select and apply accounting policies, financial reporting and internal control principles, and in maintaining an appropriate relationship with the Company's Auditors.		
D.3.1	The Audit Committee consists of Non-Executive Directors, a majority of whom should be independent.	√	Audit Committee comprises of two independent non-executive Directors and the Chairman of the Committee is a Fellow Member of Institute of Chartered Accountants of Sri Lanka. The details of Audit Committee's composition and functions are set out on page 115 of this Annual report
D.3.2	The Audit Committee should review the scope and results of the audit and its effectiveness, and the independence and objectivity of the Auditors.	√	The Audit Committee contributes to the effectiveness of the internal audit function by: Reviewing the internal audit budget, staffing and audit plan Reviewing the material findings of internal audit reviews and Management's response Reviewing the effectiveness of internal controls, including IT controls and security, overall control environment and accounting and financial controls Obtaining internal auditors recommendations regarding internal controls and accounting procedure Reviewing internal auditors appointment, performance and replacement and the approval of the external Auditors. Reviewing major financial exposures and review the process to monitor, control and reporting such exposures.
D.3.3	The Audit Committee should have a written Term of Reference, dealing clearly with its authority and duties.	√	The Report set out on page 115 indicates that the Committee operates within clearly defined terms.
D.3.4	DISCLOSURES		
	The names of Directors in the Audit Committee and their independence together with a report from the Committee should be provided .	√	This information is disclosed in the Audit Committee Report which can be found on page 115.

Section No.	Principle	Status	Company's Commitment
D.4	CODE OF BUSINESS CONDUCT & ETHICS		
Principle D.4	Companies must adopt a Code of Business Conduct & Ethics for Directors and members of the Senior Management team and must promptly disclose any waivers of the Code for Directors or others.		
D.4.1	The Company must adopt a Code of Business Conduct & Ethics for Directors and members of the senior Management team. The following important topics need to be addressed : • conflict of interest; • corporate opportunities; • confidentiality; • fair dealing; • protection and proper use of Company assets; • compliance with laws, rules and regulations (including insider trading laws); • encouraging the reporting of any illegal or unethical behaviour.	√	The Company has adopted a Code of Business Conduct that has set guidelines for the Board and Senior Management.
D.4.2	The Chairman must affirm that there is no violation to the Code.	√	The Report from The Board of Directors on page 108 confirms that there has been no material violations of the Company's Code of Business Conduct and Ethics during the year.
D.5	CORPORATE GOVERNANCE DISCLOSURES		
Principle D.5	Directors should be required to disclose the extent to which the Company adheres to established principles and practices of good Corporate Governance.		
D.5.1	The Directors should include a Corporate Governance Report in the Annual Report.	√	This report stands witness to the Board's commitment to the Code of Best Practice on Corporate Governance issued by the ICASL and SEC and the Rule No. 7.10 of Listing Rules issued on Corporate Governance by CSE. Further, the Corporate Governance reports sets out the systems and processes in the Company to ensure maximum compliance.

Corporate GOVERNANCE

Section No.	Principle	Status	Company's Commitment
SECTION 2:	SHAREHOLDERS		
E	INSTITUTIONAL INVESTORS		
E.1	SHAREHOLDER VOTING		
Principle E.1	Should be encouraged to ensure their voting intentions are translated into practice.		
E.1.1	A listed Company should conduct a regular and structured dialogue with shareholders based on a mutual understanding of objectives.	√	The Annual Report, Quarterly Financial Statements and AGM are used as a form of communication to the shareholders. Furthermore, the Chairman ensures that adequate attention is given to the views of the shareholders at the AGM.
E.2	EVALUATION OF GOVERNANCE DISCLOSURES		
Principle E.2	Institutional investors should be encouraged to give due weight to all relevant factors.	√	This report explains the prevailing governance structure in the Company and would meet the needs of Institutional investors.
F	OTHER INVESTORS		
F.1	INVESTING/ DIVESTING DECISION		
Principle F.1	Individual shareholders should be encouraged to seek independent advice in investing or divesting decisions.	√	All Shareholders are provided with adequate information in the Annual Report to assist them with their decision-making process. This includes the following reports- Chairman's Message CEO's Review Management Discussion and Analysis Sustainability Report Corporate Governance Report Annual Financial Statements
F.2	SHAREHOLDER VOTING		
Principle F.2	Individual shareholders should be encouraged to participate in General Meetings and exercise their voting rights.	√	All Shareholders are encouraged to cast their vote at the General Meetings.

Section 7 of the Listing Rules of Colombo Stock Exchange

AAIs Compliance status of section 7 of the Listing rules of Colombo Stock exchange are as follows -

Rule No.	Subject	Requirement	Compliance Status	Details
7.10.1(a)	Non- Executive Directors	Two or one-third of the total number of Directors, which ever is higher, shall be Non-Executive Directors	√	06 out of 07 Directors are Non-Executive Directors.
7.10.2.(a)	Independent Non-Executive directors	Two or one-third of Non- Executive Directors, whichever is higher, shall be independent.	√	The Board comprises of 03 Independent Non- Executive directors, out of 6 Non Executive Directors.
7.10.2(b)	Submission of declaration by Non-Executive Directors	Each Non-Executive Directors shall submit a declaration of independence / Non-Independence in the prescribed format	√	Each Non-Executive Director has submitted his declaration to CSE
7.10.3(a)	Disclosure relating to Directors	Names of the Independent Directors shall be disclosed in the Annual Report	√	Please refer Annual Report under Board of Directors on page 111.
7.10.3(b)	Disclosure relating to Directors	In the event a Director does not qualify as "independent" as per the rules of corporate governance, but if the Board is of the opinion that the Director is nevertheless independent, it shall specify the basis of the determination in the Annual Report	√	Please refer Directors report on page111.
7.10.3(c)	Disclosure relating to Directors	Directors' brief resume shall be published in the annual report with their expertise in the relevant functional areas.	√	Please refer page 16 of the Annual Report
7.10.3(d)	Disclosure relating to Directors	In the event of new appointment of directors, a brief resume of such director shall be disseminated to public via Colombo Stock Exchange	√	N/A
7.10.5	Remuneration Committee	A listed Company shall have a remuneration Committee	√	Please refer page 117 of the Annual Report
7.10.5 (a)	Remuneration Committee – members	The remuneration Committee shall comprise of a minimum of 02 independent Non-Executive Directors or a majority of Independent Non-Executive Directors, whichever is higher	√	The Remuneration Committee comprises of 02 Independent Non-Executive Directors and 01 Non Executive Directors.
7.10.5 (b)	Remuneration Committee – Functions	The Remuneration Committee shall recommend the remuneration of Chief Executive Officer, GMs and senior managers	√	Please refer page 117 of this Annual Report

Rule No.	Subject	Requirement	Compliance Status	Details
7.10.5(c)	Disclosure in the Annual Report	The Annual Report shall set out : Name of the directors of the Remuneration Committee. The statement of remuneration policy. Aggregate remuneration paid to Executive and Non- Executive Directors .	√	Please refer page 117 of this Annual Report Please refer page 117 of this Annual Report Please refer page 159 of this Annual Report
7.10.6	Audit Committee	A listed Company shall have an Audit Committee	√	Please refer the Audit Committee Report on 115 of this Annual Report
7. 10.6(a)	Composition of Audit Committee	The Audit Committee shall comprise of a minimum of 02 independent Non- Executive Directors or a majority of independent Non-Executive Directors, whichever is higher One of the Non-Executive Directors shall be appointed as the Chairman of the Committee by the Board of Directors The Chief Executive Director (CEO/Director) and Chief Financial Officer(CFO) shall attend the Audit Committee meetings The Chairman or one member of the Audit Committee should be a member of a recognized professional accounting body.	√	The Audit Committee comprises of 03 Non Executive Directors and 2 of the Directors are Independent Non Executive Directors. Mr. Sujeewa Rajapakse (Independent Non-Executive Director) acts as the Chairman of the Committee The Chief Executive Director (CEO/Director) and Chief Financial Officer (CFO) attend meetings by invitation. The Chairman of the Audit Committee is a fellow member of Institute of Chartered Accountants of Sri Lanka

Rule No.	Subject	Requirement	Compliance Status	Details
7.10.6(b)	Functions of Audit Committee	The Audit Committee shall oversee : Preparation, presentation and disclosure of the financial statements and ensuring they are in line with the Sri Lanka Accounting Standards. Compliance with financial reporting, Companies Act and other financial reporting regulations and requirements. Internal controls and risk management are adequate to meet the requirements of Sri Lanka Accounting Standards Independence and performance of external auditors. Appointment, re-appointment and removal of external auditors and approve the terms of remuneration and terms of engagement	√	Please refer the Audit Committee Report on pages 115 to 116 of this Annual Report
7.10.6(c)	Disclosure in the Annual Report	The Annual Report should disclose: Names of the Directors of the Audit Committee How the Audit Committee determines the independence of the auditors and how such determination is made A report by the Audit Committee setting out the manner of compliance with the listing rule 7.10 on Corporate Governance	√	Please refer the Audit Committee Report on page 115 of this Annual Report

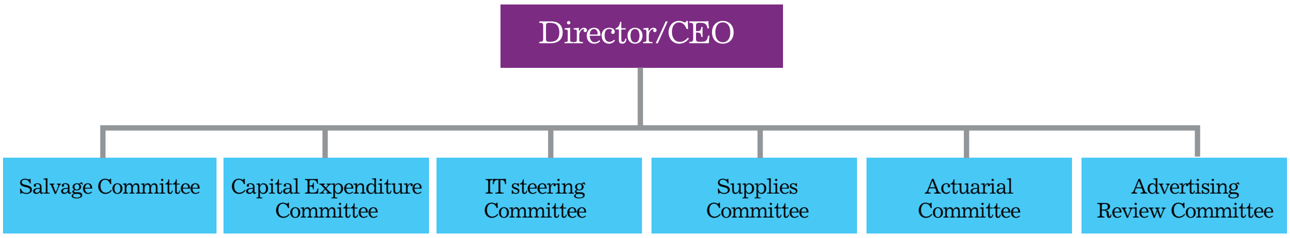
Compliance with other Statutory Authorities

Compliance Governance	The main purpose of regulatory compliance governance is to analyze our existing compliance part in relation to IBSL requirements i.e. regulatory provisions laid down in Regulation of Insurance Industry Act No. 43 of 2000 and its amendments, other relevant statutory provisions, relevant Government Gazette notifications and guidelines, determinations, directives and circulars issued by IBSL and Colombo Stock Exchange and internal controls of the Company and apply relevant methodologies to manage the compliance risks.
Compliance Functions of AAI	The main functions should include : Reviewing AAI's compliance function in relation to regulatory requirements of Regulation of Insurance Industry Act No. 43 of 2000 and its amendments, other guidelines, directions, circulars and determinations issued by Insurance Board of Sri Lanka and relevant Government Gazette notifications in relation to the Insurance Industry Checking the Corporate Governance requirement of AAI (particularly section 7.10 of Colombo Stock Exchange Listing rules) Reviewing the mandatory requirements of Companies Act, No. 7 of 2007, Financial Transaction Reporting Act, No. 6 of 2006, Prevention of Money Laundering Act, No 5 of 2006, and other statutory requirements Checking the solvency margin levels (Life and Non Life divisions) on a regular basis Reviewing the effectiveness of Compliance controls via monthly compliance checklist, regular review of AAI's procedure manuals and submitting quarterly compliance report to the Audit Committee Reviewing the audit findings of the Company's external auditors compliance report and taking appropriate action Reviewing the audit findings of the Company's internal auditors compliance report and taking appropriate action Checking the compliance of all the statutory payments and reporting this to Board of Directors To make recommendations to the Audit Committee in relation to any non-compliance issues To ensure that your Company's risk management systems are more effective and efficient to identify, assess and manage the risks Reviewing the effectiveness of legal (IBSL) and accounting compliance of Investment Monthly mandatory report to Central Bank (FIU - Financial Intelligence Unit) as per the requirements of Financial Transaction Reporting Act, No. 6 of 2006 and developing an anti-money laundering programme for the Company
Risk Assessment - Compliance	Risk assessment of compliance is based on the impact and likelihood of occurrence compliance risks and managing those risks via risk mitigating strategies.
Compliance Audit	Compliance audit is carried out on a monthly basis to check the effectiveness of Compliance controls and reporting the audit findings to the Audit Committee with appropriate recommendations.

Solvency audit	According to section 26(1) of the Regulations of Insurance Industry Act (RII), No. 43 of 2000 and its amendments, AAI has maintained in respect of each class of insurance business, a solvency margin as determined the IBSL throughout the year. Statement of solvency for the Life and Non-Life is set out on page 39 of this Annual report.
Prevention of Money Laundering activities	As per To prevent and detect money laundering activities AAI has designed an Anti-Money Laundering Programme and updates it on a regular basis to adhere with the relevant provisions in the Prevention of Money Laundering Act, No.5 of 2006, Financial Transaction Reporting Act, No. 6 of 2006 and guidelines given by IBSL on anti-money laundering and best practices on anti-money laundering activities. Key functions of our Anti-Money Laundering Programme are as follows: Clearly defined criteria for identification of different type of customers (KYC – Know Your Customer) Clearly defined criteria for identifying suspicious transactions Procedure for indentifying suspicious transactions Considering the vulnerability of products to money laundering exposure Designing of mitigating strategies for money laundering activities Clearly defined record keeping procedure for verification and subsequent reference. Mandatory reporting to FIU (Financial Intelligence Unit) on a monthly basis in respect of transactions over Rs. 1,000,000 (in cash) in relation to premium, claims and refunds Clearly defined tracking process to follow up and monitoring of any suspected money launderer. An automated system for notifying the FIU of relevant details in a professional manner.
Data base in respect of Insurance Agent Insurance Brokers	The Company maintains a separate web page for its agents' information with direct access facility to IBSL for checking the agents' compliance with IBSL requirements. Further, our agents' meet the required qualifications as per section 78(4) of Regulations of Insurance Industry Act, No. 43 of 2000 and we pay the commission to our agents and brokers as per section 88 of Regulations of Insurance Industry Act AAI complies with the provision in relation to insurance brokers when accepting business from insurance brokers i.e. AAI does not accept business from brokers who are prohibited by the IBSL
Complying with advertising provisions	As per section 99(1) of the Regulation of Insurance Industry Act, advertisements issued by insurers shall not contain any information or material that is false, incorrect or is likely to mislead the public. Further, as per Directive No.1 issued under section 99(1) of the Regulation of Insurance Industry Act, a certificate signed by the CEO sends to IBSL confirming that the advertisement is in conformity with the section 99(1) of the Regulation of Insurance Industry Act. Further, we follow the code of conduct implemented by IASL (Insurance Association of Sri Lanka) in relation to advertisement.

Corporate GOVERNANCE

In order to achieve the strategic objectives AAI has formed various sub committees to maintain and enhance the performance governance under the leadership of Director/CEO.



	Salvage Committee	Capital Expenditure Committee	IT steering Committee	Supplies Committee	Actuarial Committee	Advertising Review Committee
Objective	Ensure the salvage from claims are sold at best possible price	Purchasing asset at right quality, at right time & at reliable price considering the cost benefit and budget allocation	Continuously monitor the progress and productivity of IT and MIS of the Company and designing IT policies and make recommendation to Board on IT capital expenditure	Selecting the right supplier considering the quality, price, delivery date	Continuously monitor performance of life fund, product portfolio, and valuation of life fund, expense allocation and regulatory requirements.	Implementing advertising strategies in line with business strategies to protect the professional image of the Company.
Members	GM-Non Life and Finance, DGM-Non-Life and Senior Finance Planning Manager	CEO, COO-Life, GM-Non-Life, Finance and Non Life Operations	CEO, COO-Life, GM - Non-Life, Finance and Non Life Operations, Assistant General Manager – IT	COO-Life, GM- Finance, Non Life Operations, Deputy General Managers of Legal & HR& Administration	CEO, Consultant Actuary, AGM – Life, GM Finance and COO-Life, Senior Finance planning Manager and Actuarial Manager	COO-Life, GM Non-Life, Non-Life operation, and Finance, Assistant Manager-Marketing
Frequency of meeting planned & held	As and when need arises	As and when need arises	Quarterly	Quarterly	Monthly	Quarterly

RISK Management

Introduction

Insurance enables the policyholders to be protected against losses that arise as a result of future uncertainties. The insurance companies accept the risk transfers from the policyholders and add value through adequate management and accumulation.

It is important to follow a holistic approach for risk management and control to identify, measure and monitor the risks faced as an Insurance Company.

Implementation of adequate systems and controls are essential to mitigate the risks and manage the risk exposures by adopting adequate procedures and processes.

Uncertainties and Contingencies

As an insurance service provider, the Company faces uncertainties of insurance contracts that characterize under the following criteria;

- Uncertainty of an event occurring that would create a loss to the insured policyholder.
- Uncertainty of the extent of the policy coverage and the limits that apply to a specific claim
- Uncertainty of the amount of loss suffered by the policyholder
- Uncertainty of the timing of the claims settlement.

During the time taken to identify and notify of the loss, the Company will be exposed to different uncertainties that would create different degrees of financial loss. Inflation, inconsistent judicial interpretations and court judgments can broaden the policy coverage and claims handling expenses.

Further to the above, uncertainties arise through investment activities such as share movements in the equity portfolio, interest rate volatilities in the debt securities etc. Credit Risk, market Risk, Liabilities risk and Operational risks faced by the Company are explained further in this report.

Your Company seeks to provide adequate level of reserves to manage these uncertainties, taking into account the experience and known facts. It is the Company's priority to maintain diversity in the geographic and risk exposures to reduce financial damage to the Company. The Company evaluates the concentration of exposure to risk to identify the individual and cumulative insurance risks where these can be duly managed according to the Company's risk appetite with adequate reinsurance support.

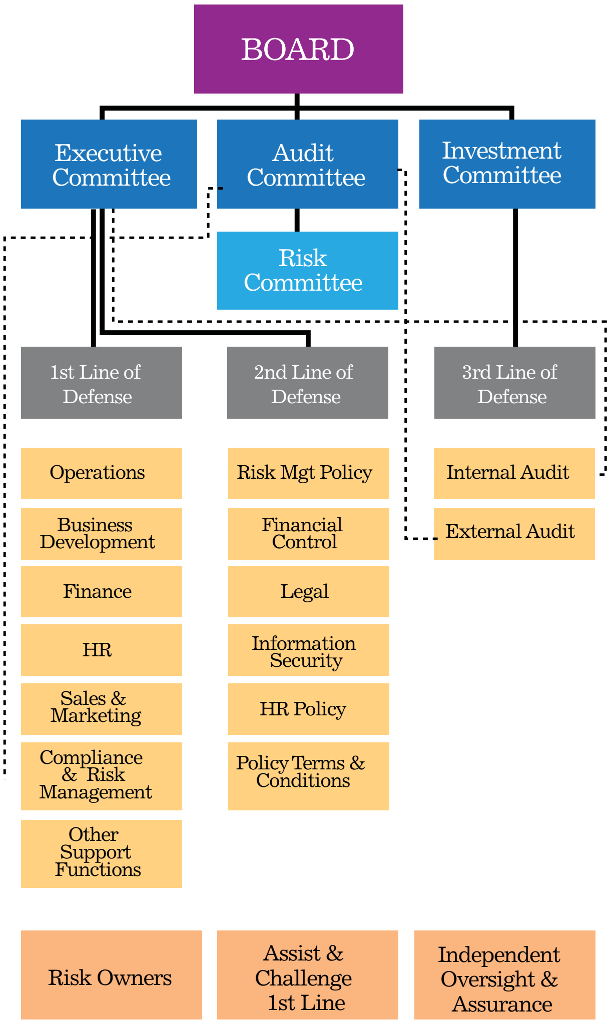
Risk Governance

The Asian Alliance Audit Committee is responsible for ensuring risks and uncertainties faced by the Company are identified and properly managed.

The Risk Committee has the responsibility of the day to day management of the risks and the following duties represent the functions of the Risk Committee

- To assess all risks to the Company on a monthly basis through appropriate risk indicators and management information, to mainly identify the implications for risk based capital.
- To review the Company's risk appetite and future risk strategy, particularly for Risk Based Capital, Solvency and Reputation.
- To review the design, completeness and effectiveness of the Risk Management Framework relative to the company's activities and to review the adequacy and quality of the risk management functions
- To review the effectiveness of risk reporting in respect of the status of current and emerging risks and internal controls relating to those risks
- To review the outcomes of the models used for risk based capital; to review the scenario testing and stress tests and to assess the adequacy of the Company's strategies mainly the impact of the Company's investment strategies, on the Risk Based Capital.
- To review the Business Continuity Plan of the Company and the implementation process of the recommended actions.

RISK Management



Internal Audit and Audit Committee

Internal audit is an independent and objective function which is outsourced to Ernst & Young Advisory Services (Pvt) Ltd which examines and evaluates the risk management, internal control and governance processes. The core role of internal audit is to provide assurance that the main business risks are being managed and that the relevant internal controls are operating effectively.

The internal audit function provides the Audit Committee with independent and objective assurance over the appropriateness, effectiveness, and sustainability of the AAI's system of internal controls to mitigate significant risks. The Audit Committee review the financial, operational and compliance controls and risk management systems of AAI.

The primary responsibility for providing assurance on the adequacy of internal controls and risk management lies with the management. However, Audit Committee requires independent and objective assurance to validate the assurance that they are receiving from the internal auditor - Ernst & Young Advisory Services (Pvt) Ltd via monthly internal audit report from the and quarterly Compliance report from the Compliance officer.

Internal audit contributes to the effectiveness of internal controls by ensuring that internal controls take into account the risks facing AAI and that the risks are reduced to risk appetite level. The risk based internal auditing provides assurance to the Audit Committee that the risk Management processes are operating as intended. This is achieved by ensuring that our risk management system has a strong design, management responses to risks are adequate and effective in reducing the risks to an acceptable level (risk appetite level) and appropriate controls are in place to mitigate risks.

Risk Management Framework

Asian Alliance adopts a holistic approach to manage the uncertainties to maximize the shareholder value of the Company. The Company maximizes opportunities by identifying specific risk tolerances and appetites.

The Risk Management framework at Asian Alliance consists of three main areas were the risk activities are based around the supporting elements that permits the ERM process to function in the competitive business environment.

Risk Appetite & Tolerances

The Company's risk appetite is set and monitored at the Board level where the Audit Committee approval is required. The Audit Committee reviews the tolerance levels annually while the Risk Committee is responsible for monitoring and reporting the changes and business responses to the significantly challenging movements.

The Solvency Requirements and the proposed capital requirements are considered in the process of determining the risk tolerance levels. The risk appetite includes business volumes for risky insurance classes, financial ratios which covers loss retention and reinsurance exposure and rating targets and solvency margins.

Key Risk Indicators

As the first step towards achieving an Enterprise Risk Management Framework, we have identified the main risks under each department. As these risks are specific to each department, this allows the Company to identify the main areas that need attention so as to mitigate any future losses as well as gain opportunities through identifying new control mechanisms. These risks can be scored and analyzed to achieve optimal decision making.

Risk Scoring Matrix

The Key Risk Indicators are scored/rated against the impact and likelihood of the risk, using a risk scoring matrix.

The impact is assessed under financial, reputational, operational and escalation, further rated under five categories such as Moderate, Significant, Major, Critical and Catastrophic. For example, investments in unrated instruments can impact the Solvency Margin Rule, which can be rated as "Critical" mainly due to the Financial and Reputational impact leading to an operational impact.

The Likelihood is a frequency-based assessment where the risks will be rated according to the probability of the risk occurring. If the above Risk may have already happened or is possible at some stage in one to 25 year period (1 in 25 event), it will be considered as an event with a likelihood of "possible".

Traffic Light Indication Matrix

Likelihood / Impact	Remote	Unlikely	Possible	Likely	Probable
Catastrophic	H	H	H	H	H
Critical	M	H	H	H	H
Major	M	M	M	M	H
Significant	L	L	M	M	M
Moderate	L	L	L	L	M

These risks are then rated in a traffic light method in terms of the severity and the level of attention that needs to be taken in the process of minimizing the impact of the risk. The table above shows the traffic light identification matrix.

Risk Based Capital Framework

All insurance companies are exposed to many changes in the reporting and regulatory environment. Currently the Company's liquidity position is measured through Solvency Margin requirement. The Insurance Board of Sri Lanka (IBSL) has proposed a Risk Based Capital Model (RBC) for both Non Life and Life insurance business to be implemented under the purview of the existing regulation, Insurance Industry Act No 43 of 2000.

IBSL has proposed a phase wise implementation roadmap to allow insurers to take remedial action in the process of implementation. Asian Alliance has volunteered to take part in the road test to ensure successful implementation of the RBC model. The Company's objective of this is to ensure that the Company maintains a sufficient capital adequacy level by adhering to the guidelines of RBC model.

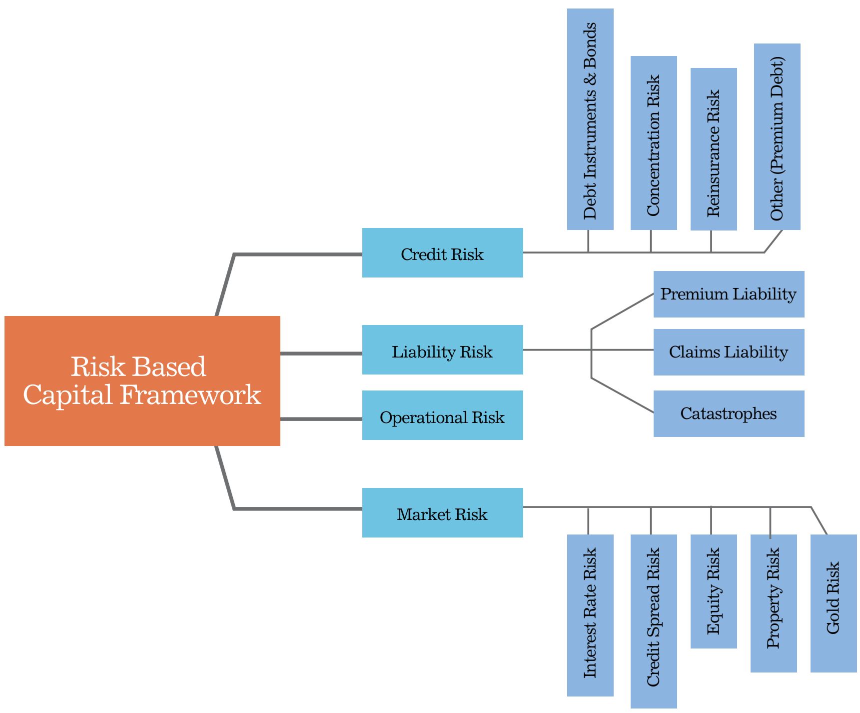
All insurance companies are required to start reporting under both the existing and RBC method from 2014 onwards. The complete acceptance and reporting under RBC model will take place by 2016.

Internally, Asian alliance uses a RBC model in order to calculate the CAR. The minimum CAR required by the regulator is 120% and the Company aims to maintain a buffer to allow for any adverse changes. As at 31st of December 2012, the CAR figures for the Non Life Insurance Business was 150%.

We are in the process of building a model to calculate the CAR of the Life insurance business. However, the total available capital of Life Insurance Business is higher than the minimum capital requirement of Rs. 500 mn

In order to maintain reliability and accuracy, we have obtained the assistance of actuarial consultants, NMG consulting, for Non-Life insurance and Pinnacle Actuarial Resources for Life insurance. The RBC Model Calibration and Liability Valuations were prepared by the actuaries of the Company.

The Risk Based Capital framework comprises of the following components and the Company exploits this as a benchmark to monitor the risks and its movements.



Apart from the above components of the RBC, the Company concentrates on a wider range of risk areas to enhance the shareholder value, optimize risk return and support decision making to improve efficiencies in the operation. The Company identifies the following risk areas to support the operations by maximizing return and to maintain the capital adequacy ratio.

Insurance Risk

As an Insurance Company this is one of the principle risks faced by the Company. This risk relates to underwriting of risks with terms and conditions to claim reserving and settlement.

AAI aims to manage the risks and minimize unexpected risks using following procedures;

- Adhering to the Manual of Financial Authority (MOFA), which establishes limits for underwriting authority
- Using adequate reserving by obtaining actuarial consultancy and modelling techniques to address the insurance risk exposures.
- Ceding insurance risks through reinsurance treaties and facultative reinsurance.

Non Life Insurance Risks

Non Life insurance risks are created through the probability of losses occurring due to uncertainties. The frequency and the severity of the resulting claims creates the need.

- Motor includes automobile physical damage, loss of the insured vehicle and automobile third-party liability insurance.
- Property includes fire risks (for example, fire, explosion and business interruption), engineering lines (for example, boiler explosion, machinery breakdown and construction) and marine (cargo and hull).
- Special lines include liability covers such as Directors and Officers liability cover.
- Worker injury includes workmens compensation coverage

The Company practices an underwriting strategy that exploits the insurance risks across the industries and geographical regions. The Company focuses on gaining shareholder value through investment income and it then becomes a necessity to have prudent and stable underwriting strategy to use the competitive advantages while avoiding risk exposures with volatilities. The claims ratios of sub classes on each line of business are prudently analysed with the areas with competitive advantages.

The Company maintains underwriting discipline with limits in underwriting capacity and setting authority levels based on specific expertise. The underwriting manual provides guidelines on technical policies and standards. The Company ensures governance by providing adequate information and knowledge about new products to maintain best practices.

AAI also faces the risk of unanticipated losses through emerging risks. The provisions are determined by actuaries taking into account the historical figures and trends of losses, the exposure from increasing level of growth, court awards and economic conditions.

Adverse changes in the claims ratios can take place as a result of a rise in the frequency and/or severity of an insured event. The Company observes the product wise claims ratios to increase the level of efficientcy and maximise underwriting profit.

Life Insurance Risks

The major risks associated with life insurance is as follows,

- Policyholder's actual death experience is higher than expected (Mortality Risk)
- The annuitant lives longer than predicted. (Longevity Risk)
- Policyholders' health related claims are higher than expected (Morbidity Risk)
- The policyholder discounting and reducing contribution or withdrawing benefits prior to the maturity of the contract is worse than expected. Poor persistency rates may create imbalance in the cash flows. (Behavior Risk)
- The administration and acquisition cost of the policies are higher than expected (Expense Risk)
- Market Risk associated with the variation of investment income due to the changes in the financial markets

- Credit Risk resulting from counterparties failing to fulfill the financial obligations

Your Company maintains a well-diversified product and customer range by providing protection based, traditional insurance business while gaining adequate support from investment income.

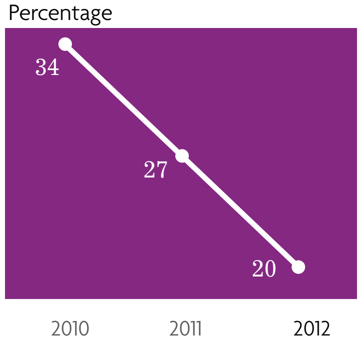
The traditional Life insurance Products that the Company offers face the above risks and the mortality and morbidity claims increase mainly due to the lifestyle changes such as eating, drinking and exercise habits. In order to support the above criteria affecting insurance operations, the Company adopts a strategy that differentiates premiums by product, age, gender and smoker status, where the terms and conditions and the disclosure agreements are directly focused on mitigating the above risks.

The current medical advances are increasing the risk of longevity where the assumptions are being considered based on the future mortality improvements due to increased social conditions.

The behaviour risks are controlled through diversified creative product designs and adequately maintaining the revenue and expenses. The expenses are controlled through analysis and close consideration on expense allocations.

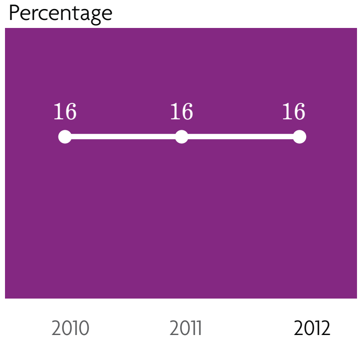
Reinsurance - Non Life

Percentage



Reinsurance - Life

Percentage



Reinsurance

The Company's objective of reinsurance is to protect the customer in adverse circumstances through provision of adequate capacity while optimizing the capital efficiency.

The Company follows separate reinsurance arrangements for life and Non Life insurance, where Munich Re is the sole reinsurer of the life insurance business. The Non-Life reinsurance is diversified among well established and well- rated reinsurers to secure the well being of the customer.

The cession rates for the reinsurance arrangements are shown below where this depicts the percentage of GWP ceded to the reinsurers.

The GWP of the Non Life Insurance Business is highly concentrated amongst the Motor business where it is reinsured under an excess of loss basis. Therefore this portion is not depicted in the above graph.

Market Risk

Market Risk is the risk of the value of investments, assets and liabilities, or future cash flows fluctuating due to the movements in the financial market. These movements are, namely, the market prices, interest rates and equity prices. The Investment Committee is responsible for these risks and these market risks are controlled with the use of guidelines, procedures and risk appetite levels.

Tnvestment decisions are taken through the Investment Committee with close evaluations in respect to the impact on the operational funds and regulatory measures. The Treasury division executes the decisions taken by the Investment Committee where the trends are closely monitored.

At AAI, investment portfolios are managed to maximize return while addressing the liquidity needs, asset and liability management strategies. The interest rate and price sensitivity testing is carried out to manage and minimize losses.

Asset Allocation - Life

Percentage

37%	Government Securities
24%	Equity
11%	Corporate Debt
7%	Unit Trust
21%	Deposits
0%	Derivatives

Asset Allocation - Non Life

Percentage

37%	Government Securities
36%	Equity
18%	Corporate Debt
2%	Unit Trust
7%	Deposits

The Company adheres to a 'stop loss' policy where a maximum loss limit is determined. The investment portfolio allocations are clearly stipulated where the asset structure and the returns are determined and where the accounting requirements and the current solvency and determination requirements are taken in to account. The investment committee provides a clear action plan, in an event these ceilings are exceeded.

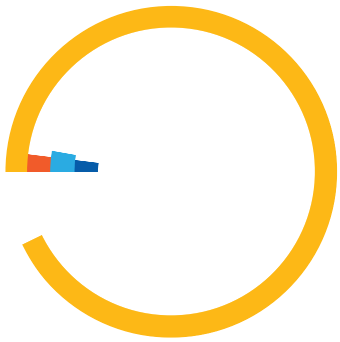
According to the RBC framework the Company calculates the impact to the CAR in order to maintain an adequate rate of capital adequacy.

Equity Risk

The Company is exposed to various risks due to the fluctuations in share prices. This type of risk affects the Company's liquidity position, the reported income level and the regulatory capital requirement.

Risk Based Capital has a 35% charge on the Equity exposure, irrespective of the class of equity investment. The Company maintains a close look at the capital charge on equity exposure where this contains the highest portion of the market risk charge.

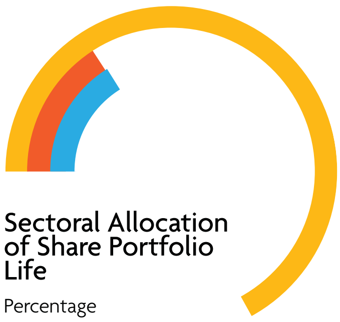
The following shows the sectoral concentration of the equity portfolio.



Sectoral Allocation of the Share Portfolio - Non Life

Percentage

93%	Banks, Finance and Insurance
2%	Beverage, Food and Tobacco
3%	Diversified
2%	Telecommunications



Sectoral Allocation of Share Portfolio Life

Percentage

67%	Banks, Finance and Insurance
16%	Beverage, Food and Tobacco
17%	Diversified

Interest Rate and Credit Spread Risk

Interest rate risk is the loss faced by the Company due to the volatilities in interest rates. The Company is exposed to interest rate risks through debt securities such as government securities, commercial papers and debentures.

Risk Based Capital has a capital charge on interest risk, where the interest related assets and liabilities are stressed using a shock matrix to account for the adverse movements.

The Company also has to look at the credit spread risk, which illustrates the sensitivity of the investments to the volatilities of the credit spread over the risk free rate. In Risk Based Capital the credit spread is similarly calculated for the interest related to all debt securities where the credit spread is applied to derive the adverse movements in the asset and liability values.

Credit Risk

Credit risk is the losses that can arise through counterparties failing to meet their financial obligations. The Company closely monitors the credit risk exposures to maintain them within risk tolerance levels.

The Company's exposure to credit risk arise through the following areas,

- Debt Instruments

  Debt instrument carry a credit risk, where these can be measured according to the ratings of the issuer where, in RBC model, the credit risk capital charges are provided to calculate the risk charge.

Corporate Debt Rating - Life

Percentage

14%	A
4%	A+
38%	AA-
17%	BBB+
27%	P3

Corporate Debt Rating Non Life

Percentage

66%	Unrated
34%	P3

- Concentration

  Concentration on debt instruments is monitored with the underlying results and the impact to the current solvency levels.

  However, the RBC model takes a different approach, where the concentration risk charge is calculated based on the inadmissible assets under the current solvency margin. The admissible portion of each asset is charged with a 100% risk charge. This has to be closely monitored with the implementation of RBC where it is a significant portion of the total credit Risk.

- Reinsurance Receivable

  As part of the company's strategy, part of the insurance risk is ceded to the reinsurers and the receivables arising from the reinsurers are exposed to credit risk. The quality of the cessions and the reinsurance assets are maintained in the reinsurance department, where the reinsurer's stability and the credit quality is closely monitored. The Non-Life division maintains a diversified portfolio of Reinsurers to avoid over concentration on a specific insurer. The reinsurers are chosen with high credit rating, complying with the Regulation of Insurance Industry Act, No 43 of 2000. Life insurance is reinsured under Munich Re, where the stability and assurance is high in comparison.

The RBC framework has specified risk charges according to the credit ratings of the reinsurer and the exposure levels under each rating category.

- Premium Debt

  The Group's largest credit risk exposure to receivables arises through the premiums collected by the policyholders. This issue arises mainly in Non-Life insurance business where the Company offers a 60 day premium warranty period. The Company adheres to standards to monitor the customer groups that have exceeded the warranty period to minimize the credit Risk. The premium receivable amount under each business channel is monitored to identify the high risk areas,

  As mentioned above, Risk Based Capital has a concentration risk capital charge of 100% for all inadmissible assets, where the premium receivable over 60 days will be charged 100% in the RBC calculations.

Liability Risk

The company monitors the Liability Risk in line with the RBC framework. The adequacy of the reserves is closely monitored to minimize the impact of adverse scenarios.

The Company has utilized external consultancy on actuarial computations of reserving to maintain adequacy. IBNR (Incurred But Not Reported) / IBNER (Incurred But Not Enough Reserved) provision is made as per the suggestion of independent Consultant Actuary on a bi annual basis. We obtain advice from the Actuary Consultant for the Unearned Risk Reserve (URR) at the year-end. The Life fund is subject to bi-annual review by an independent Consultant Actuary and other quarters are reviewed by our in-house Actuarial team. Further, provisioning of reserves to meet the claims liability is reviewed by the Actuary on a regular basis.

Non Life premium liability and the claims liability is stressed and charged with a specific capital charge and Life Insurance liability risk is calculated using the best estimate liability using the 75th percentile and stress scenarios on adverse movements.

Operational Risks

Operational risks arise through direct or indirect losses resulting from human factors, external events and inadequate or failed internal processes and systems.

Major sources of operational risk include operational process reliability, information security, dependence on key suppliers, implementation of strategic change, integration of acquisitions, fraud, human error, customer service quality, inadequacy of business continuity arrangements, recruitment, training and retention of staff, legal and regulatory risks and social and environmental impacts.

The Group manages operational risk using a range of techniques and tools to identify monitor and mitigate its operational risk in accordance with the Group's risk appetite. These tools include Risk and Control Self Assessments, Key Risk Indicators (e.g. adequate reinsurance arrangement), Scenario Analyses and Loss Reporting. In addition the Company maintains a Business Continuity Plan where crisis management teams are nominated.

The Company carries out money laundering training as part of the employee engagement programme and the sales advisors are also educated on specifics of money laundering activities. The Company adheres to thresholds limits to highlight areas of concern in terms of money laundering activities.

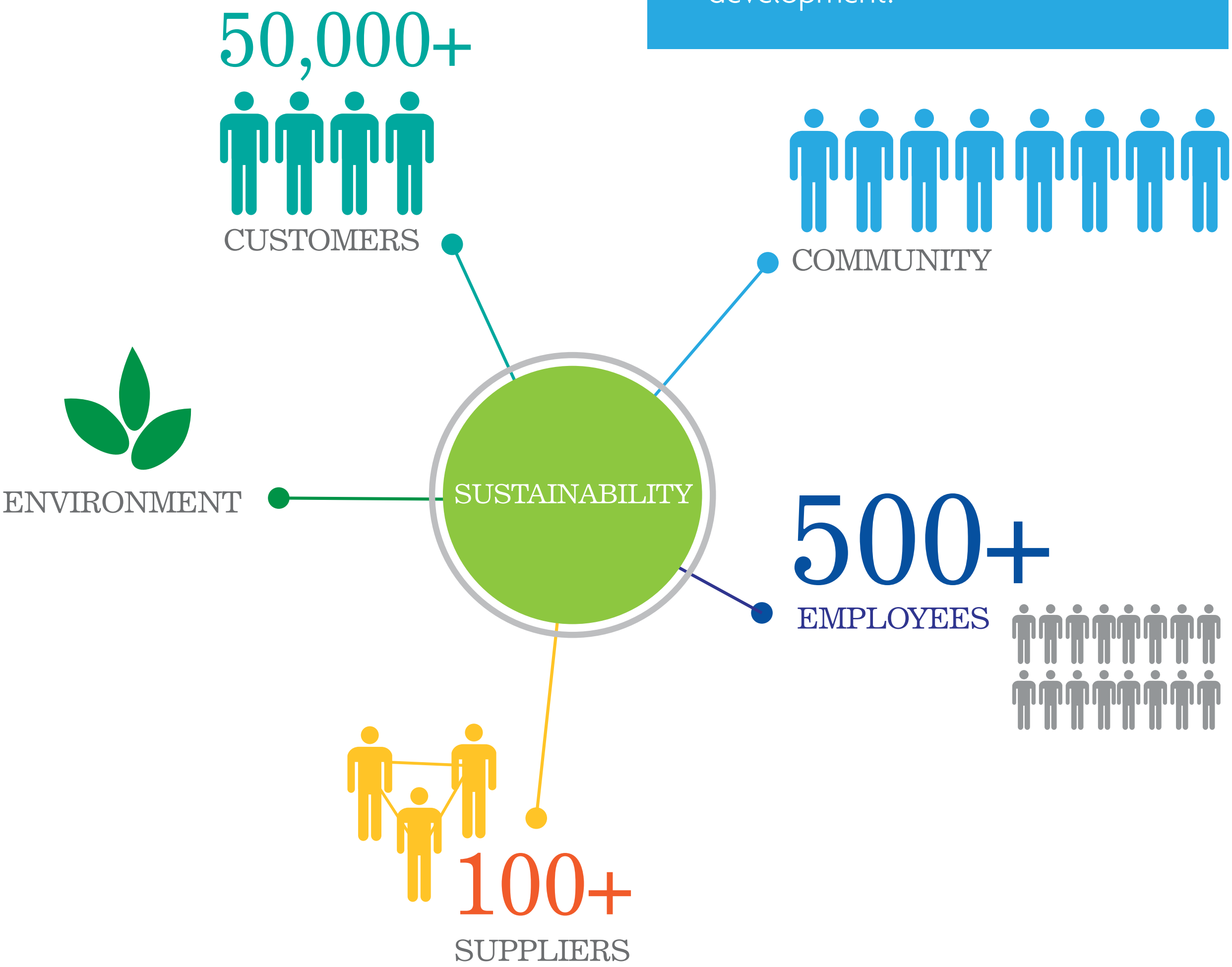
Under The RBC framework, a capital charge applies for 1% of Net Assets as a quantification of this risk.

SUSTAINABILITY Report

SUSTAINABILITY Reporting

The concept of sustainability is embedded in AAI's ethical business operations. The Company has embraced its social responsibility with total dedication and is engaged in significant social responsibility projects over the years. AAI places a high priority on its sustainability and community responsibilities. The depth and diversity of our stakeholders reaches into many communities and we believe this requires our commitment to ensuring their sustainability now and into the future. We will continue to expand and improve sustainability efforts in tandem with our business model and that of our holding company, the Softlogic Group's sustainability framework. The period under review has been extremely rewarding for the organization, as we have remained dedicated to some key sustainability initiatives that have resonated deeply in the community and made a far-reaching impact. The Company has pledged to sustain these projects into the future, besides identifying several other key social responsibility initiatives.

All our social responsibility projects target the community and are long term in nature - empowering the community and enabling them to access further opportunities for development.



Community
Nurturing Professionals
National Healthcare
Assisting the Differently Abled
Social and Cultural Values
Environmental Education

Employees
Investing in People
Employee Engagement Survey
Staff Growth in 2012
ISYS provides end-to-end Solutions
Reaching Greater Heights in Year 2012

Environment

Suppliers

Custormers

COMMUNITY

NURTURING YOUNG PROFESSIONALS

Education is a key focus area and in keeping with our commitment to further the educational prospects AAI plays an active role in supporting the recognition of talents of school children island-wide by 'contributing towards moulding future professionals' through the School Certificates Project.

School Certificates Project

Sri Lanka's state education sector faces many challenges in its pursuit of ensuring that youth in Sri Lanka have access to free education. As a result, there are many aspects of education, which state resources cannot afford to cater to. Determined to fill this gap, AAI partners with schools around the country to encourage and reward excellence. In fact, the Company places a steadfast and abiding value on nurturing and developing the potential of the next generation and is playing an active role in assisting schools to present accolades to deserving, high achieving students, thereby honouring their achievements. The aim of the project is to mould young professionals through recognition and encouragement of their talents. The Company has contributed to this objective via focused internal and external programmes as well as by engaging with the country's educational system in a strategic manner. Under AAI's unique CSR programme entitled 'Contributing towards Moulding Future Professionals', the Company has taken many steps to honour the talents of school children since 2006.

Enjoying the status of a preferred employer in the insurance industry, AAI has always taken the initiative to develop and nurture future professionals. The Company also extends this concern for maximizing potential at an earlier stage. AAI engages closely with schools to inject professionalism in students and schools by being an active participant in school events such as Sports Meets, Inter-school Competitions, Prefect Days, Prize Giving Ceremonies, Talent Shows and other annual events. The Company identified that the cost of designing, printing and production of certificates proved too costly for schools, which resulted in demoralizing children who should rightfully be recipients of some formal recognition from these economically underprivileged schools. We stepped in to bear the entire cost of these school certificates of excellence, putting smiles back of the faces of children who are high achievers despite all odds. Over time, we have strengthened our collaboration with the schools and on realizing the positive impact our initiative is having on motivating student, we have sustained our commitment to this project.

AAI has extended their contribution towards this worthy cause by printing 53,465 certificates for 48 schools located island wide including Jaffna (Northern Province) during 2012. Tables featured below illustrate the schools & events which were assisted by AAI.

48

Schools

53,465

Certificates

22
Sports Meets

Name of the school	Quantity
Christ King College	1000
Rawathawatta Methodist College	1000
Rawathawatta Methodist College	500
Ranpokunugama College	1000
Buthpitiya Maha Vidyalaya	700
S. de S. Jayasinghe College	1500
Vishaka Balika Vidyalaya	1000
Sripalee College - Horana	2500
Rajasinghe Maha Vidyalaya	600
Andiambalama Maha Vidyalaya	3000
Biyagama Central College	1000
Biyagama Central College	1000
Anura Maha Vidyalaya	1250
Rajarata Vidyalaya - Hingurakgoda	1500
Zonal Education Office - Colombo	1800
Diulankadawala Central College	1000
St. Joseph's College	1100
Mahamaya Balika Vidyalaya	600
Zonal Education Office - Moratuwa	1500
Zonal Education Office - Kesbewa	1500
Nawala Kanitu Viduhala	200
Zonal Education Office - Western Province	3000

9
Prize Givings

Name of the school	Quantity
Christ King College	600
Rawathawatta Methodist College	400
Biyagama Central College	200
Mahamaya Balika Vidyalaya	700
Sri Sambodhi Daham Pasala	1500
Ananda College - Elpitiya	1500
Mary Immaculate Convent	1000
Lumbini Vidyalaya	500
St. Lucia's College	1500

4
Science Days

Name of the school	Quantity
Vishaka Balika Vidyalaya	180
Ananda College	500
Sujatha Vidyalaya	60
Samudradevi Balika Vidyalaya	150

11
Society Days

Name of the school	Quantity
De Mazanod College - Art Day	250
Sri Weerasingharama Daham Pasala - Art Day	450
President's College - Veyangoda - Art Day	300
Vishaka Balika Vidyalaya - Commerce Day	250
Ave Maria Convent - English Day	600
Ave Maria Convent - Negombo - Commerce Day	150
Ananda College - Hostel Day	290
Sri Jayawardanepura Girls' College - Commerce Day	100
Tamil Society of University of Colombo - Cultural Day	1500
Sri Dharmaloka Vidyalaya - Astrology Society	1000
Ellakkala Vidyalaya - S5 Society Day	75

7
Other Events

Name of the school	Quntity
Yasodaradevi Balika Vidyalaya - Prefects Day	200
Siddarthakumara Vidyalaya - A/L & O/L Result Sheets	5000
Mahanama College - Leadership Training Programme	100
Mahanama College - Leadership Camp	500
Devi Balika Vidyalaya - Cultural Evening	600
Samudradevi Balika Vidyalaya - Traffic Warden Day	400
Bandaranayake College - Gampaha - Leadership Camp	500

11
Competitions & Tournaments

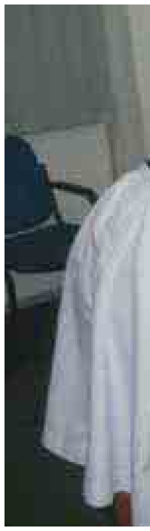
Name of the school	Quantity
Sirimavo Bandaranayake Vidyalaya-Band Competition	600
De Mazanod College - Quiz Competition	150
Ave Maria Convent - Negombo - Carol Competition	400
D. S. Senanayake College - Quiz Competition	200
D. S. Senanayake College - All Island Drama Competition	300
Gothami Balika Vidyalaya - Quiz Competition	200
Sapugaskanda Vishaka Vidyalaya - Swimming Competition	100
Viharamaha Devi Balika - Photographic Competition	260
Rahula College - Matara - Cricket Touenament	110
University of Moratuwa - Badminton Tournament	1440
Ananda College - Cricket Touenament	400

Colombo South Teaching Hospital Project

NATIONAL HEALTH CARE SECTOR

The health and well-being of our customers is paramount to us as we operate on a platform of protection. As a result, healthcare has formed one of the core focus areas of our community engagement projects. The state healthcare sector is without a doubt under tremendous budgetary pressure and the lack of adequate funds to maintain government hospitals to an acceptable level is an ongoing challenge. Realizing the dire need for financial and technical support in hospitals, AAI established an agreement with the Colombo South Teaching Hospital to drive qualitative improvements in its service offering, which will ultimately impact the patients in a positive manner. Radiating from this decision, the Company has enabled tangible improvements in various aspects of the hospital's services. We believe that a public-private partnership of this nature is the way forward to improve infrastructure and facilities for citizens of the country.

Upgrading Hospital Facilities:



Productivity and Quality Improvement Programme:

AAI partnered with the Colombo South Teaching Hospital in its noteworthy 'Quality and Productivity Improvement' programme launched in 2010. The Company was enthused by the opportunity to help enhance the quality of service offered to patients by supporting the quality centre training for hospital staff. The programme was focused on the building blocks of the system – service delivery, human resources, infrastructure, medical technology, health financing and stewardship. The Japanese 5S system was introduced as well to promote best practices and improved customer levels.

Upgrading Hospital Facilities:

Leveraging on its fruitful association with the Colombo South Teaching Hospital, AAI was exploring further opportunities for collaboration, being committed to enhancing the quality of patient facilities at the hospital. AAI stepped forward to build the much-needed waiting area of the Colombo South Teaching Hospital, which required urgent upgrading to ensure a pleasant and aesthetic ambience for patients. Funded by AAI, the newly refurbished waiting area was handed over to the hospital authorities in the presence of Health Minister, Mr Maithripala Sirisena on the 16th of February 2012.

Donation to Peter Weerasekara Children's Home

Uplifting Quality of Life at Home for Orphans:

AAI leads the way in uplifting the standards of orphaned children through its Sports Club, which is committed to contributing to the orphaned girls at the Peter Weerasekera Children's Home in Buthpitiya. Inaugurated in 1960, the home was created as a shelter for destitute and orphaned girls. The initial intake was a batch of 10 girls, ranging from 7 to 14 years of age, but today, the shelter houses 49 girls. It is a Government approved charity with children being directed to the residence by the Department of Probation and Childcare as per a Magistrate Court's authority. The Sports Club of Asian Alliance Insurance PLC has gifted the children living at the Home with a motor insurance cover for their school bus for


Blood Donation Programme

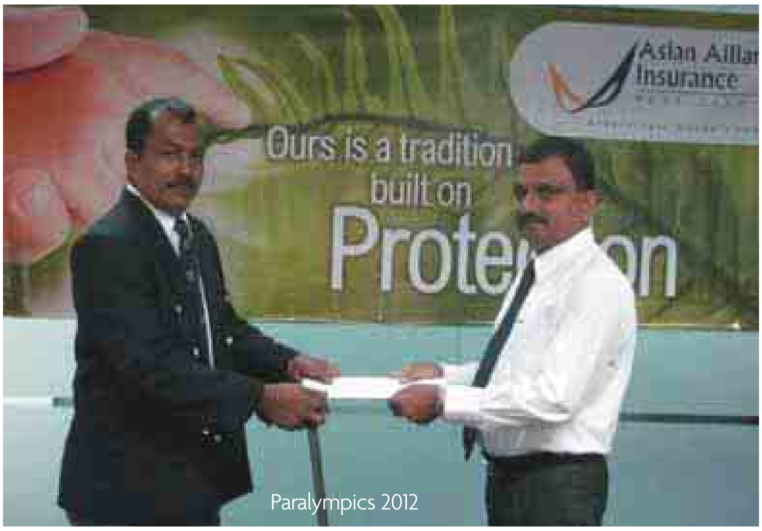
Blood Donation Programme

the second consecutive year. This will provide them protection in the event of any accidents, while at the same time giveing relief to the Peter Weerasekera Children's Home, already burdened by the numerous expenses related to taking care of children.

AAI sets great store by nurturing the development of the next generation with the prospect of moulding future professionals who will benefit the nation. The Company has contributed to this task by collaborating with a diverse array of projects. The AAI Sports Club believes that this will be the stepping stone towards a long term partnership with the Peter Weeresekera Children's Home and will lead to the children being nurtured in to better citizens.

Blood Donation Programme:

Our employees are enthusiastic about the Company's involvement in blood donation camps which witness record turnout of staff and promote a feeling of oneness. As a Company, AAI encourages work-life balance and our experience has shown that employees are extremely responsive to any efforts by the Company to involve them in projects targeted to benefit the community at large. The Blood Donation Programme was organized for the 10th anniversary celebrations of Panadura and Kurunegala branch offices to demonstrate the long term commitment of the Company to residents of the two areas.



Paralympics 2012

Dirijaya Awards 2012

ASSISTING THE DIFFERENTLY ABLED

Partnering Sri Lankan Delegates to London Paralympics 2012

The London Paralympic Games were the greatest ever celebration of sporting achievement by disabled athletes, which provided a golden opportunity to change attitudes about disability. The London Para Olympic Games 2012 were held from 29th August – 9th September 2012 on a grand scale with the participation of sports personnel across the world. Held every four years, this multi-sport event involves elite athletes who are differently-abled. AAI supported a team of seven national athletes who represented Sri Lanka at this prestigious event in various sports disciplines. Further, out of the seven athletes, five members represent the security forces of Sri Lanka and whose performance at national and international events has been outstanding. Identifying sports as a fundamental factor in holistic personality development, AAI partnered the Sri Lankan team that participated in the London Paralympic Games 2012.

Dirijaya Awards 2012

AAI operates on a platform of extending 'protection' and it takes this promise seriously. The Company has offered a helping hand to the vulnerable sections of society in the past and the differently-abled is one such segment that has received attention from AAI. The Company believes that the differently-abled too can be active participants in society if they are given the opportunity to prove themselves despite their handicap. We believe that given the right climate of encouragement and support, the differently-abled too can showcase their talent and prove their usefulness to the community. In keeping with this supportive stance, AAI recently sponsored the Award for Excellence at the Dirijaya Awards 2012, which is organized byt Enable the Disabled. Differently-abled juniors and seniors are rewarded for excellence in many categories such as performing arts and academic and professional excellence. Gamini Karunarathne, a visually-challenged senior was the recipient of AAI's academic excellence award.

ENVIRONMENTAL EDUCATION

Our every action emanates from our platform of 'protection' which is the overarching goal of each and every social responsibility initiative we undertake. Sri Lanka has been blessed with nature's bounty and we are mindful of the complexity of sustaining this valuable biodiversity for years to come. We are committed to ensuring zero negative impact on the environment by our operations. In fact, this awareness to protect and preserve our heritage dictates our corporate environmental projects.

Calendar Concept – Protect The World Of Your Loved Ones

The more we focus on ourselves, the more we forget the bigger picture. We take away so much from the world, nature and the creatures that live therein in order to fulfill our own selfish motives. Should we not spare a moment to extend our protection to them?

Having identified the importance of promoting the environmental protection, AAI dedicated their calendar concept which was designed in 2012 to give out the vital message – "Protect the World of your Loved Ones".

Green Vehicles

Since revenue from our motor insurance business accounts for a major chunk of our income, we have close relations with the automotive industry. As a result, the Company is clued into the environmental hazards triggered by poorly maintained cars and so on. Consequently, the Company has entered into a tie-up with Nations Trust Bank and Indra Traders to offer special premium discounts of up to 30% on Motor Insurance policies on hybrid vehicles, with the objective of promoting motorists to favour environmentally friendly vehicles.

'Greening Vehicles' is a project aligned to our motor insurance business. Our aim is to raise awareness of fuel emissions in adding to environmental pollution and global warming. Our drive is to ensure we hand over a pure and green planet for the next generation.

ENHANCING THE SOCIAL & CULTURAL VALUES

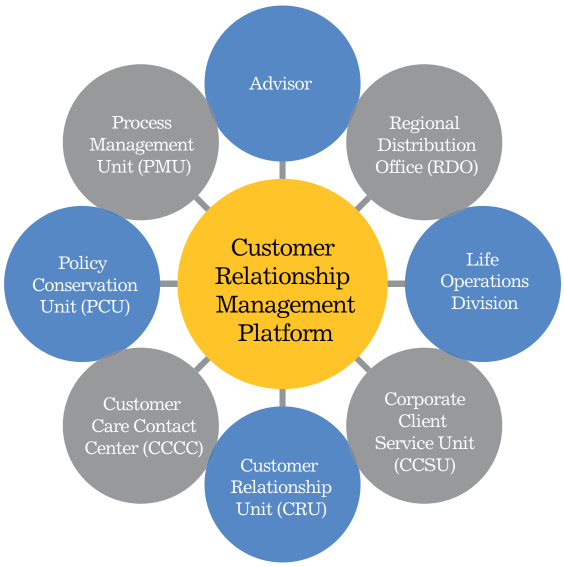
AAI prides itself on its close ties with the community and remains engaged with the community at various levels. The Company approaches community engagement in a multi pronged manner. One of its guiding CSR principles has been to enhance the social and cultural values of the country by supporting such events or highlighting the positiv e cultural and social practices. By involving itself in social and cultural events, the Company achieves direct contact with its stakeholders.

Partnering the 2600th Vesak Celebrations

Sri Lanka proudly commemorated the Vesak celebrations this year by fusing it with the 2600th year 'Sri Sambuddha Jayanthi' festivities which marks the 2600th year since the Enlightenment of Lord Buddha. Known as the holiest day for Buddhists around the world, Vesak, which celebrates the birth, enlightenment and death of Lord Buddha, took on a special tone with the government commemorating the event on 17 May 2012 and following days, replete with special events aimed at taking the message of Buddhism forward. AAI was deemed the Official Insurance Partner for this event, considered one of the most important religious events in the country. Further, AAI also partnered the Vesak Celebrations organized by the Dehiwala-Mt. Lavinia Municipal Council titled 'Pooja Vesak Kalapaya', which was held from 5th to 9th May 2012 at Dehiwala-Mt. Lavinia Public Grounds.

CUSTOMERS

Customer centricity has long been a driving force in the growth of AAI, inspiring us to we continuously design solutions that meet our customers' evolving needs. The organization strives to enhance quality of service, whether it is in new products or shorter turnaround times for claims process, increasingly pampering our customers with nothing less than unparalleled customer care levels. We view our customers as long-term partners and are permanently engaged in building strong customer relationships. Despite having achieved our vision of becoming a billion rupee business by 2012, we are committed to maintaining close customer contact in tandem with ensuring customer satisfaction. As the Company expands, our customer engagement and support becomes deeper. AAI seeks out new and innovative methods of providing customer service. Our customer retention rate is inordinately high and we attribute this success rate to the superior customer care officers and customer-first philosophy practised by the Company. Training of our staff is at the heart of our well trained professional team and we maintain stringent quality control in customer service whilst at the same time offering room for innovation and spontaneity amongst staff. We have instituted numerous touch points through which our customers can reach out to us to help us serve them better.

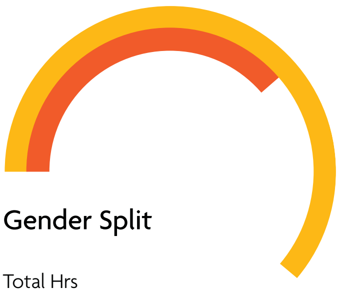


Outbound training by Borderlands at Kithulgala Base Camp

Team building programme by Sri Lanka Army - Special Forces Regiment at Special Forces Training School, Maduru Oya

EMPLOYEES

At AAI, sustainability goes beyond producing a sustainability report; it is about getting the Company to forge ahead as one, which requires the active engagement of employees. AAI boasts a team of highly engaged employees who are instrumental in driving Company-wide performance and we believe this dedication springs from the ability of the Company to listen and respond to its employees.



Gender Split

Total Hrs

61%	Male
39%	Female

Cadre Split

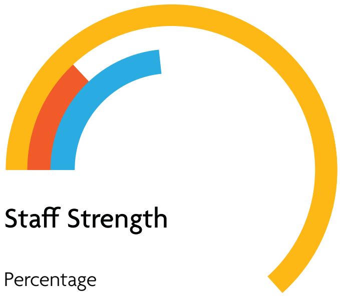
Percentage

7%	Snr Manager & Above
21%	Asst Manager & Manager
32%	Executive
31%	Clerical
8%	Minor

Age Limits

Percentage

1%	Below 20yrs
57%	20yrs to 30yrs
25%	30yrs to 40yrs
13%	40yrs to 50yrs
4%	Over 50yrs



Staff Strength

Percentage

63%	Permanent
13%	Probation
24%	Contract

The year 2012 has proved highly eventful, helping us to chart our sustainability course into the future by ensuring an enthusiastic workforce. Our landmark achievement this year in terms of employee engagement has been the Employee Engagement Survey conducted by Ranstad, India, which consisted of extensive survey and analysis of data sourced from anonymous employee feedback. The findings were indeed both gratifying and encouraging as revealed through the survey

Service Experience of employees in AAI

Percentage

56%	Below 2 yrs
17%	2 >= service> 4
12%	4 >= service> 6
7%	6 >=service> 8
2%	8 >=service> 10
7%	More than 10 yrs

Investing in People

Organizations build their key differentiators in many ways and AAI has zeroed in on investing in creating a base of knowledge workers, encouraging employees to enhance technical skills in insurance and providing attractive incentives. 85 employees pursued further academic credentials successfully during the year. In fact, the Company holds the distinction of being the only insurance company to have the highest number of employees enrolled for further technical qualifications in insurance as affirmed by the Sri Lanka Insurance Institute. In fact, currently AAI has 6 qualified Chartered Insurers who add value to the Company.

Alliance Ball 2012

Training programme on "Motivation"

Hours of Training per Employee

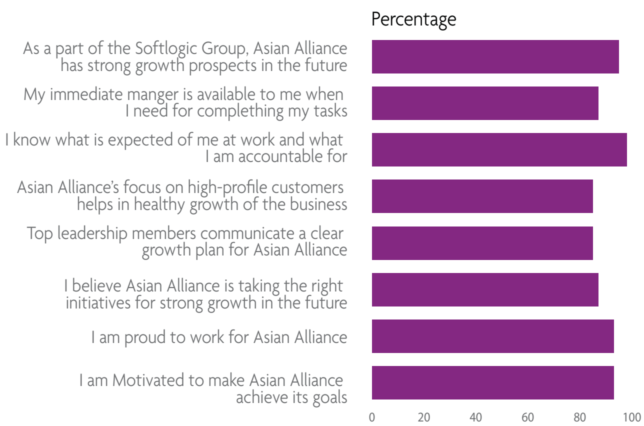
Total Hrs

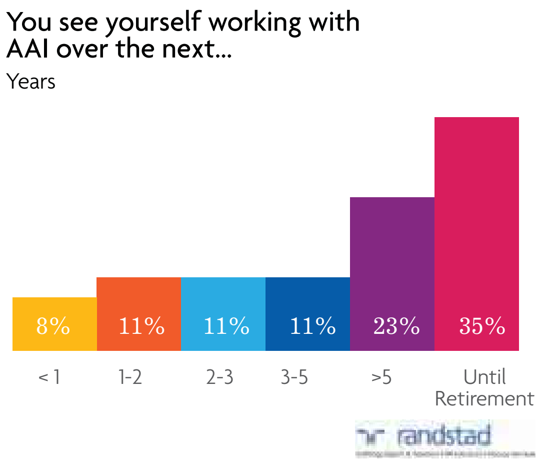
40%	Senior Management
28%	Management
17%	Executive
15%	Non-Executive

EMPLOYEE ENGAGEMENT SURVEY

AAI's greatest competitive advantage in the highly competitive realm of insurance is its people. While the organization's systems and processes are efficient, it is our team of cutting edge insurance professionals that sets us apart from competition. Focused on achieving competitive advantage through our people, we felt it was time we undertook an exhaustive employee satisfaction survey which would prove invaluable in attracting and retaining talent. Beyond this, the management's aim was to win the hearts and minds of employees at all levels. AAI commissioned Randstad India to customize an employee satisfaction survey that would be conducted independently and offer insights for future reference. More significantly, employees were able to retain confidentiality and privacy in expressing their opinions freely. Conducted for the first time ever in its 12 years of existence, AAI took a bold step in commissioning this employee satisfaction survey, which could prove to be an eye-opener in many ways. To our delight, employee participation was very high, at 85%, with employees coming forward to comment on various factors about the Company and its policies. We have taken the improvement suggestions seriously and intend to address these through positive action by early 2013.

Key Findings of the Employee Engagement Survey





Key Areas for Enhancement

- Empowerment & Delegation: In this category, feedback has revealed the need for greater empowerment at all levels of the organization backed by proactively grooming of the next generation of leaders to be real influencers. The Company has responded by introducing structured training programmes to enable the second line employees to handle greater responsibility, whilst simultaneously re-allocating workload and reducing duplication of valuable resources.

- Automated & Process Development: In view of the enhanced new business volumes achieved by the Company during the period under review, the ongoing IT enhancements are being geared to increase automation so as to free resources to focus on generating further new business. The Company is constantly re-engineering its IT systems and processes for streamlined operations.

- Learning, Training & Development: Feeling the need to broaden the scope of managers, further training to play a bigger role while improving communication skills with staff are ongoing.

- Customer Focus/New Product Development: Improving customer focus remains an ongoing endeavour and improving customer care skills and knowledge about the Company's products and services will be sustained. Strategies for faster resolution of customer complaints to convert an unhappy customer into a happy customer are being drawn up.

- Talent Management: More focused career progression and talent management exercises and workshops are being introduced to strengthen talent management within the Company.

Instilling a Sense of Adventure

During the period under review, AAI continued its focus on staff training and a Customer Excellence training programme by renowned corporate trainer and expert in customer excellence, Dhammika Kalapuge. He provided deep insights to participants on Passion to Serve, the theme of the seminar. Two major outbound training programmes were held during the year for the two divisions Non-Life and Life division. The Life division underwent a comprehensive team building programme held by the Sri Lanka Army – Special Forces regiment at the Special Forces Training School Maduru Oya. The Non-Life team meanwhile experienced adventures and team building sessions at Kitulgala organised by Borderlands. This programme was held for all in the management cadre.

Our spotlight on training and further education is strong, demonstrated by the Sri Lanka Insurance Institute records which show that AAI has the highest number of annual participants. The Company proactively encourages employees to pursue further qualifications in insurance and offers study leave for exams and eventually bears the examination cost and all other related costs if employees pass the examinations successfully. This focus on enhancing the skill levels of employees has greatly benefitted all stakeholders of the Company. Further, AAI has an adequate number of Chartered Insurers who are affiliated to the Chartered Insurance Institute (CII), UK, whilst many more will be obtaining the chartered insurer status soon.

Insurance Examinations 2012

Percentage

39%	Insurance Foundation Certificate
22%	Diploma in Insurance Practice
25%	Indian Insurance Institute
14%	Chartered Insurance Institute

Staff Growth in 2012

The period under review was marked by an increased focus on existing maximising resources by leveraging on improved IT processes and systems integration. However, through the year, about 125 employees were recruited in areas which needed to be bolstered further.

ISYS provides end-to-end Solutions

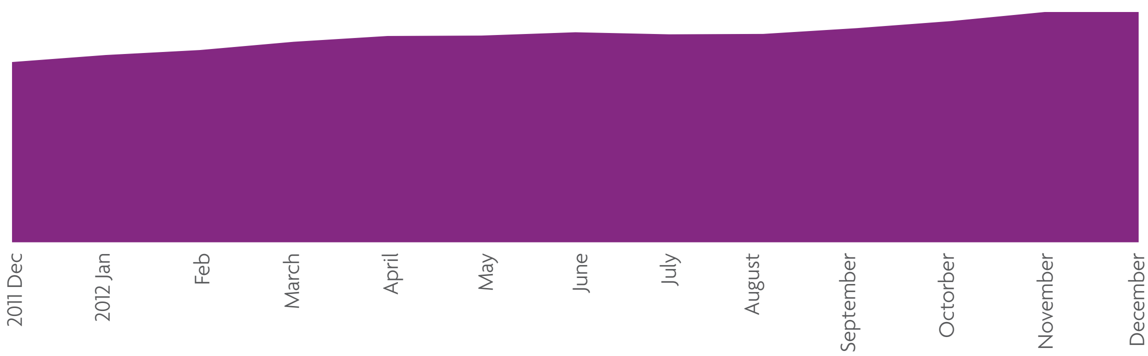
Our in-house designed HR ISYS system provides Managers with clear 20:20 vision of employees from the pre employment stage right up to the exit interview. The ongoing development of the HR ISYS system will help the Managers further. This integrated view enables HR to assess individual achievements and customize training and future career progression suited to each employee.

Reaching Greater Heights in Year 2012

Our Take Off 2012 campaign to boost productivity and communication across the enterprise proved to be the key driver in helping us achieve and exceed goals set for this financial year. AAI reached the billion rupee milestone in the Non-Life division with ease before the scheduled deadline of end 2012, demonstrating staff commitment to truly take off in the period under review and achieved 100% YoY growth.

The Take Off initiatives will remain in place over the next three to four years, with tools such as cutting edge training providing the right momentum to achieve envisioned growth of reaching to be amongst the top three insurance companies by year 2015. .

Staff Growth in 2012



ENVIRONMENT

Green IT

As the level of computerization and automation increases, we are faced with older equipment that needs to be phased out. Unlike many companies which auction old office equipment, at AAI, we service the old equipment to ensure it is in working order and then donate it to school for under privileged in remote areas. As a result of this, we have donated computers, photocopy machines, printers and so on to several schools.

Conserving Resources

Reducing Paper Usage: The implementation of the iSYS Oracle ERP system, since it serves the purpose of a shared resource across the enterprise, has drastically reduced the usage of paper in the Company. Our vision is to fully automate the business in the next five years to become a paperless office by 2013. Plans are also ongoing to establish a monitoring system with the administration department to calculate the quantity paper used and how this number can be brought down further to ensure optimization of the IT system. Having formal paper usage tracking system in place will deter paper wastage by employees.

Moreover, the implementation of the Oracle system has enabled electronic archiving, thereby eliminating the need to maintain physical files. Currently, we can archive files dating back six years before they can be destroyed as per legal requirements.

Recycling Paper: The recycling of paper is encouraged within the Company. Box files are routinely reused and the refuse from the paper shredder is weighed and sent to a recycling Company. Discarded paper is collected separately by disposal tams and sent out for recycling on a weekly basis, thereby ensuring that paper, if used, is recycled.

Reusing Toner Cartridges: In a bid to reduce our carbon footprint, the Company reuses recycled toner cartridges to reduce waste. This is an environmentally-friendly way to reduce pressure on landfills in the country as there is a dearth of recycling companies and items such as toners have to be sent abroad for recycling, which is not a feasible option.

Remote Storage: The Company is exploring the possibility of investing in technology which reduces dependence on physical servers and our roadmap ahead for the IT department is virtualization of documents and information.

Conserving Electricity: Energy-saving lighting is used throughout the head office and branches of the Company. During 2011, we invested funds to elevate sockets from the floor level up to eye level, so that employees are encouraged to switch all mains before leaving office for the day. At the end of every working day, a team checks all sockets and makes a not of any repeat offenders who habitually leave the mains on. These efforts have made a significant difference to our electricity usage, thereby also bringing down utility costs for the Company.

VALUE Addition

Value Addition shows the total wealth created and how it is distributed , taking into account the amounts retained and reinvested in the Company for the replacement of assets and for expansion programmes.

	2012	2011
	Rs.' 000	Rs.' 000
Net Earned Premium	2,392,497	1,669,134
Other Revenue	461,740	(10,245)
Reinsurance Commission Income	95,504	119,315
	2,949,741	1,778,204
Net Insurance benefits & claims	(1,211,141)	(818,503)
Cost of External Services	(646,945)	(444,865)
Value Addition	1,091,655	514,836

		Rs.' 000	%	Rs.' 000	%
Distribution of Value Added					
To Employees	Salaries & Other Benefits	315,626	29%	241,853	47%
To Intermediaries	Insurance Commssion	592,200	54%	330,546	64%
To the Government	Taxes	4,810	0%	4,411	0%
To ShareHolders	Dividends	75,000	7%	112,500	22%
Reatined within the business	Depreciation	30,727	3%	23,571	5%
Reatined within the business	Retained Reserves	73,292	7%	(198,045)	-38%
		1,091,655	100%	514,836	100%

Value Addition
2012

Percentage

29% To Employees
54% To Intermediaries
0% To the Government
7% To Shareholders
3% Reatined within the business
7% Reatined within the business

Financial Analysis

DIRECTORS' Report

Preface

The Directors of Asian Alliance Insurance PLC have pleasure in submitting their report together with the audited Financial Statements of the Company for the year ended 31st December 2012 and the Auditors' Report thereon. The Financial Statements were accepted and approved by the Board of Directors.

The details set out in the following report provide information required by the Companies Act No 07 of 2007 and the listing rules of the Colombo Stock Exchange of Sri Lanka and are guided by recommended best practices on Corporate Governance. This Report was approved by the Board of Directors by Resolution passed by circulation as of 19th February 2013.

Review of Performance for the year ended 31st December 2012

The operations of the Company for the year ended 31st December 2012 are reviewed in the Chairman's Message, Chief Executive Officer's Message and in Management Discussion and Analysis.

Company Activities and structure

Asian Alliance Insurance PLC is a public limited liability Company incorporated in Sri Lanka on 21 April 1999 under the Companies Act No 17 of 1982 and re- registered as per the Companies Act No. 07 of 2007 (Reg :No PQ- 31) and registered under the Insurance Industry Act No. 43 of 2000 to carry out the Business of Insurance.

The Company is listed on the Dirisavi Board of the Colombo Stock Exchange.

The Company commenced Non Life Insurance business on 1st December 1999 and Life Insurance business on 1st April 2000. During the year the Principal Activity of the Company was to carry out the business of Life and Non Life Insurance.

The major share holder of the Company is Softlogic Holdings PLC which has a direct holding of 18.88% and indirect holding of 55.16% which amounts to 74.04% in total as at 31 December 2012.

Directors Responsibility for Financial Reporting

The Directors are responsible for the preparation and presentation of the Financial Statements of the Company as to give a true and fair view of the State of Affairs of the Company.

The Statement of Directors Responsibility to Financial Reporting is given on Page 113.

The Financial Statements of the Company are given on pages 122 to 165.

Accounting Policies

The revised Accounting Policies based on the new Sri Lanka Accounting Standards (SLFRS) were accepted and approved by the Audit Committee.

The Accounting Policies adopted in preparation of Financial Statements are given on pages 129 to 143.

First Time Adoption of SLFRS

The Financial Statements, for the Year ended 31 December 2012, were the first Financial Statements prepared in accordance with the new Sri Lanka Accounting Standards (SLFRS).

In preparing these financial statements, the opening Statement of Financial Position was prepared as at 1 January 2011, the date of transition to SLFRS. Note No. 28 on page 161, summarizes and explains the principal adjustments made in restating the Statement of Financial Position as at 1 January 2011 and 31 December 2011.

An explanation of how the transition from SLAS to SLFRS has affected the Company's statement of financial position, financial performance and cash flows is stated in the accompanying notes to the material reconciliation items.

Auditors

The Financial Statements for the year ended 31st December 2012 have been audited by Messrs. KPMG, Chartered Accountants who offer themselves for re-appointment.

A resolution relating to their re-appointment and authorizing the Directors to determine their remuneration will be proposed at the Annual General Meeting.

The fees paid to the Auditors are disclosed in Note No 20 on Page 156 to the Financial Statements.

As far as the Directors are aware, the Auditors do not have any relationship with the Company other than that of Auditors. The Auditors have provided a declaration confirming their independence.

Auditors Report

The Financial Statements for the year ended 31st December 2012 have been audited by Messrs KPMG, Chartered Accountants and their report on Financial Statements is given on page 121.

Gross Written Premium

The Company has underwritten a total amount of Rs. 3,244,475,607 during the year (2011 - Rs. 2,207,354,041) which is made up of Non Life Insurance amounting to Rs.1,190,391,689 (2011-Rs. 628,163,419) and Life Insurance amounting to Rs. 2,034,083,917 (2011 – Rs. 1,579,190,622).

The Statement of Comprehensive Income of the Company is given on page 123. Transfer to/from reserves of the Company are shown in the Statement of Changes in Equity on page 124.

Financial Results	2012	2011
	Rs' 000	Rs' 000
Profit/(Loss) Before Taxation	74,702	(194,324)
Taxation	(1,410)	(3,721)
Profit/(Loss) After Taxation	73,292	(198,045)
Dividend Paid	(75,000)	(112,500)
(Allocation)/Reversal for Life Solvency	175,000	(75,000)
EIR Adjustements for Investments	-	(19,613)
Provision for Family Income Benefit	-	8,066
Actuarial Gains /(Losses) on Retirement Benefits	(314)	(185)
Profit / (Loss) Brought Forward	121,548	518,825
Accumulated Profit At the End of the Year	294,526	121,548

Property, Plant and Equipment

An analysis of the Property, Plant and Equipment of the Company is disclosed in Note No 3 to the Financial Statements on page 144.

Market Value of these assets is not significantly different to the Book Values presented.

Stated Capital

The Stated Capital of the Company as at 31 December 2012 was Rs. 1,062,500,000 comprising 37,500,000 fully paid ordinary shares.

Donations

There were no donations made by the Company during the Year.

Capital Commitments

The Capital Expenditure Commitments as at 31 December 2012 is Nil

Provisions

The Directors have taken all responsible steps to ensure adequate provisioning has been made for unearned premiums, unexpired risks and claims, including claims incurred but not reported and not enough reserved. (IBNR/ IBNER).

The Directors have arranged external actuaries to value the Life Fund and the general claims incurred but not reported and not enough reserved and the gratuity liability.

The basis adopted for provisioning is disclosed in Accounting Policy No 2.3.2.2 & 2.3.3.2 on page 136 to the Financial Statements.

As at the date of the Report , the Directors are not aware of any circumstances, which would render inadequate the amounts provided for in the Financial Statements.

Reserves

The reserves consist of Available for Sale Reserve and Retained Reserves. The details and movements of reserves are disclosed in Note 10 to the Financial Statements on page 149 and in the Statement of Changes in Equity on Page 124 to the Financial Statements.

Provision for Taxation

The provision for taxation is computed at the rates as disclosed in Note 21 on page 156 to the Financial Statements.

Statutory Payments

The Directors confirm that to the best of their knowledge and belief, all statutory payments in relation to all relevant regulatory and statutory authorities have been paid. A statement of compliance by the Board of Directors in relation to statutory payments is included in the Statement of Directors Responsibilities on page 113.

Contingent Liabilities

There were no material contingent liabilities outstanding as at 31st December 2012.

Events after the Reporting Period

No circumstances have arisen since the reporting date, which require adjustments or disclosure in the Financial Statements, except for the event disclosed in Note No. 26 to the Financial Statements on page 161.

DIRECTORS' Report

Corporate Governance and Internal Controls

The Board of Directors have acknowledged the responsibility to maintain an effective Corporate Governance Structure and process and to be in compliance with all relevant rules, regulations and best practices.

The Company being listed in the Colombo Stock Exchange is fully compliant with the rules on Corporate Governance under Listing Rules of the CSE. In addition, the Company is substantially in compliance with the Best Practices on Corporate Governance issues jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka. (CA)

Company's compliance with rules on corporate governance are given in corporate governance report on pages 53 to 76.

Risk and Internal Control

The Board consider that strong internal controls are integrated to the sound management of the Company and is committed to maintain strict financial, operational and risk management controls over all activities of the Company.

The Company has ongoing process for identifying, evaluating and managing the risk that are faced by the Company and the Directors have reviewed this process through the Audit Committee.

Compliance with Rules & Regulations

The Company has complied with the regulations issued by the Insurance Board of Sri Lanka (IBSL) and Tax & other regulations applicable to the Company and have submitted all the returns and the details to the relevant parties by the due dates.

In addition the Company complies with the Financial Transaction Reporting Act No 06 of 2006 and the Convention on the Suppression of Terrorist Financing Act No 25 of 2005 , by sending a monthly report to the Financial Intelligence Unit (FIU) of Central Bank of Sri Lanka (CBSL).

Compliance Reports also have been submitted to the Audit Committee on a quarterly basis confirming same.

The Audit Committee Report is disclosed in Page 115.

Going Concern

After considering the financial position as at the reporting date and considering the future prospects of the Company the Directors have a reasonable expectation that the Company has adequate resources to continue in operations in the foreseeable future. Therefore the Directors have adopted the assumption of going concern in preparing these Financial Statements.

Employment Policy

The Company policy is to respect the merits of the individuals and provide career opportunities, irrespective of sex, race or religion. The Company's strength of manpower as at 31st December 2012 was 557 (2011– 443)

Medical and Life insurance, under group cover is available for all employees of the Company, irrespective of their period of service. The Company encourages sports and recreational activities by supporting the Sports Club.

Equitable treatment to Stakeholders and their interest

The Company has taken all steps to ensure the equitable treatment to all stakeholders.

The Directors assure that the Company has taken necessary precautions to safe guard the interest of it's stakeholders

Environmental Protection

The Directors have ensured that every possible step has been taken to comply with the relevant environmental laws and regulations in the country. The Company has not engaged in any activity that is harmful or hazardous to the environment.

Board of Directors

The Board of Directors of the Company consists of seven Directors with wide financial and commercial knowledge and experience. The following Directors held office during the year and their brief profiles are given on page 20 of the Annual Report.

Mr. Asoka Kariyawasam Pathirage - Chairman
Mr. James Henry Paul Ratnayeke - Deputy Chairman
Mr. Ramal Githan Jasinghe - Director/CEO
Mr. Sujeewa Rajapakse - Director
Mr. Tuan Mihlar Iftikar Ahamed - Director
Mr. Suraj Nissanka Fernando -Director
Mr. Mohan Ray Abeywardena -Director

Note

Mr. Ranil Prasad Pathirana resigned from the Board of Directors with effect from 28th June 2012.

Rotation of Directors

Mr. Sujeewa Rajapakse retires by rotation in accordance with Article 98 of the Articles of Association of the Company and being eligible, offers himself for re-election .

Independent Directors

During the year the following Directors were acting as the Independent Directors of the Company;

Mr. Sujeewa Rajapakse

Mr. Mohan Ray Abeywardena

Mr. J.H.P. Ratnayeke who has served on the Board of the Company continuously for a period exceeding nine years from the date of his first appointment does not prima facie satisfy the criteria set out for an Independent Director in terms of Section 7.10.4.e of the Listing Rules of the Colombo Stock Exchange. However, the Board of Directors of the Company having taken into account all the circumstances including the fact that Mr. Ratnayeke being a professional can continue to use judgement and independence without any impediment, is of the opinion that Mr. Ratnayeke is nevertheless independent.

Directors Interest Register

In terms of the Companies Act No 07 of 2007 an Interest Register was maintained during the accounting period under review.

Directors Interest in contracts

Directors' interest in contracts both direct and indirect are as follows. The transactions entered with following Companies during the year are disclosed in Note No 24 on page 159.

Directors' Interest in Shares

Name of The Director	As at 31 December 2012	As at 31 December 2011
Asoka K. Pathirage	Nil	Nil
J. H. P. Ratnayeke	Nil	Nil
Mohan Ray Abeywardena	Nil	Nil
T.M.Iftikar Ahamed	Nil	Nil
Sujeewa Rajapakse	Nil	Nil
Suraj N.Fernando	Nil	Nil
Mr. Ramal G. Jasinghe	Nil	Nil

Name of Director	Position	Company	Relationship
Asoka K. Pathirage T.M. Iftikar Ahamed Suraj N. Fernnado	Chairman Director Director	Softlogic Holdings PLC	Parent Company
Asoka K. Pathirage	Chairman	Softlogic Information Technologies (Pvt) Ltd	Group Company of Softlogic Holdings PLC
Asoka K. Pathirage T.M. Iftikar Ahamed	Chairman Director	Softlogic Capital PLC	Share Holder Company
Asoka K. Pathirage T.M. Iftikar Ahamed	Chairman Director	Softlogic Finance PLC	Group Company of Softlogic Holdings PLC
Asoka K. Pathirage	Chairman	Asiri Hospital Holdings PLC	Group Company of Softlogic Holdings PLC
Asoka K. Pathirage	Chairman	Asiri Surgical Hospital PLC	Group Company of Softlogic Holdings PLC
Asoka K. Pathirage	Chairman	Softlogic Communication Services (Pvt) Ltd	Group Company of Softlogic Holdings PLC
Surajan N. Fernando	Director	Softlogic Destinations Management (Pvt) Ltd	Group Company of Softlogic Holdings PLC
Asoka K. Pathirage Sujeewa Rajapakse	Deputy Chairman Director	National Development Bank PLC	Director related entity
J. H. P. Ratnayeke	Director	Richard Pieris & Company PLC	Director related entity
J. H. P. Ratnayeke	Senior Partner	Paul Ratnayeke Associates	Director Related Entity
J. H. P. Ratnayeke	Chairman	P.R. Secretarial Services (Pvt) Ltd	Director Related Entity

Use of Company Information by Directors

Subject Matter of Information	Date of Authorization by the Board	Authorisation granted at a board meeting/ by circular resolution
None	None	None

DIRECTORS' Report

Directors Fees & Remuneration

The amount of the Directors fees & Remuneration paid during the year is Rs. 7,350,000

Related Party Transactions

The Directors have disclosed the transactions with Related Parties in terms of the Sri Lanka Accounting Standard 24 (LKAS 24), Related Party Disclosures in Note No. 24 on Page 159 which is adopted in the preperation of these Financial Statements.

Shareholders

The number of registered shareholders' of the Company as at 31st December 2012 was 932.

The distribution and analysis of shareholdings were as follows:

	As at 31st December 2012			As at 31st December 2011		
Number of Shares	No. of Share Holders	No. of Shares	% of Total	No. of Share Holders	No. of Shares	% of Total
1-1000	687	137,008	0.37	655	175,491	0.46
1001-10000	207	598,576	1.60	129	380,252	1.01
10001-100000	34	905,116	2.41	23	704,150	1.88
100001-1000000	1	112,172	0.30	4	767,500	2.06
1000001- & Over	3	35,747,128	95.33	3	35,472,607	94.59
Total	932	37,500,000	100.00	814	37,500,000	100.00

Resident / Non Resident

	As at 31st December 2012			As at 31st December 2011		
Number of Shares	No. of Share Holders	No. of Shares	% of Total	No. of Share Holders	No. of Shares	% of Total
Resident	923	37,415,959	99.78	809	37,484,800	99.96
Non Resident	9	84,041	0.22	5	15,200	.04
Total	932	37,500,000	100.00	814	37,500,000	100.00

Individual/Institution

	As at 31st December 2012			As at 31st December 2011		
Number of Shares	No. of Share Holders	No. of Shares	% of Total	No. of Share Holders	No. of Shares	% of Total
Individual	860	1,177,800	3.14	758	957,802	2.55
Institutional	72	36,322,200	96.86	56	36,542,198	97.45
Total	932	37,500,000	100.00	814	37,500,000	100.00

Annual Report

The Board of Directors approved the Company Financial Statements together with the reviews which forms part of the Annual Report on 12th February 2013. The appropriate number of copies will be submitted to the Colombo Stock Exchange, Insurance Board of Sri Lanka, Sri Lanka Accounting and Auditing Standard Monitoring Board and the Registrar of Companies within the time frame.

Annual General Meeting

The Annual General Meeting will be held at 4th Floor, Central Hospital (Pvt) Ltd, 114, Norris Canal Road, Colombo 10 on 28 March 2012 at 10.00 a.m. The notice of Annual General Meeting is given on page 181.

(Sgd)
P.R.Secretarial Services (Pvt) Ltd
Company Secretary

On behalf of the Board.

(Sgd.)
Asoka K. Pathirage
Chairman

(Sgd.)
Ramal G. Jasinghe
Director/CEO

Colombo
19 February 2013

Directors' RESPONSIBILITY to Financial Reporting

The Directors of the Company state below their responsibilities in relation to the Financial Statements of the Company. These differ from the Auditors' responsibilities, which are set out in their report given on page 121.

The Companies Act No.07 of 2007 requires the Directors to prepare Financial Statements giving a true and fair view of the income of the financial year and the state of affairs of the Company as at the end of the financial year.

In preparing these Financial Statements the Directors are required to select appropriate Accounting Policies and apply them consistently, subject to any material departures being disclosed and explained and to make judgments and best estimates and to ensure applicable accounting standards have been followed.

The Directors are required to prepare these Financial Statements on going concern basis, unless it is not appropriate. Since the Directors are satisfied that the Company has the resources to continue in business for the foreseeable future, the Financial Statements continue to be prepared on the said basis.

The Directors consider that in preparing the Financial Statements on pages 122 to 165, the Company has used appropriate accounting policies, consistently applied and supported by reasonable judgments and best estimates and that all accounting standards which are applicable have been followed.

The Directors also have responsibility for ensuring that the Company keeps accounting records, which disclose with reasonable accuracy, the financial position of the Company and enable them to ensure that the Financial Statements complies with the Sri Lanka Accounting Standards (SLFRS) and the regulations of Insurance Industry Act No. 43 of 2000, Colombo Stock Exchange listing requirements, the requirements of the Companies Act No. 07 of 2007.

The Directors have further responsibility that all financial and non-financial requirements stipulated under the Companies Act No 07 of 2007 pertaining to Directors duties and responsibilities have been complied with.

The Directors have a general responsibility for taking such steps as are reasonably open to them, to safeguard the assets of the Company and to establish appropriate internal controls to prevent and detect fraud and other irregularities.

The Directors also confirm to the best of their knowledge, that all statutory payments in relation to all relevant regulatory and statutory authorities which were due and payable by the Company as at the reporting date have been paid or where relevant provided for. The Directors are of the view that they have discharged their responsibilities as set out above.

On behalf of the Board.

(Sgd.)
Asoka K. Pathirage
Chairman

(Sgd.)
Ramal G. Jasinghe
Director/CEO

Colombo
12 February 2013

CEO & CFO's Responsibility Statement

The Financial Statements are prepared in compliance with the Sri Lanka Accounting Standards (SLFRS) issued by the Institute of Chartered Accountants of Sri Lanka and the requirements of the Companies Act No. 07 of 2007 and Regulations of Insurance Industry Act No. 43 of 2000. There are no departures from the prescribed Accounting Standards in their adoption. The Accounting Policies used in the preparation of the Financial Statements are appropriate and are consistently applied.

The Board of Directors and the Management of the Company accept responsibility for the integrity and objectivity of these Financial Statements. The best estimates and judgements were made in order that these Financial Statements are presented in a true and fair manner, the form and substance of transactions, and reasonably present the Company's state of affairs. To ensure this, the Company has taken proper and sufficient care in installing a system of internal controls and accounting records for safeguarding assets and for preventing and detecting frauds as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis. Our internal auditors have conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Company were consistently followed. However, there are inherent limitations that should be recognized in weighing the assurances provided by any system of internal controls and accounting.

The Financial Statements were audited by Messrs. KPMG, Chartered Accountants, the external auditors.

The Audit Committee of the Company meets periodically with the internal auditors and the external auditors to review the manner in which these auditors are performing their responsibilities and to discuss auditing, internal control and financial reporting issues. To ensure complete independence, the external auditors and the internal auditors have full and free access to the members of the Audit Committee to discuss any matter of substance.

It is also declared and confirmed that the Company ensured compliance by the auditor with the guidelines for the audit of Listed Companies where required. It is further confirmed that all statutory payments have been appropriately settled by the Company.

(Sgd.)
Ramal G. Jasinghe
Director/CEO

(Sgd.)
Saliya Wickramasinghe
Chief Financial Officer

Colombo
12 February 2013

AUDIT Committee Report

Composition

The Board Audit Committee comprise Mr. Sujeewa Rajapakse (Chairman) , Mr. Ray Abeywardena and Mr. Suraj Fernando, Non Executive Directors of the Company who conducted committee proceedings in accordance with the terms of reference approved by the Board..

The Chairman is a fellow member of the Institute of Chartered Accountants of Sri Lanka and Society of Certified Management Accountants of Sri Lanka. He is the Managing Partner of BDO Partners, a firm of Chartered Accountants

All Directors are non executive directors. The Board has determined that the committee possesses an adequate blend of financial and industry expertise in order to efficiently carry out its duties. .

Objectives

An Audit Committee Charter defining the objectives, authority, composition, meetings and responsibilities of the Committee was established and approved by the Board.

The main objectives of the Audit Committee as per the charter is to assist the Board of Directors in fulfilling its oversight responsibilities in relation to the financial reporting process, the adequacy and effectiveness of the internal controls systems , the external audit process and the Company's process for monitoring compliance with laws and regulations.

Meetings

The Audit Committee conducted five meetings during the year under review. The Director/CEO, and the General Manager Finance, attended the meetings by invitation. Members of the Executive Committee, Senior Management, Compliance Officer, Risk Officer, the External Auditors and the Internal Audit Consultants attended meetings as and when required. The Company secretaries Messrs PR Secretarial Services (Pvt) Ltd acted as secretaries to the Audit committee. The minutes of the Audit Committee meetings were tabled at Board meetings on a regular basis.

Summary of activities

The Committee carried out the following activities during the year

- Reviewed the Half Year and Annual Financial Statements of the Company prior to its publication.
- Reviewed the consistency and appropriateness of the accounting policies adopted by the company to ensure compliance with Sri Lanka Accounting Standards (SLFRS)
- Expanded the scope of the Internal Audit consultants role to ensure greater focus on internal controls and risk management.
- Considered the internal and external auditor's reports and directed Management to take appropriate and relevant follow up action on identified control weaknesses and accounting issues highlighted in their reports.
- Reviewed the Compliance Report prepared by the Compliance Officer to ensure compliance with Directions of the Insurance Board of Sri Lanka and other regulatory and statutory requirements.

Reviewed the Risk Reports prepared by the Risk Officer on the status of current and emerging risks and the impact on the Risk Based Capital Framework.

Internal Audit

The Internal audit function is outsourced to Messrs Ernst and Young Advisory Services (Pvt) Ltd. The Committee monitors the effectiveness of the internal audit function and is responsible for approving their appointment or removal and for ensuring they have adequate access to information required to conduct their audits. During the year the Committee reviewed the internal audit plan and recommended changes and further monitored the progress on a regular basis.

The scope of work covers the Head Office functions and all its branch activities, and includes the review of the adequacy, effectiveness and efficiency of the internal controls and the action taken to mitigate operational and business risks .In addition, they monitor and report on compliance with statutory regulations and the Company's accounting and operational policies . The internal audit representatives are present at Audit Committee meetings during discussions relating to their respective audit reports.

External Audit

During the year the Committee met with Messrs KPMG, Chartered Accountants its external auditors to discuss the Auditors Management Letter pertaining to the previous year's audit and reviewed the Management responses to the issues raised. Discussions were also held in regard to the nature, scope, approach of the audit for 2012 prior to the commencement of the audit and the first time adoption of the Sri Lanka Accounting Standards (SLFRS).

AUDIT Committee Report

Independence of the External Auditors

As far as the Audit Committee is aware, Auditors do not have any relationship (other than that of Auditors) with the Company. The Committee has also received a declaration from Messrs KPMG, Chartered Accountants as required by the Company's Act No 07 of 2007, confirming that they do not have any relationship with the Company, which may have a bearing on their independence within the meaning of the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and Securities & Exchange Commission of Sri Lanka and the Guidelines for Listed Companies on Audit & Audit Committees issued by the Securities Exchange Commission of Sri Lanka. In addition, the lead Audit Partner is rotated every five years.

Provision of Non Audit Services

The Committee reviewed the non audit services provided by the auditors to ensure that the provisions of these services do not impair their independence.

Re appointment of External Auditors

The Audit Committee has recommended to the Board of Directors that Messrs KPMG, Chartered Accountants be reappointed as Auditors for the financial year ending 31 December 2013 subject to the approval of the shareholders at the Annual General Meeting. The Committee has also made its recommendation to the Board with regards to the remuneration payable to the Auditors.

Internal Controls

During its meetings, the Committee reviewed the effectiveness of the internal control systems to ensure that processes are in place to safeguard the assets of the organization and to ensure that the financial reporting system can be relied upon in preparation and presentation of Financial Statements. The Committee noted that a comprehensive Financial Review Report and Financial Statements are produced at month end highlighting all key performance criteria pertaining to the segments which is reviewed by the Executive Committee on a monthly basis.

IT Risk and Control Assessment

The Audit Committee pays significant attention on IT security procedures adhered to by the Company. The IT Steering Committee appointed the SLCERT to carry out a preliminary IT security review to identify the information security risks and threats and to provide recommendations on the results of the survey. The assessment covered the following areas;

- Information Security Policy
- Physical Security
- Application Security Assessment
- Local Area Network Security Assessment

The findings and the recommendations are implemented through the IT Steering Committee to mitigate the risks.

Corporate Governance

The Company is fully compliant with the applicable rules on Corporate Governance under the listing rules of the Colombo Stock Exchange (CSE). In addition, the Company is substantially compliant with the Code of Best Practice on Corporate Governance issued jointly by the Securities & Exchange Commission of Sri Lanka (SEC) and the Institute of Chartered Accountants of Sri Lanka (CA).

Conclusion

The Audit Committee is satisfied that the internal controls and procedures in place for assessing and managing risks are adequately designed and operate effectively and is of the view that they provide reasonable assurance that the Company's assets are safeguarded and that the Financial Statements of the Company are reliable.

In addition, the Committee observes that the Company's compliance framework provides reasonable assurance that all relevant laws, rules, regulations, codes of ethics and standards of conducts have been followed.

(Sgd.)
Sujeewa Rajapakse
Chairman, Audit Committee

Colombo
12 February 2013

REMUNERATION Committee Report

Composition and the Charter of the Remuneration Committee

The Remuneration Committee comprises Mr. Asoka K Pathirage – Chairman, Mr. J.H.P.Ratnayeke and Mr. Ray Abeywardena Non Executiver Directors of the Company.

Director/CEO attends all meetings by invitation. The Deputy General Manager-Human Resources assists the Committee by providing information required for its decision making process.

Remuneration Policy

- The remuneration policy of the Company aims to attract and retain employees with appropriate professional, managerial and operational expertise necessary to achieve the Company objectives.
- It is the Committee's aim to ensure that the total remuneration package is competitive not just in the industry but to attract from other industries
- The Remuneration Committee policy is to place the basic salaries broadly around the market median with other variable components which reflect the Company's business strategies and the challenges it face.

Responsibilities of the Remuneration Committee:

- Maintaining a competitive, attractive and reasonable remuneration package for employees at all levels on par with industry standards bearing in mind business performance and long term shareholder returns.
- Making sure that the remuneration packages of employees are linked to individual performance, responsibility, expertise and contribution to team and overall Company objectives
- Formulating formal and transparent procedures for developing policy on remuneration for Executive Directors, Senior Management and other staff of the Company
- Recommending annual increments, bonuses and changes in prerequisites and incentives.
- Ensuring that no Director is involved in setting his own remuneration package.
- Approving annual increments, bonuses and changes in perquisites and incentives to the Board
- Recommending corporate management appointments to the Board and advising on succession planning

Remuneration Committee Meetings

The Committee meets at least once each year and the minutes of the meetings are circulated to the Board.

Remuneration Package

Employees

The remuneration packages of employees consist of a fixed component, variable component and other benefits as noted below:

Fixed Components

Basic salary and traveling allowance are the fixed components in the package which is based on the scope and complexity of the role and is reviewed annually. Annual performance appraisals are conducted and increments and promotions are granted purely based on results of such appraisals. Overall competence and performances are key factors that determine an individual's base pay.

Variable Components

The main component of our variable pay is the annual bonus to employees at all levels based on individual performance as evaluated at the annual performance appraisals and the performance of the Company. In addition, the distribution Management Team is entitled for a production and quality incentive scheme based on achievement of business targets under predetermined criteria.

Other Employee Benefits

Benefits provided to employees include examination loans and various insurance benefits.

Retirement Benefits

There are no retirement benefits to employees other than gratuity.

Board of Directors

No remuneration is paid to Non-Executive Directors other than the Director's fees paid based on their participation at Board meetings and other subcommittee meetings. CEO's remuneration is decided by the Board annually on the recommendation of the Remuneration Committee based on the achievement of Company objectives and individual performance.

Total fees and remuneration paid to all Directors is disclosed on Note No 24.2.2 page 159.

Non-Executive Directors are not entitled to retirement benefits.

Share option plans for Directors

The Company does not have a share option plan for Directors.

Directors' Shareholding

The shareholdings of Directors are provided on page 111.

Personal Loans for Directors

No Director is entitled for Company loans.

(Sgd.)
Asoka K. Pathirage
Chairman - Remuneration Committee

Colombo
12 February 2013

REPORT OF THE Actuary - Life

Actuarial & Management Consultants (Pvt) Limited

1st Floor, 434, R.A. De Mel Mawatha, Colombo 03, Sri Lanka. Telephone (94)112575280/ (94)112301079 Fax : (94) 112301079

To the Shareholders of Asian Alliance Insurance PLC

ACTUARIAL VALUATION OF THE LONG TERM INSURANCE BUSINESS AS AT 31 DECEMBER, 2012

We have carried out an actuarial valuation of the Long Term Insurance Business as at 31 December, 2012. We hereby certify that, in our opinion,

1) Proper records have been kept by the Company which are appropriate for the purpose of the actuarial valuation of the liabilities of the Long Term Insurance Fund;

2) Adequate and proper reserves have been provided as at 31st December, 2012, for all liabilities in respect of the Long Term Insurance Fund, taking into account all current and contingent liabilities as at date.

3) The Long Term Insurance Fund as included in the audited accounts as at 31 December, 2012, exceeded the required actuarial reserves as at 31 December, 2012 by Rs. 297.339 million before allocation of reversionary bonus to policies with contractual participation in profits, provision for contingencies, provision for solvency margin and any transfer to shareholders.

4) The solvency margin required under the Regulation of Insurance Industry Act No. 43 of 2000 is Rs. 142.881 million, including the solvency margin for the new revisionary bonus allotted as at 31 December 2012, and is fully provided for.

M POOPALANATHAN
ACTUARY

11 February 2013

REPORT OF THE Actuary - Non Life

To the shareholders of Asian Alliance Insurance PLC

ASIAN ALLIANCE INSURANCE PLC 31 DECEMBER 2012 NET IBNR AND LAT CERTIFICATION

We hereby certify that the IBNR provision of Rs. 17,772,439 is adequate in relation to the Claim Liabilities of Asian Alliance Insurance PLC as at 31st December 2012, net of reinsurance. This IBNR provision, together with the Case Reserves held by the Company, is expected to be adequate to meet the future liabilities in respect of the Company's reported claims obligations as at 31st December 2012, in many but not all scenarios of future experience.

At the end of each reporting period, companies are required to carry out a Liability Adequacy Test (LAT) as laid out in SLFRS 4. The LAT is performed to assess the adequacy of the carrying amount of the Unearned Premium Reserve (UPR). We hereby certify that the UPR of Rs.564,225,558 is adequate in relation to the unexpired risks of Asian Alliance Insurance PLC as at 31 December 2012, net of reinsurance.

Our results have been determined largely in accordance with internationally accepted actuarial principles.

We have relied upon information and data provided by the management of the above Company and we have not independently verified the data supplied, beyond applying checks to satisfy ourselves as to the reasonability of the data.

Matthew Maguire
Fellow of the Institute of Actuaries of Australia (FIAA)
For and on behalf of NMG Financial Services Consulting

6 February 2013

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LIABILITY Adequecy Test Certification

PINNACLE

January 31st, 2013

Mr. Ramal Jasinghe
Director & Chief Executive Officer
Asian Alliance Insurance PLC.
7th Floor, Millennium House 46/58, Nawam Mawatha
Colombo 02, Sri Lanka
Dear Mr. Jasinghe,
Re: LAT Opinion Letter

We have been engaged by Asian Alliance Insurance PLC to act as its Independent

Actuaries in connection with a liability adequacy test ("LAT") review and opinion letter. We have examined the actuarial assumptions and actuarial methods used in determining projected contract cash flows of existing business as of December 31, 2012. In forming our opinion on projected contract cash flows, we relied upon data prepared by the Actuarial Department of Asian Alliance Insurance PLC as to existing business records, actuarial experience studies and certain other data. We evaluated that data for reasonableness and consistency and our examination included such review of the actuarial assumptions and actuarial methods used and such tests of the projected contract cash flow calculations as we considered prudent and necessary.

In our opinion the projected contract cash flows and associated discounted cash flow reserves at a risk free discount rate of 11% are:

1. Computed in accordance with commonly accepted actuarial standards consistently applied and are fairly stated in accordance with sound actuarial principles.
2. Based on actuarial assumptions which are consistent with actuarial experience studies including any provision for adverse deviation.
3. Make a good and sufficient provision for all un-matured policyholder obligations Asian Alliance Insurance PLC guarantees under the terms of its contracts and an allowance for discretionary non-guaranteed policyholder bonuses.
4. Un-audited balance sheet assets of SLRs 3,396.6 million are sufficiently adequate as compared to the discounted cash flow reserves of SLRs 806.4 million and in contrast to un-audited balance sheet reserves of SLRs 2,904.3 Million.

Actuarial methods, considerations and analyses used in forming our opinion conform to the appropriate standards of practice as promulgated from time to time by International Actuarial Societies, which standards form the basis of this opinion letter. This opinion letter is for the use of Asian Alliance Insurance PLC and its Independent Auditor.

John C. Vieren FSA MAA
Managing Director
The Pinnacle Consulting Group Limited

INDEPENDENT Auditors' Report

KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
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TO THE SHAREHOLDERS OF ASIAN ALLIANCE INSURANCE PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Asian Alliance Insurance PLC ("the Company"), which comprise the statement of financial position as at December 31, 2012, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information set out on pages 122 to 165 of the annual report.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Scope of Audit and Basis of Opinion

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended December 31, 2012 and the financial statements give a true and fair view of the financial position of the Company as at December 31, 2012, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

These financial statements also comply with the requirements of Section 151(2) of the Companies Act No. 07 of 2007. Pursuant to Section 47(2) of the Regulation of Insurance Industry Act No.43 of 2000, we also report, so far as appears from our examination, proper accounting records have been maintained as required by the relevant rules made by the Insurance Board of Sri Lanka.

KPMG

Chartered Accountants
Colombo, Sri Lanka
12th February 2013

KPMG, a Sri Lankan Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International cooperative ("KPMG International"), a Swiss entity.

M.R. Mihular FCA
C.P. Jayatilake FCA
Ms. S. Joseph FCA
S.T.D.L. Perera FCA
Ms. M. P. Perera FCA
T.J.S. Rajakarier FCA
Ms. S.M.B. Jayasekara ACA
G.A.U. Karunaratne ACA
P.Y.S. Perera FCA
W.W.J.C. Perera FCA
W.K.D.C Abeyrathne ACA
R.M.D.B. Rajapakse ACA

Principals - S.R.I. Perera ACMA, LLB, Attorney-at-Law, H.S. Goonewardene ACA

STATEMENT of Financial Position

As at 31 December	Notes	Company 2012 Rs.'000	2011 Rs.'000	2010 Rs.'000
Assets				
Property, Plant & Equipment	3	116,105	96,365	79,818
Financial Investments	4	4,825,799	3,985,799	3,821,611
Investment Property		-	-	36,750
Policy Loans & Other Loans	5	81,398	60,187	45,879
Reinsurance Receivable		50,921	64,593	99,937
Premium Receivable	6	379,720	189,998	102,611
Deferred Expenses		68,192	39,298	25,567
Other Assets	7	144,185	155,201	139,089
Cash & Cash Equivalents	8	34,784	55,192	62,438
Total Assets		**5,701,104**	**4,646,633**	**4,413,700**
Liabilities & Equity				
Equity				
Stated Capital	9	1,062,500	1,062,500	1,062,500
Other Reserves	10	104,477	230,852	160,128
Retained Reserves	10	294,526	121,548	518,825
Total Equity		1,461,503	1,414,900	1,741,453
Liabilities				
Insurance Liabilities - Life	11	2,904,345	2,353,008	1,929,352
Insurance Liabilities - Non Life	12	681,514	392,777	275,668
Retirement Benefit Obligation	13	34,398	27,863	22,738
Interest Bearing Liabilities		17,881	11,590	4,242
Reinsurance Payables	14	77,973	98,273	81,695
Deferred Revenue		16,680	16,712	11,105
Amounts due to Related Companies	15	39,988	-	47,499
Other Liabilities	16	466,822	331,510	299,948
Total Liabilities		4,239,601	3,231,733	2,672,247
Total Liabilities & Equity		5,701,104	4,646,633	4,413,700

The above Statement of Financial Position is to be read in conjunction with the Accounting Policies and Notes to the Financial Statements on Pages 129 to 165.

These Financial Statements have been prepared in accordance with the Companies Act No 07 of 2007.

(Sgd.)
Saliya Wickramasinghe
Chief Financial Officer

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.
Signed for and on behalf of the Board By

(Sgd.)
Asoka K. Pathirage
Chairman

(Sgd.)
Ramal G. Jasinghe
Director/CEO

12 February 2013
Colombo

STATEMENT of Comprehensive Income

	Notes	Company		
For the Year Ended 31 December		2012	2011	
		Rs.'000	Rs.'000	Change
Gross Written Premium	17.1	3,224,476	2,207,354	46%
Reinsurance Premium	17.2	(561,571)	(424,392)	32%
Net Written Premium		2,662,905	1,782,962	49%
Net Change in reserves for Unearned Premium		(270,408)	(113,828)	138%
Net Earned Premium		2,392,497	1,669,134	43%
Other Revenue				
Investment income	17.3	396,589	304,076	30%
Realized Gains/(Losses)	17.4	52,426	55,643	(6%)
Fair Value Gains/(Losses)	17.5	2,612	(379,879)	101%
Other operating revenue		10,113	9,915	2%
		461,740	(10,245)	4,607%
Net Income		2,854,237	1,658,889	72%
Insurance benefits and claims paid	18.1	(795,874)	(499,412)	59%
Claims ceded to reinsurers	18.2	169,646	128,702	32%
Change in Claims Outstanding liabilities	18.3	(206,974)	(7,556)	2,639%
Change in contract liabilities - Life	18.4	(551,339)	(423,656)	30%
Change in Claims Outstanding liabilities ceded to reinsurers	18.5	173,400	(16,580)	1,146%
Net Insurance benefits and claims		(1,211,141)	(818,502)	48%
Net Acquisition cost	19	(568,472)	(317,184)	79%
Operating & Administration Expenses	20	(993,297)	(710,129)	40%
Finance Cost		(6,625)	(7,398)	(10%)
Other Expenses		(1,568,394)	(1,034,711)	52%
Profit/(Loss) Before Tax		74,702	(194,324)	138%
Income tax expense	21	(1,410)	(3,721)	(62%)
Profit/(Loss) for the year		73,292	(198,045)	137%
Other Comprehensive Income net of Income Tax				
Fair Value adjustments for AFS Investements		48,625	(4,276)	
Actuarial Gains /(Losses) on Retirement Benefits		(314)	(185)	
Other Comprehensive Income for the Year		48,311	(4,461)	100%
Total Comprehensive income for the Year		121,603	(202,506)	160%
Earnings per Share	22	1.95	(5.28)	
Dividend per Share - Proposed	23	-	2.00	

The above Statement of Comprehensive Income is to be read in conjunction with the Accounting Policies and Notes to the Financial Statements on Pages 129 to 165.

Statement of Changes in EQUITY

	Note	Stated Capital	Available for Sale Reserve	Provision for Life Solvency	Retained Reserves	Total
Audited Balance as at 31 December 2010 as reported under SLAS		1,062,500	-	100,000	498,360	1,660,860
Fair value adjustment for AFS Investments	28 (a)	-	60,128	-	-	60,128
EIR Adjustment for Investments	28 (b)	-	-	-	10,197	10,197
Provision for Family Income Benefit	28 (c)	-	-	-	10,268	10,268
SLFRS Adjusted Balance as at 1 January 2011		1,062,500	60,128	100,000	518,825	1,741,453
Net Loss for the Period		-	-	-	(198,045)	(198,045)
Dividend Paid		-	-	-	(112,500)	(112,500)
Allocation for Life Solvency		-	-	75,000	(75,000)	-
Fair value adjustment for AFS Investments	28 (a)	-	(4,276)	-	-	(4,276)
EIR Adjustment for Investments	28 (b)	-	-	-	(19,613)	(19,613)
Provision for Family Income Benefit	28 (c)	-	-	-	8,066	8,066
Actuarial Gains /(Losses) on Retirement Benefits	28 (d)	-	-	-	(185)	(185)
SLFRS Adjusted Balance as at 31 December 2011		1,062,500	55,852	175,000	121,548	1,414,900
Net Profit for the Period		-	-	-	73,292	73,292
Dividend Paid		-	-	-	(75,000)	(75,000)
Allocation for Life Solvency (Reversal)		-	-	(175,000)	175,000	-
Fair Value adjustment for AFS Investments	28 (a)	-	48,625	-	-	48,625
Actuarial Gains /(Losses) on Retirement Benefits	28 (d)	-	-	-	(314)	(314)
Balance As at 31 December 2012		1,062,500	104,477	-	294,526	1,461,503

The above Statement of Changes in Equity is to be read in conjunction with the Accounting Policies and Notes to the Financial Statements on Pages 129 to 165.

CASH FLOW Statement

	Company	
For the Year Ended 31st December	2012	2011
	Rs.'000	Rs.'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Premium Received from Customers	3,195,989	2,191,633
Reinsurance Premium Paid	(486,149)	(279,475)
Claims Paid	(803,118)	(493,296)
Reinsurance Receipt in respect of Claims	140,068	112,635
Cash paid to and on behalf of employees	(396,331)	(279,727)
Salvage income	6,431	15,265
Operating Cash Payments	(1,268,318)	(950,658)
Cash Inflow/(Outflow) from Operating Activities (Note A)	388,572	316,377
Tax paid	(4,810)	(4,411)
Interest Paid	(2,052)	(631)
Net Cash flows from Operating Activities	381,710	311,335
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Financial Investments	(11,620,088)	(7,608,130)
Sale of Financial Investments	10,887,577	7,170,427
Sale of Investment Property	-	38,000
Investment income received	446,369	226,392
Purchase of Property, Plant & Equipment	(50,597)	(40,118)
Proceeds on Sale of Property, Plant & Equipment	1,380	-
Net Cash flows from Investing Activities	(335,359)	(213,429)
Net Cash Flow before Financing Activities	46,351	97,906
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend Paid	(73,050)	(112,500)
Net Cash from/(used in) Financing Activities	(73,050)	(112,500)
Net Increase/(Decrease) in Cash and Cash Equivelents (Note B)	(26,699)	(14,594)

CASH FLOW Statement

For the Year Ended 31st December	Company 2012 Rs.'000	2011 Rs.'000
A. Reconciliation of operating profit with Cash Flows Operating Activities		
Profit/(Loss) before Taxation	74,702	(194,324)
Increase in Insurance Liabilities - Life	551,339	423,656
Depreciation Charges	30,727	23,571
Provision for Retirement Benefits	8,504	5,560
Retirement Benifit Paid	(2,283)	(620)
Interest Paid	2,052	631
Invetment Income	(396,589)	(304,076)
Realised Gains/(Losses)	(52,426)	(55,643)
Fair Value Gains/(Losses)	(2,612)	379,879
(Increase) / Decrease in Receivables and Other Assets	(229,667)	(146,568)
Increase /(Decrease) in Non-Life Insurance Provision	288,737	117,108
(Increase) /Decrease in Deferred Expenses	(28,894)	(13,731)
Increase /(Decrease) in Deferred Revenue	(32)	5,607
Increase /(Decrease) in Payables & Other Liabilities	145,014	75,327
Cash Inflow/(Outflow) from Operating Activities	388,572	316,377
B. Increase/(Decrease) in Cash and Cash Equivalents		
Cash & Cash Equivalents	34,784	55,192
Interest Bearing Liabilities	(17,881)	(11,590)
Net cash & cash equivalents as at 31st December 2012	16,903	43,602
Net cash & cash equivalents as at 31 December 2011	43,602	58,196
Increase / (Decrease) in Cash and Cash Equivalents	(26,699)	(14,594)

STATEMENT of Comprehensive Income - Segment Review

		Non Life Insurance		Life Insurance		Company	
For the Year Ended 31st December		2012	2011	2012	2011	2012	2011
	Notes	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Gross Written Premium	17.1	1,190,392	628,163	2,034,084	1,579,191	3,224,476	2,207,354
Reinsurance Premium	17.2	(234,590)	(166,757)	(326,981)	(257,635)	(561,571)	(424,392)
Net Written Premium		955,802	461,406	1,707,103	1,321,556	2,662,905	1,782,962
Net Change in reserves for Unearned Premium		(270,408)	(113,828)	-	-	(270,408)	(113,828)
Net Earned Premium		685,394	347,578	1,707,103	1,321,556	2,392,497	1,669,134
Other Revenue							
Investment income	17.3	99,627	80,242	296,962	223,835	396,589	304,076
Realized Gains/(Losses)	17.4	3,953	-	48,473	55,643	52,426	55,643
Fair value Gains/(Losses)	17.5	10,957	(346,376)	(8,345)	(33,502)	2,612	(379,879)
Other operating revenue		-	-	10,113	9,915	10,113	9,915
		114,537	(266,134)	347,203	255,891	461,740	(10,245)
Net Income		799,931	81,444	2,054,306	1,577,447	2,854,237	1,658,889
Insurance benefits and claims paid	18.1	(535,007)	(286,754)	(260,867)	(212,657)	(795,874)	(499,412)
Claims ceded to reinsurers	18.2	45,070	32,903	124,576	95,798	169,646	128,702
Change in Claims Outstanding liabilities	18.3	(166,071)	(6,991)	(40,903)	(566)	(206,974)	(7,556)
Change in contract liabilities - Life	18.4	-	-	(551,339)	(423,656)	(551,339)	(423,656)
Change in Claims Outstanding liabilities ceded to reinsurers	18.5	139,323	(10,458)	34,077	(6,122)	173,400	(16,580)
Net Insurance benefits and claims		(516,685)	(271,300)	(694,456)	(547,203)	(1,211,141)	(818,502)
Net Acquisition cost	19	(58,977)	(25,958)	(509,495)	(291,226)	(568,472)	(317,184)
Operating & Administration Expenses	20	(303,899)	(176,257)	(689,398)	(533,873)	(993,297)	(710,129)
Finance Cost		(1,547)	(2,253)	(5,078)	(5,145)	(6,625)	(7,398)
Other Expenses		(364,423)	(204,468)	(1,203,971)	(830,244)	(1,568,394)	(1,034,711)
Profit/(Loss) Before Tax		(81,177)	(394,324)	155,879	200,000	74,702	(194,324)
Income tax expense		(1,410)	(3,721)	-	-	(1,410)	(3,721)
Profit/(Loss) for the year		(82,587)	(398,045)	155,879	200,000	73,292	(198,045)

STATEMENT of Financial Position - Segment Review

		Non Life Insurance		Life Insurance		Company	
As at 31 December		2012	2011	2012	2011	2012	2011
	Notes	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Assets							
Property, Plant & Equipment	3	46,031	39,942	70,074	56,423	116,105	96,365
Financial Investments	4	1,687,917	1,481,469	3,137,882	2,504,330	4,825,799	3,985,799
Policy Loans & Other Loans	5	1,604	592	79,794	59,595	81,398	60,187
Reinsurance Receivable		48,929	60,827	1,992	3,765	50,921	64,593
Premium Receivable	6	372,041	189,998	7,679	-	379,720	189,998
Deferred Expenses		68,192	39,298	-	-	68,192	39,298
Other Assets	7	153,048	168,689	77,362	82,724	144,185	155,201
Cash & Cash Equivalents	8	12,974	43,375	21,810	11,817	34,784	55,192
Total Assets		2,390,736	2,024,190	3,396,593	2,718,654	5,701,104	4,646,633
Liabilities & Equity							
Equity							
Stated Capital	9	1,062,500	1,062,500	-	-	1,062,500	1,062,500
Other Reserves		67,925	230,852	36,552	-	104,477	230,852
Retained Reserves	10	294,526	121,548	-	-	294,526	121,548
Total Equity		1,424,951	1,414,900	36,552	-	1,461,503	1,414,900
Liabilities							
Insurance Liabilities - Life	11	-	-	2,904,345	2,353,008	2,904,345	2,353,008
Insurance Liabilities - Non Life	12	681,514	392,777	-	-	681,514	392,777
Retirement Benefit Obligation	13	19,547	14,257	14,851	13,606	34,398	27,863
Interest Bearing Liabilities		17,881	11,590	-	-	17,881	11,590
Reinsurance Payables	14	52,871	54,854	25,102	43,419	77,973	98,273
Deferred Revenue		16,680	16,712	-	-	16,680	16,712
Amounts due to Related Companies	15	6,421	-	33,567	-	39,988	-
Other Liabilities	16	170,871	119,100	382,176	308,621	466,822	331,510
Total Liabilities		965,785	609,290	3,360,041	2,718,654	4,239,601	3,231,733
Total Liabilities & Equity		2,390,736	2,024,190	3,396,593	2,718,654	5,701,104	4,646,633

Notes to the FINANCIAL Statements

1 Corporate Information

1.1 Reporting Entity

Asian Alliance Insurance PLC is a Company incorporated and domiciled in Sri Lanka. The registered office of the Company and the principal place of business is located at 7th Floor, Millenium House, 46/58, Nawam Mawatha, Colombo 02.

The Company's parent undertaking is Softlogic Holdings PLC.

1.2 Principal Activity

The Company is engaged in the business of Insurance.

2 Summary of Significant Accounting Policies

2.1 Basis of Preparation

2.1.1 Statement of Compliance

The Financial Statements have been prepared in accordance with Sri Lanka Accounting Standards (SLFRS), and the requirements of the Companies Act, No 07 of 2007, of Sri Lanka Accounting and Auditing Standards Act, No 15 of 1995, and the Regulation of Insurance Industry Act, No 43 of 2000 and amendments thereto.

The Financial Statements of Asian Alliance Insurance PLC for the year ended 31 December 2012 were authorized for issue in accordance with a resolution of the Board of Directors on 12 February 2013.

2.1.2 First Time Adoption of SLFRS

The Financial Statements, for the year ended 31 December 2012, were the first Financial Statements prepared in accordance with the new Sri Lanka Accounting Standards (SLFRS).

In preparing these Financial Statements, the opening Statement of Financial Position was prepared as at 1 January 2011, the date of transition to SLFRS. Note No. 28 on page 161 summarizes and explains the principal adjustments made in restating the Statement of Financial Position as at 1 January 2011 and 31 December 2011.

An explanation of how the transition to SLFRS has affected the Company's Statement of Financial Position, Financial Performance and Cash Flows are stated in the accompanying notes to the material reconciliation items.

2.1.3 Responsibility for Financial Statement

The Board of Directors is responsible for the preparation and presentation of the Financial Statements in accordance with the Companies Act No.07 of 2007 and the Sri Lanka Accounting Standards.

2.1.4 Basis of Measurement

The Financial Statements are presented in Sri Lankan Rupees rounded to the nearest thousand and prepared on the historical cost convention, except for the following, which are recorded at Fair Value.

- Available for Sale Financial Assets
- Financial Assets at Fair Value through Profit or Loss
- Defined benefit plan which is valued by an actuary on the present value of obligations.

The Company's Statement of Financial Position represents the assets, liabilities and equity of the Non Life insurance business and life insurance business. The life insurance Statement of Financial Position represents the assets and liabilities of the life insurance fund. The Statement of Comprehensive Income reflects the profitability of Non Life insurance business and surplus from life insurance business.

2.1.5 Functional and presentation currency

The Financial Statements are presented in Sri Lanka Rupees, which is the Company's functional currency.

2.1.6 Use of Estimates & Judgments

The preparation of Financial Statements in conformity with SLFRS requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the Financial Statements are included in the following notes.

Critical Accounting Estimate/Judgement	Disclosure Reference	
	Note	Page
Insurance Liabilities - Life	11	150
Unearned Premium	12.1	150
Gross Outstanding Claims	12.2	150
IBNR/IBNER	12.3	150
Retirement Benefits	13	152
Deferred Taxation - Utilization of Losses	21.3	157

2.1.7 Materiality and Aggregation

Each material class of similar items is presented separately in the Financial Statements. Items of a dissimilar nature or function are presented separately unless they are immaterial.

2.1.8 Consistency of Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements.

2.1.9 Foreign Currency Transactions

All foreign exchange transactions are converted to Sri Lanka Rupees, which is the reporting currency, at the rates of exchange prevailing at the time the transactions were effected. Insurance contracts which were underwritten in foreign currency are converted to Sri Lankan Rupees at the rates of exchange prevailing at the time of underwriting and Revenue is recognized accordingly.

Monetary assets and liabilities denominated in foreign currencies are translated to Sri Lanka Rupee equivalents using year-end spot foreign exchange rates. Non- monetary assets and liabilities are translated using exchange rates that existed when the values were determined. The resulting gains and losses are accounted for in the Statement of Comprehensive Income.

2.2 Assets and basis of their Valuation

2.2.1 Financial assets

2.2.1.1 Statement of Compliance

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously

2.2.1.2 Initial recognition and subsequent measurement

Financial assets within the scope of LKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, as appropriate. The Company determines the classification of its financial assets at initial recognition.

Financial assets are recognized initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The classification depends on the purpose for which the investments were acquired or originated. Financial assets are classified as at fair value through profit or loss where the Company's documented investment strategy is to manage financial investments on a fair value basis, because the related liabilities are also managed on this basis. The available-for-sale and held-to-maturity categories are used when the relevant liability (including shareholders' funds) is passively managed and/or carried at amortized cost.

The Company's financial assets include short-term deposits, quoted and unquoted financial instruments, and derivative financial instruments.

The financial assets are recorded based on trade date.

a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held-for-trading and those designated at fair value through profit or loss at inception. Investments typically bought with the intention to sell in the near future are classified as held-for-trading. For investments designated as at fair value through profit or loss, the following criteria must be met:

The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are re measured at fair value. Fair value adjustments and realized gain and loss are recognized in the Statement of Comprehensive Income.

b) Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to-maturity when the Company has the positive intention and ability to hold until maturity. These investments are initially recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

After initial measurement, held-to-maturity financial assets are measured at amortized cost, using the effective Interest rate method. Gains and losses are recognized in the Statement of Comprehensive Income when the investments are derecognized or impaired, as well as through the amortization process.

c) Loans and other receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. After initial measurement, loans and receivables are measured at amortized cost, using the effective interest rate method. Gains and losses are recognized in the Statement of Comprehensive Income when the investments are derecognized or impaired, as well as through the amortization process.

d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. These investments are initially recorded at fair value. After initial measurement, available-for-sale financial assets are measured at fair value. Fair value gains and losses are reported as a separate component in Other Comprehensive Income until the investment is derecognized or the investment is determined to be impaired.

The fair value changes related to life policy holders are transferred to life fund account.

On de-recognition or impairment, the cumulative fair value gains and losses previously reported in equity are transferred to the Statement of Comprehensive Income.

2.2.1.3 Fair value of financial instruments

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market bid prices for assets and offer prices for liabilities, at the close of business on the Statement of Financial Position date, without any deduction for transaction costs.

For units in unit trusts fair value is determined by reference to published bid-values.

For financial instruments where there is not an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist and other relevant valuation models. Certain financial instruments are recorded at fair value using valuation techniques because current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Company's best estimate of the most appropriate model assumptions. Also, profit or loss calculated when such financial instruments are first recorded ('Day 1' profit or loss) is deferred and recognized only when the inputs become observable or on de-recognition of the instrument.

The fair value of floating rate with credit institutions is their carrying value. The carrying value is the cost of the deposit and accrued interest. The fair value of fixed interest bearing deposits is estimated using discounted cash flow techniques. Expected cash flows are discounted at current market rates for similar instruments at the Statement of Financial Position date.

If the fair value cannot be measured reliably, these financial instruments are measured at cost, being the Fair Value of the consideration paid for the acquisition of the investment or the amount received on issuing the financial liability. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

2.2.1.4 Impairment of financial assets

The Company assesses at each Statement of Financial Position date whether a financial asset or group of financial assets is impaired.

- **Assets carried at amortized cost**

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the loss is recorded in the Statement of Comprehensive Income.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment. The impairment assessment is performed at each Statement of Financial Position date.

If, in a subsequent period, the amount of the impairment loss decreases and that decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the Statement of Comprehensive Income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

- **Available-for-sale financial investments**

If an available-for-sale financial asset is impaired, an amount comprising the difference between its costs (net of any principal repayment and amortization) and its current fair value, less any impairment loss previously recognized in other comprehensive income, is transferred from equity to the Statement of Comprehensive Income. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the Statement of Comprehensive Income.

Reversals of impairment losses on debt instruments classified at available-for-sale are reversed through the Statement of Comprehensive Income if the increase in the fair value of the instruments can be objectively related to an event occurring after the impairment losses were recognized in the Statement of Comprehensive Income.

- **Financial assets carried at cost**

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

2.2.1.5 De-recognition of financial assets

A financial asset (or, when applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired
- The Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement
- The Company has transferred its rights to receive cash flows from the asset and either:
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including cash settled option or similar provision) on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase, except that, in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

2.2.2 Reinsurance

The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recorded in the Statement of Comprehensive Income.

Premiums and claims are presented on a gross basis for ceded reinsurance.

Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expire or when the contract is transferred to another party.

2.2.3 Insurance receivables

Insurance receivables are recognized when due and measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the Statement of Comprehensive Income.

2.2.4 Deferred acquisition costs (DAC)

The costs of acquiring new businesses including commission which vary with and directly related to production of new businesses are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognized as an expense when incurred. Subsequent to initial recognition, DAC for Non Life insurance is amortized over the period on the basis UPR is amortized.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period and are treated as a change in an accounting estimate.

DAC are derecognized when the related contracts are either expired or cancelled.

Reinsurance commissions

Commissions receivable on outwards reinsurance contracts are deferred and amortized over the period in which the related written premiums are earned.

2.2.5 Investment Property

Investment properties are those which are held either to earn rental income or for capital appreciation or for both.

Investment properties are stated at fair value. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

valuations reflect, where appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting of vacant accommodation and the market's general perception of their credit-worthiness; the allocation of maintenance and insurance responsibilities between lessor and lessee; and the remaining economic life of the property. It has been assumed that whenever rent reviews or lease renewals are pending with anticipated reversionary increases, all notices and where appropriate counter notices have been served validly and within the appropriate time.

Any gain or loss arising from a change in fair value is recognized in Statement of Comprehensive Income. Rental income from investment property is accounted for as described in accounting policy.

When an item of Property, Plant and Equipment is transferred to investment property following a change in its use, any differences arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognized directly in equity if it is a gain. Upon disposal of the item the gain is transferred to retained earnings. Any loss arising in this manner is recognized in Statement of Comprehensive Income immediately.

If an investment property becomes owner-occupied, it is reclassified as Property, Plant and Equipment and its fair value at the date of reclassification becomes its deemed cost for subsequent accounting.

2.2.6 Property Plant and Equipment

a) Recognition and measurement

Property, Plant and Equipment is stated at cost less accumulated depreciation and less any impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the cost of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of Property, Plant and Equipment have different useful lives, they are accounted for as separate items (major components) of Property, Plant and Equipment.

b) Gains and losses on disposal

Gains and losses on disposal of an item of Property, Plant and Equipment are determined by comparing the proceeds from disposal with the carrying amount of Property, Plant and Equipment, and are recognized net.

c) Subsequent Costs

The cost of replacing part of an item of Property, Plant and Equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably.

The cost of repairs and maintenance of Property, Plant, and Equipment is charged to the Statement of Comprehensive Income as and when incurred

d) Depreciation

Depreciation is charged on Property, Plant and Equipment on the straight line basis to write-off the cost over the estimated useful lives as follows;

Office equipment	05 Years
Computer hardware	05Years
Computer software	05 Years
Furniture & Fittings	10 Years
Fixtures & Fittings	05 Years
Motor vehicle	04 Years

Depreciation of an asset begins when it is available for use and ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

e) Carrying Value

The carrying value of an asset or significant group of assets within a class is assessed annually with its fair value and where the fair value is less than the carrying value the asset is written down to its fair value. The consequent adjustment is recognized in the Statement of Comprehensive Income.

f) De-recognition

An item of Property, Plant and Equipment is de-recognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset is included in the Statement of Comprehensive Income in the year the asset is de-recognized.

When replacement costs are recognized in the carrying amount of an item of Property, Plant and Equipment, the remaining carrying amount of the replaced part is de-recognised. Major inspection costs are capitalized. At each such capitalization the remaining carrying amount of the previous cost of inspections is derecognized.

2.2.7 Other Receivables

Other receivables and dues from related parties are recognized at cost.

2.2.8 Inventories

Inventory consists mainly of stationery, printed material and complimentary items. Inventories are valued at the lower of cost and net realizable value, after making due allowances for obsolete and slow moving items. Cost is determined on a weighted average basis. Net realizable value is the price at which inventories can be sold in the ordinary course of business.

2.2.9 Cash & Cash Equivalents

Cash and cash equivalents comprise Bank balances and cash in hand. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are also included as a component of cash and cash equivalents for the purpose of the Statement of Cash Flows.

2.2.10 Impairment of other Assets

The carrying amounts of the company's assets excluding financial assets are reviewed at each Statement of Financial Position date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessment of the time value of money and risks specific to the asset or cash generating unit.

An impairment loss is recognized if the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. A cash generating unit is the smallest identifiable asset group that generates cash flows that largely independent from other assets and Company's. Impairment losses are recognized in the Statement of Comprehensive Income.

2.3. Liabilities and basis of their Valuation

2.3.1 Financial Liabilities

Initial recognition and subsequent measurement

When a financial liability is recognized initially, the Company measures it at its fair value plus, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial liability.

After initial recognition, the Company measures all financial liabilities at amortized cost using the effective interest method, except for:

a) financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, is measured at fair value except for a derivative liability that is linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured, which will be measured at cost.

b) financial liabilities that arise when a transfer of a financial asset does not qualify for de-recognition or when the continuing involvement approach applies.

2.3.2 Insurance contract liabilities

2.3.2.1 Life insurance contract liabilities

Life insurance liabilities are recognized when contracts are entered into and premiums are received. The liability is determined as the sum of the Discounted Value of the expected future benefits, claims handling and policy administration expenses, Policyholder options and guarantees and investment income from assets backing such liabilities, which are directly related to the contract, less the discounted value of the expected Gross Premiums that would be required to meet the future cash outflows based on the valuation assumptions used. The liability is either based on current assumptions or calculated using the assumptions established at the time the contract was issued, in which case a margin for risk and adverse deviation is generally included. Furthermore, the liability for life insurance contracts comprises the provision for unearned premiums and unexpired risks, as well as for claims outstanding, Which includes an estimate of the incurred claims that have not yet been reported to the Company. Adjustments to the liabilities at each reporting date are recorded in the Statement of Comprehensive Income. Profits originated from margins of adverse deviations on run-off contracts are recognized in the Statement of Comprehensive Income over the life of the contract, whereas losses are fully recognized in the Statement of Comprehensive Income during the first year of run-off. The liability is derecognized when the contract expires, is discharged or is cancelled.

At each reporting date, an assessment is made of whether the recognized life insurance liabilities are adequate, net of related PVIF and DAC, by using an existing liability adequacy test. The Liability value is adjusted to the extent that it is insufficient to meet future benefits and expenses. Any inadequacy is recorded in the Statement of Comprehensive Income, initially by impairing PVIF and DAC and, subsequently, by establishing a technical reserve for the remaining loss. In subsequent periods, the liability for a block of business that has failed the adequacy test is based on the assumptions that are established at the time of the loss recognition. The assumptions do not include a margin for adverse deviation.

2.3.2.2 Non-life insurance contract liabilities

Non-life insurance contract liabilities are recognised when contracts are entered into and premiums are charged. These liabilities, known as the Policy Liability provisions include the Premium and Claim Liabilities. The Premium Liabilities relate to policies for which the premium has been received but the exposure has not fully expired, while the Claim Liabilities relate to claims that have been incurred but not yet settled.

The provision for Unearned Premiums represents premiums received for risks that have not yet expired. Generally the reserve is released over the term of the contract and is recognised as premium income.

The Claim Liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the Statement of Financial Position date, whether reported or not, with a reduction for the expected value of salvage and other recoveries.

Delays can be experienced in the notification and settlement of claims, therefore the ultimate cost of these cannot be known with certainty at the Statement of Financial Position date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. No provision for equalization or catastrophe reserves is recognized. The liabilities are derecognized when the contract expires, is discharged or is cancelled.

The calculation may use current estimates of future contractual cash flows to determine the investment return expected to arise on assets relating to the relevant non-life insurance technical provisions..

2.3.3 Liability Adequacy Test

2.3.3.1 Life Insurance

At each reporting date, an assessment is made of whether the recognized life insurance liabilities are adequate by using an existing liability adequacy test as laid out under SLFRS 4. The liability value is adjusted to the extent that it is insufficient to meet future benefits and expenses. In performing the adequacy test, current best estimates of future contractual cash flows, including related cash flows such as claims handling and policy administration expenses, policyholder options and guarantees, as well as investment income from assets backing such liabilities, are used. A number of valuation methods are applied, including discounted cash flows. To the extent that the test involves discounting of cash flows, the interest rate applied based on management's prudent expectation of current market interest rates.

2.3.3.2 Non Life Insurance

At each reporting date the Company reviews its unexpired risk and a liability adequacy test is performed as laid out under SLFRS 4 to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to relevant non-life insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums (less related deferred acquisition costs) is inadequate, the deficiency is recognized in the Statement of Comprehensive Income by setting up a provision for liability adequacy.

2.3.4 Discretionary participation features (DPF)

A DPF is a contractual right that gives holders of these contracts the right to receive as a supplement to guaranteed benefits, significant additional benefits which are based on the performance of the assets held within the DPF portfolio. Under the terms of the contracts surpluses in the DPF funds can be distributed to policyholders and shareholders on a 90/10 basis. The Company has the discretion over the amount and timing of the distribution of these surpluses to policyholders. All DPF liabilities including unallocated surpluses, both guaranteed and discretionary, at annually are held within insurance or investment contract liabilities as appropriate.

2.3.5 Classification of financial instruments between debt and equity

A financial instrument is classified as debt if it has a contractual obligation to:

- Deliver cash or another financial asset to another entity; or
- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company

If the Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

2.3.6 Interest bearing loans and borrowings

All borrowings and loans are initially recognized at fair value, less directly attributable transaction costs. After Initial recognition, they are measured at amortized cost, using the effective interest rate method. Gains and losses are recognized in the Statement of Comprehensive Income when the liabilities are derecognized as well as through the amortization process.

2.3.7 Other financial liabilities and insurance payables

Other financial liabilities are recognized when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest rate method.

2.3.8 De-recognition of financial liabilities and insurance payables

Financial liabilities and insurance payables are derecognized when the obligation under the liability is discharged, cancelled or expired.

2.4 Income recognition

2.4.1 Gross premiums

Gross recurring premiums on life are recognized as revenue when receivable from the policyholder.

Gross general insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognized on the date on which the Policy commences.

2.4.2 Reinsurance premiums

Gross reinsurance premiums on life and investment contracts are recognized as an expense when the date on which the policy is effective.

Gross general reinsurance premiums written comprise the total premiums payable for the whole cover provided by contracts entered into the period and are recognized on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior Accounting periods.

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the Statement of Financial Position date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses occurring contracts.

2.4.3 Unearned premium reserve

Unearned premium reserve represents the portion of the premium written in the year but relating to the unexpired term of coverage. Unearned premiums are calculated on the 365 basis except for marine policies which is computed on a 60-40 basis.

2.4.4 Investment income

Interest income is recognized in the Statement of Comprehensive Income as it accrues and is calculated by using the effective interest rate method. Fees and commissions that are an integral part of the effective yield of the financial asset or liability are recognized as an adjustment to the effective interest rate of the instrument.

Investment income also includes dividends when the right to receive payment is established. For listed securities, this is the date the security is listed as ex dividend.

2.4.5 Realized gains and losses

Realized gains and losses recorded in the Statement of Comprehensive Income on investments include gains and losses on financial assets and investment properties. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortized cost and are recorded on occurrence of the sale transaction.

2.4.6 Other Income

Other income is recognised on an accrual basis

2.5 Benefits, claims and expenses recognition

2.5.1 Gross benefits and claims

Gross benefits and claims for life insurance contracts include the cost of all claims arising during the year including internal and external claims handling costs that are directly related to the processing and settlement of claims and policyholder bonuses declared on DPF contracts, as well as changes in the gross valuation of insurance. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due. Interim payments and surrenders are accounted at the time of settlement.

Non Life insurance include all claims occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Claims expenses and liabilities for outstanding claims are recognized in respect of direct and inward reinsurance business. The liability covers claims reported but not yet paid, Incurred But Not Reported claims (IBNR), Incurred But Not Enough Reserved(IBNER) and the anticipated direct and indirect costs of settling those claims. Claims outstanding are assessed by review of individual claim files and estimating changes in the ultimate cost of settling claims. The provision in respect of IBNR, IBNER is actuarially valued on an annual basis to ensure a more realistic estimation of the future liability based on past experience and trends.

While the Directors consider that the provision for claims is fairly stated on the basis of information currently available, the ultimate liability will vary as a result of subsequent information and events. This may result in adjustment to the amounts provided. Such amounts are reflected in the financial statements for that period. The methods used and the estimates made are reviewed regularly.

2.5.2 Reinsurance claims

Reinsurance claims are recognized when the related gross insurance claim is recognized according to the terms of the relevant contract.

2.5.3 Expenditure Recognition

a) Expenses are recognised in the Statement of Comprehensive Income on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the Property, Plant and Equipment in a state of efficiency has been charged to Statement of Comprehensive Income in arriving at the profit for the year.

b) For the purpose of presentation of the Statement of Comprehensive Income the directors are of the opinion that function of expenses method presents fairly the elements of the Company's performance, and hence such presentation method is adopted.

2.5.4. Operating lease payments

Where the Company has the use of assets under operating leases, payments made under the leases are recognised in the Statement of Comprehensive Income on a straight line basis over the term of the lease. Lease incentives received are recognized in the Statement of Comprehensive Income as an integral part of the total lease expense over the term of the lease.

2.6 Nature and extent of risks arising from financial instruments

The Company discloses information that enables users of its Financial Statements to evaluate the nature and extent of risks arising from financial instruments to which the Company is exposed at the end of the reporting period.

The disclosures focus on the risks that arise from financial instruments and how they have been managed. These risks typically include credit risk and liquidity risk.

Qualitative disclosures

For each type of risk arising from financial instruments, the Company has disclosed:

a) The exposures to risk and how they arise;

b) Its objectives, policies and processes for managing the risk and the methods used to measure the risk; and

c) Any changes in (a) or (b) from the previous period.

Quantitative disclosures

For each type of risk arising from financial instruments, the Company has disclosed:

a) Summary of quantitative data about its exposure to that risk at the end of the reporting period. This disclosure is based on the information provided internally to Audit Committee of the entity.

Credit risk

The Company has disclosed by class of financial instrument:

a) the amount that best represents its maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements.

b) Information about the credit quality of financial assets that are neither past due nor impaired.

Liquidity risk

The Company has disclosed:

a) A maturity analysis for financial liabilities that shows the remaining contractual maturities; and

b) A description of how it manages the liquidity risk inherent in (a).

Notes to the FINANCIAL Statements

2.6.1 Exposure to Credit Risk of Debt Instruments

	At fair value through profit or loss	Available for sale	Loans and receivables	Held to maturity	Other	Total
	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000
Categories by counterparty as at 31 December 2012						
Governments	625,073	497,289	16,386	214,551	-	1,353,299
Corporates	-	238,852	150,000	-	-	388,852
Deposits	-	-	762,749	-	-	762,749
Unit Trusts	-	234,284	-	-	-	234,284
Derivatives	-	-	-	-	5,556	5,556
Total	625,073	970,425	929,135	214,551	5,556	2,744,740
Categories by counterparty as at 31 December 2011						
Governments	-	639,373	562,670	-	-	1,202,043
Corporates	-	122,309	220,000	-	-	342,309
Deposits	-	-	659,649	-	-	659,649
Total	-	761,682	1,442,319	-		2,204,001

2.6.2 Exposure to Credit Risk of Debt Instruments

Life

Financial Assets Past Due (Not Impaired)

	Up to 3 months	3-6 months	6-12 months	More than 1 year	Total
	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000
Age analysis by counterparty as at 31 December 2012					
Corporates		44,160	212,110	132,581	388,851
Total		44,160	212,110	132,581	388,851
Age analysis by counterparty as at 31 December 2011					
Corporates	45,000	70,000	25,000	214,675	354,675
Total	45,000	70,000	25,000	214,675	354,675

Non Life

Financial Assets Past Due (Not Impaired)

	Up to 3 months	3-6 months	6-12 months	More than 1 year	Total
	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000
Age analysis by counterparty as at 31 December 2012					
Corporates	145,800	-	76,674	-	222,474
Total	145,800	-	76,674	-	222,474

2.7 Product Classification

Insurance contracts are those contracts when the Company (the "insurer") has accepted significant insurance risk from another party (the "policyholders") by agreeing to compensate the policyholders if a specified uncertain future event (the "insured event") adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur.

Investment contracts are those contracts that transfer significant financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

Insurance and investment contracts are further classified as being either with or without Discretionary Participation Features ("DPF"). DPF is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits that are:

- Likely to be a significant portion of the total contractual benefits
- The amount or timing of which is contractually at the discretion of the issuer
- That are contractually based on:
  - The performance of a specified pool of contracts or a specified type of contract
  - Realized and or unrealized investment returns on a specified pool of assets held by the issuer
  - The profit or loss of the Company, fund or other entity that issues the contract

2.8 Operating Segments

An operating segment is a component of the Company that engaged in business activities from which it may earn revenues and incurred expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating results are reviewed regularly by the Chief Executive Officer (CEO) to make decisions regarding resources to be allocated to the segments and to assess its performance, and for which discrete finance information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

2.9 Taxation

a) Current Taxes

Current Tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date and any adjustments to tax payable in respect of previous years.

b) Deferred Taxation

Deferred Tax is recognized by providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred Tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit.

In addition, Deferred Tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred Tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

A Deferred Tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized.

Deferred Tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

2.10 Retirement Benefit Obligations

a) Defined Benefit Plan-Gratuity

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; and discounting that benefit to determine its present value. The calculation is performed annually by a qualified independent actuary using the projected unit credit (PUC) method as recommended by LKAS 19 - Employee Benefits.

The assumptions based on which the results of the actuarial valuation was determined, are included in note 13 to the Financial Statements on page 152.

However, according to the Payment of Gratuity Act No.12 of 1983, the liability for the gratuity payment to an employee arises only on the completion of 5 years of continued service with the Company.

The provision is not externally funded.

The Company recognizes all actuarial gains and losses arising from defined benefit plans in Other Comprehensive Income and expenses related to defined benefit plans in Staff expenses in Statement of Comprehensive Income.

b) Defined Contribution Plans- Employees' Provident Fund and Employees' Trust Fund

A defined contribution plan is a post employment plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay a further amount. Obligations for contributions to Provident Fund under the Provident Fund Act no. 15 of 1958 as amended and Trust Fund under the Trust Fund Act no. 46 of 1980 covering all employees, are recognized as an employee benefit expense in profit and loss when they are due.

The Company contributes 12% and 3% of gross emoluments of employees as provident fund and trust fund contribution respectively.

2.11. Proposed Dividends

Dividend proposed / declared by the Board of Directors after the Statement of Financial Position date is not recognized as a liability and is disclosed as a note to the Financial Statements.

2.12 Stated Capital

Company's Stated Capital comprises of ordinary shares which are classified as equity.

2.13 Earnings Per Share

The Company presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

2.14 Cash Flow Statements

The Cash Flow Statement has been prepared using the direct method. Interest received and dividend received are classified as investing cash flows while dividends paid is classified as financing cash flow.

For cash flow purposes, cash and cash equivalents are presented net of bank overdrafts.

2.15 Commitments and Contingencies

Contingencies are possible assets or obligations that arise from a past event and would be concerned only on the occurrence or non-occurrence of uncertain future events, which are beyond the Company's control. Contingent liabilities are disclosed in note 25.2 to the Financial Statements on page 160 Commitments are disclosed in note 25.1 to the Financial Statements on page 160.

2.16 Events occurring after the Reporting Period

All material post reporting period events have been considered and where appropriate adjustments or disclosures have been made in note no 26 to the Financial Statements on Page 161.

2.17 Comparative Information

The comparative information is restated and reclassified wherever necessary to conform with the current year's classification in order to provide a better presentation. The details of such restatements and reclassifications have been provided in Note 28.3 and 28.4 on pages 162 to 165.

Notes to the FINANCIAL Statements

3	Property Plant & Equipment - Freehold							
		Non-Life Insurance		Life Insurance		Company		
		2012	2011	2012	2011	2012	2011	2010
		Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000
	Net Book Value	46,031	39,942	70,074	56,423	116,105	96,365	79,818
		46,031	39,942	70,074	56,423	116,105	96,365	79,818

		Computer Hardware	Computer Software	Office Equipment	Furniture & Fittings	Fixtures & Fittings	Motor Vehicles	Total
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
3.1	Non-Life Insurance							
	Cost							
	Balance as at 1 January 2012	25,346	34,526	7,423	8,282	9,969	4,105	89,651
	Additions during the Year	6,384	2,162	3,630	2,962	3,608	190	18,936
	Disposals/Transfers	-	-	-	-	-	(2,140)	(2,140)
	Balance as at 31 December 2012	31,730	36,688	11,053	11,244	13,577	2,155	106,447
	Depreciation							
	Balance as at 1 January 2012	16,624	12,650	5,412	4,924	7,027	3,122	49,759
	Depreciation Charge for the Year	3,642	5,151	1,097	672	1,184	971	12,717
	Disposal/Transfers	-	-	-	-	-	(2,060)	(2,060)
	Balance as at 31 December 2012	20,266	17,801	6,509	5,596	8,211	2,033	60,416
	Carrying Value							
	As at 31 December 2012	11,464	18,887	4,544	5,648	5,366	122	46,031
	As at 31 December 2011	8,722	21,876	2,011	3,358	2,942	983	39,892
3.2	Life Insurance							
	Cost							
	Balance as at 1 January 2012	20,099	24,652	34,097	31,069	47,551	-	157,468
	Additions during the Year	3,763	-	8,166	5,290	14,442	-	31,661
	Disposals/Transfers	-	-	-	-	-	-	-
	Balance as at 31 December 2012	23,862	24,652	42,263	36,359	61,993	-	189,129
	Depreciation							
	Balance as at 1 January 2012	14,503	23,906	22,423	14,183	26,030	-	101,045
	Depreciation Charge for the Year	2,406	166	5,114	2,724	7,600	-	18,010
	Disposal/Transfers	-	-	-	-	-	-	-
	Balance as at 31 December 2012	16,909	24,072	27,537	16,907	33,630	-	119,055
	Carrying Value							
	As at 31 December 2012	6,953	580	14,726	19,452	28,363	-	70,074
	As at 31 December 2011	5,596	746	11,674	16,886	21,521	-	56,423

3.3	In the Course of Construction				
		Balance as at 01.01.2012	Incurred During the Year	Transferred	Balance as at 31.12.2012
		Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000
	IT System Work in Progress	50	-	(50)	-
		50	-	(50)	-

3.4 Property, Plant & Equipment includes fully depreciated assets having a gross carrying amount of Rs. 107,455,184/- (2011- Rs. 90,801,440)

		Non-Life Insurance		Life Insurance		Company		
		2012	2011	2012	2011	2012	2011	2010
		Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000
4	Financial Investments							
	Derivative Financial Instruments	-	-	5,557	-	5,557	-	-
	Held to Maturity Financial Assets (4.1.1)	-	-	214,551	-	214,551	-	-
	Loans & Receivables (4.1.2)	166,665	361,927	928,866	1,442,320	1,095,531	1,804,247	1,216,835
	Available For Sale Finanacial Assets (4.1.3)	1,463,242	839,354	1,150,914	761,682	2,614,156	1,601,036	1,445,076
	Financial Assets at FVTPL (Trading) (4.1.4)	58,010	280,188	837,994	300,328	896,004	580,516	1,159,700
		1,687,917	1,481,469	3,137,882	2,504,330	4,825,799	3,985,799	3,821,611

4.1 The following Table Compares the Fair Values of the Class of Financial Instruments to their Carrying Value

		Company		Company		Company	
		2012	2012	2011	2011	2010	2010
		Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000
		Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
4.1.1	Held to Maturity Financial Assets						
	Money Market	214,551	184,954	-		-	-
		214,551	184,954	-	-	-	-
4.1.2	Loans & Receivables						
	Debt	991,591	992,446	920,216	919,650	298,711	297,500
	Money Market	103,940	103,941	884,031	884,031	918,124	918,124
		1,095,531	1,096,387	1,804,247	1,803,681	1,216,835	1,215,624
	Total Loans & Receivables at amortised cost	1,095,531	1,096,387	1,804,247	1,803,681	1,216,835	1,215,624
4.1.3	Available For Sale Finanacial Assets						
	Equity (4.1.3.1)	1,041,219	1,041,219	960,079	960,079	-	-
	Debt	461,328	461,328	131,251	331,251	289,931	289,931
	Money Market	1,111,609	1,111,609	509,706	509,706	1,155,145	1,155,145
		2,614,156	2,614,156	1,601,036	1,601,036	1,445,076	1,445,076
4.1.4	Financial Assets at FVTPL (Trading)						
	Equity (4.1.4.1)	270,931	270,931	580,516	580,516	1,159,700	1,159,700
	Money Market	625,073	625,073	-	-	-	-
		896,004	896,004	580,516	580,516	1,159,700	1,159,700
	Total	4,820,242	4,791,501	3,985,799	3,985,233	3,821,611	3,820,400

		2012		2011		2010
	No. of Shares	Market Value Rs' 000	No. of Shares	Market Value Rs' 000	No. of Shares	Market Value Rs' 000
4.1.3.1 Available For Sale Finanacial Assets - Equity						
Banks, Finance & Insurance						
National Development Bank PLC	7,151,700	986,219	6,640,700	917,079	-	-
Health Care						
Asiri Hospitals PLC	5,000,000	55,000	5,000,000	43,000	-	-
Total	-	1,041,219	-	960,079	-	-
4.1.4.1 Financial Assets at FVTPL (Trading) - Equity						
Banks, Finance & Insurance						
Asia Capital PLC	543,268	16,461	1,463,100	94,224	2,191,500	103,001
Commercial Bank of Ceylon PLC	485,365	44,217	130,000	13,000	-	-
Hatton National Bank PLC	333,637	49,378	113,000	17,097	-	-
Hatton National Bank PLC (Non Voting)	475,471	53,490	170,450	14,181	638,800	136,959
Nations Trust Bank PLC	-	-	-	-	189,100	15,790
Sampath Bank PLC	66,509	13,335	65,000	12,675	-	-
Seylan Bank PLC (Non Voting)	350,000	12,285	350,000	10,780	1,907,400	93,081
Diversified						
Aitken Spence PLC	118,000	14,160	108,000	13,003	-	-
John Keels Holdings PLC	-	-	1,000,000	170,200	-	-
Softlogic Holdings PLC	4,591,702	50,050	-	-	-	-
Manufacturing						
Dipped Products PLC	-	-	821,000	87,436	936,800	112,416
Lanka Walltiles PLC	-	-	-	-	338,700	46,774
Royal Ceramics Lanka PLC	-	-	271,800	38,460	1,136,000	346,366
Tokyo Lanka Cement PLC	-	-	-	-	2,788,600	112,381
Beverage, Food and Tobacco						
Bairaha Farms PLC	-	-	120,900	25,425	-	-
Cargills Ceylon PLC	71,100	10,346	6,000	1,218	-	-
Distrileries Company of Sri Lanka PLC	-	-	-	-	500,000	89,000
Lion Breweries Ceylon PLC	-	-	216,400	41,116	236,400	44,442
Health Care						
Asiri Hospitals Holdings PLC	-	-	1,034,800	8,175	-	-
Telecommunications						
Dailog Telekom PLC	868,600	7,209	868,600	6,775	5,000,000	59,500
Hotels and Travels						
Ahungalle Hotels PLC	-	-	65,100	4,524	-	-
Plantations						
Namunukula Plantations PLC	-	-	341,900	22,227	-	-
Total		270,931		580,516		1,159,700

4.2 Movement Analysis of Financial Investments

	Held to Maturity Financial Assets	Loans & Receivables	Available for Sale Financial Assets	Financial Assets at FVTPL	Total
	Rs' 000	Rs' 000	Rs' 000	Rs' 000	Rs' 000
Balance As at 1 Janaury 2011	-	1,216,835	1,445,076	1,159,700	3,821,611
Purchases		5,123,529	1,595,855	888,746	7,608,130
Maturities		(4,536,117)		(1,088,051)	(5,624,168)
Disposals			(1,435,619)		(1,435,619)
Amortization Adjustment					
Fair Value Gains/(Losses) Recorded in Comprehensive Income				(379,879)	(379,879)
Fair Value Gains/(Losses) Recorded in Retained Earnings			(4,276)		(4,276)
Impairments					
Balance As at 31 December 2011	-	1,804,247	1,601,036	580,516	3,985,799
Purchases	210,537	6,759,722	2,730,652	1,919,177	11,620,088
Maturities		(7,468,438)	(1,575,960)		(9,044,398)
Disposals			(190,197)	(1,606,301)	(1,796,498)
Amortization Adjustment	4,014				4,014
Fair Value Gains/(Losses) Recorded in Comprehensive Income				2,612	2,612
Fair Value Gains/(Losses) Recorded in Other Comprehensive Income			48,625		48,625
Impairements					
Balance As at 31 December 2012	214,551	1,095,531	2,614,156	896,004	4,820,242

5 Policy Loans & Other Loans

		Non-Life Insurance		Life Insurance		Company		
		2012	2011	2012	2011	2012	2011	2010
		Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000
Loans granted to employees	(5.1)	1,604	592	121	138	1,725	730	1,297
Loans granted to policy holders	(5.2)	-	-	79,673	59,457	79,673	59,457	44,582
		1,604	592	79,794	59,595	81,398	60,187	45,879

5.1 Loans to Employees

Balance as at 01 January	592	1,223	138	74	730	1,297	969
Loans granted during the Year	11,247	1,327	3540	1,806	14,787	3,133	3,434
	11,839	2,550	3,678	1,880	15,517	4,430	4,403
Repayment during the Year	(10,235)	(1,958)	(3,557)	(1,742)	(13,792)	(3,700)	(3,106)
Balance as at 31 December	1,604	592	121	138	1,725	730	1,297

5.2 Loans to Life Policy Holders

Balance as at 01 January	-	-	59,457	44,582	59,457	44,582	30,484
Loans granted during the Year	-	-	42,343	18,925	42,343	18,925	18,879
Interest Accrued	-	-	10,113	9,915	10,113	9,915	5,441
	-	-	111,913	73,422	111,913	73,422	54,804
Repayment during the Year	-	-	(32,240)	(13,965)	(32,240)	(13,965)	(10,222)
Balance as at 31 December	-	-	79,673	59,457	79,673	59,457	44,582

		Non-Life Insurance		Life Insurance		Company		
		2012	2011	2012	2011	2012	2011	2010
		Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000
6	Premium Receivable							
	Premium Receivable	375,898	190,743	7,679	-	383,577	190,743	103,064
	Less: Provision for Bad Debts						-	
	Balance as at 1 January	745	453	-	-	745	453	1,854
	Provision/ (Reversal) during the year	3,112	292	-	-	3,112	292	(1,401)
	Balance as at 31 December	3,857	745	-	-	3,857	745	453
	Net Premium Receivable	372,041	189,998	7,679	-	379,720	189,998	102,611
							-	
6.1	Premium Receivable - Related Party (6.2)	11,960	5,917	-	-	11,960	5,917	3,462
	- Other	360,081	184,081	7,679	-	367,760	184,081	99,149
		372,041	189,998	7,679	-	379,720	189,998	102,611

6.2	Premium Receivable from Related Parties								
		Relationship							
	Softlogic Holdings PLC	Ult. Parent Co.	324	-	-	-	324	-	-
	Softlogic Information Technologies (Pvt) Ltd	Affiliate Co.	80	40	-	-	80	40	-
	Softlogic Computers (Pvt) Ltd	Affiliate Co.	122	18	-	-	122	18	-
	Softlogic Communication Services (Pvt) Ltd	Affiliate Co.	871	304	-	-	871	304	-
	Softlogic Finance PLC	Affiliate Co.	5,686	4,594	-	-	5,686	4,594	-
	Uni Walkers (Pvt) Ltd	Affiliate Co.	2,979	105	-	-	2,979	105	-
	Future Automobiles (Pvt) Ltd	Affiliate Co.	572	822	-	-	572	822	-
	Softlogic International (Pvt) Ltd	Affiliate Co.	460	34	-	-	460	34	-
	Asiri Hospitals PLC	Affiliate Co.	147	-	-	-	147	-	-
	Central Hospitals (Pvt) Ltd	Affiliate Co.	719	-	-	-	719	-	-
	Asia Securities (Pvt) Ltd	Affiliate Co.	-	-	-	-	-	-	12
	Asia Assets Finance Ltd	Affiliate Co.	-	-	-	-	-	-	181
	Asia Capital PLC	Affiliate Co.	-	-	-	-	-	-	8
	Asia Siyaka Commodities (Pvt) Ltd	Affiliate Co.	-	-	-	-	-	-	12
	Richard Pieris & Co Plc & Group	Share Holder Co	-	-	-	-	-	-	3,249
			11,960	5,917	-	-	11,960	5,917	3,462

		Non-Life Insurance		Life Insurance		Company		
		2012	2011	2012	2011	2012	2011	2010
		Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000
7	Other Assets							
	Inventories	6,553	4,729	(220)	-	6,333	4,729	4,913
	Interest Receivables	-	3,375	5,235	34,541	5,235	37,916	58,268
	Current A/C With Life	86,225	96,212	-	-	-	-	-
	Other Debtors & Receivables	24,946	39,203	43,915	30,921	68,861	70,124	42,744
	Tax Recoverable	35,324	25,170	28,432	17,262	63,756	42,432	33,164
		153,048	168,689	77,362	82,724	144,185	155,201	139,089

		Non-Life Insurance		Life Insurance		Company		
		2012	2011	2012	2011	2012	2011	2010
		Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000
8	Cash & Bank Balances							
	Cash In Hand	943	274	1,961	2,146	2,904	2,420	1,523
	Cash at Bank	12,031	43,101	19,849	9,671	31,880	52,772	60,915
		12,974	43,375	21,810	11,817	34,784	55,192	62,438

		Company		
		2012	2011	2010
		Rs. ' 000	Rs. ' 000	Rs. ' 000
9	Stated Capital			
	37,500,000 fully paid ordinary shares	1,062,500	1,062,500	1,062,500
	Balance as at 1 January	1,062,500	1,062,500	250,000
	Issued during the Year	-	-	812,500
	Balance as at 31 December	1,062,500	1,062,500	1,062,500

The total number of ordinary shares is 37.5 Mn (2011 - 37.5 Mn). All issued shares are fully paid. All shares issued carry equal voting rights.

			Available for Sale Reserve	Provision for Life Solvency	Retained Reserves	Total
		Note	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000
10	Movement of Reserves					
	Balance as at 1 January 2011		60,128	100,000	518,825	678,953
	Net Profit/(Loss) for the Year		-	-	(198,045)	(198,045)
	Dividend paid		-	-	(112,500)	(112,500)
	Allocation for Life Solvency		-	75,000	(75,000)	-
	EIR and Family Income Benefit adjustments	(28 b, 28 c)	-	-	(11,547)	(11,547)
	Fair Value adjustments for AFS Investments		(4,276)	-	-	(4,276)
	Actuarial Gains/(Losses) on Retirement Benefits		-	-	(185)	(185)
	Balance as at 31 December 2011		55,852	175,000	121,548	352,400
	Net Profit/(Loss) for the Year		-	-	73,292	73,292
	Dividend paid		-	-	(75,000)	(75,000)
	Allocation for Life Solvency (Reversal)		-	(175,000)	175,000	-
	Fair Value Adjustments for AFS Investments		48,625	-	-	48,625
	Actuarial Gains/(Losses) on Retirement Benefits		-	-	(314)	(314)
	Balance as at 31 December 2012		104,477	-	294,526	399,003

The Retained Reserves balance represents the amounts available for dividend distribution to the equity shareholders of the Company.

The Available for Sale Reserve comprises the cumulative net change in the Fair Value of Available for Sale Financial Assets until the assets are derecognised or impaired.

Notes to the
FINANCIAL Statements

			2012	2011	2010
11	**Insurance Liabilities Life**				
	The valuation of the long term Insurance business, as at 31.12.2012, was made by Mr. M. Poopalanathan, AIA of Actuarial & Management Consultants (Pvt) Ltd. for and on behalf of Asian Alliance Insurance PLC.				
	In accordance with the Consultant Actuary's Report, the sum of provision, Rs. 2,904 Mn includes the liability inrespect of Policy hloders' bonus as well. In the opinion of the Consultant Actuary, the provision is adequate to cover the liabilities pertaining to long term Insurance.				
	In establishing the valuation, a reserve of Rs. 5.83 Mn has been created for the purpose of any future bonus and contingencies by the Actuary.				
	Actuary recommended to transfer Rs.155.8 Mn to Share holders.				
	Actuarial Assumptions				
	Interest Rate		7.5%	7.5%	6.5%
	Mortality Table Used		A67/70	A67/70	A67/70

			2012	2011	2010
			Rs. ' 000	Rs. ' 000	Rs. ' 000
11.1	**Movement in Insurance Liabilities - Life**				
	Balance as at 1 January		2,353,008	1,929,352	1,560,395
	Increase in Life fund (gross)		551,337	423,656	368,957
	Balance as at 31 December		2,904,345	2,353,008	1,929,352
12	**Insurance Liabilities - Non-Life**				
	Reserve for net unearned premiums	(12.1)	564,235	293,827	179,999
	Reserve for Gross Outstanding Claims	(12.2)	99,507	83,171	81,104
	Reserve for IBNR & IBNER	(12.3)	17,772	15,779	14,565
			681,514	392,777	275,668
12.1	**Reserve for net unearned premiums**				
	Balance as at 1st January		293,827	179,999	175,120
	Transfers during the year		270,408	113,828	4,879
	Balance as at 31st December		564,235	293,827	179,999
12.2	**Reserve for gross outstanding claims**				
	Balance as at 1st January		83,171	81,104	97,069
	Transfers during the year		558,130	302,450	456,684
	Claims approved during the year		(541,794)	(300,383)	(472,649)
	Balance as at 31st December		99,507	83,171	81,104
12.3	**Reserve for IBNR & IBNER**				
	Balance as at 1st January		15,779	14,565	13,475
	Transfers during the year		1,993	1,214	1,090
	Balance as at 31st December		17,772	15,779	14,565

		2012 Rs. ' 000	2011 Rs. ' 000	2010 Rs. ' 000
12.4	Reconciliation between Insurance Liabilities and Technical Reserve			
	Non Life Insurance Liabilities	681,514	392,777	275,668
	Reinsurance Receivable on Claims Outstanding	(37,880)	(46,270)	(63,087)
	Reserve for Net Deferred Acquisition Cost	(51,546)	(22,591)	(14,462)
		592,088	323,916	198,119

The above Non Life Insurance Liabilities of Rs. 681,514,834 as at 31.12.2012 includes the claims incurred but not reported (IBNR) reserve . and claims incurred but not enough reserved (IBNER) reserves that have been certified by independent consultants actuaries, NMG Consultants of Malaysia. According to the actuary certificate dated 6 February 2013, the IBNR &IBNER reserve as at 31 December 2012 is Rs.17,772,439.

Significant delays occur in the notification of claims and a substantial measure of experience and judgement is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty as of the Statement of Financial Position date. The reserves are determined based on the information currently available.However,it is inherent to the nature of the business written that the ultimate liability may vary as a result of subsequent development.

Notes to the FINANCIAL Statements

		Non-Life Insurance		Life Insurance		Company		
		2012	2011	2012	2011	2012	2011	2010
		Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000
13	Retirement Benefits							
	Balance as at 1 January	14,257	14,075	13,606	8,663	27,863	22,738	14,653
	Provisions made during the year	6,229	685	2,589	5,060	8,818	5,745	8,555
		20,486	14,760	16,195	13,723	36,681	28,483	23,208
	Payments during the year	(939)	(503)	(1,344)	(117)	(2,283)	(620)	(470)
	Balance as at 31 December	19,547	14,257	14,851	13,606	34,398	27,863	22,738

The Retirement Benefit Plans entitles a retired employee to receive payment equal to 1/2 of final salary multiplied by the number of years of completed service. However under the payment of Gratuity Act No 12 of 1983, the liability of the employee arises only on the completion of five years of continued service.

The actuary's valuation of the defined benefit obligation was carried out by by Mr.M. Poopalanathan, AIA of Actuarial & Management Consultants (Pvt) Ltd. The projected unit credit method is used to determine the present value of the defined benefit obligation.

	2012	2011	2010
	Rs. ' 000	Rs. ' 000	Rs. ' 000
Movement in the present value of the defined benefit obligations			
Defined benefit obligations at 1 January	27,863	22,738	14,653
Interest Cost	2,639	2,324	1,758
Current service costs	5,865	3,236	5,542
Benefits paid by the plan	(2,283)	(620)	(470)
Actuarial (gains) losses	314	185	1,255
Defined benefit obligations at 31 December	34,398	27,863	22,738
Expense recognised in Comprehensive Income			
Current service costs	5865	3,236	5,542
Interest Cost	2639	2,324	1,758
Expense recognised in Other Comprehensive Income			
Actuarial Losses	314	185	1,255
Total	8,818	5,745	8,555

Actuarial assumptions

Principal Actuarial Assumptions as at the reporting date expressed as weighted averages were

	2012	2011	2010
	Rs. ' 000	Rs. ' 000	Rs. ' 000
Normal Retirement Age	55 Years	55 Years	55 Years
Discount Rate Per Annum	11%	11%	11%
Salary increment rate per annum	10% with next increment due on 01 January 2012	10% with next increment due on 01 January 2011	10% with next increment due on 01 January 2010
Withdrawal rate	3% upto 49 years of age and zero thereafter	3% upto 49 years of age and zero thereafter	3% upto 49 years of age and zero thereafter

Future mortality are based on A67/70 Mortality Table issued by Institute of Actuaries, London.

		Non-Life Insurance		Life Insurance		Company		
		2012	2011	2012	2011	2012	2011	2010
		Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 001
14	Re insurance Payables							
	Reinsurance Payables	52,871	54,854	25,102	43,419	77,973	98,273	81,695
		52,871	54,854	25,102	43,419	77,973	98,273	81,695

			Non-Life Insurance		Life Insurance		Company		
			2012	2011	2012	2011	2012	2011	2010
			Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000
15	Amounts Due to Related Companies								
		Relationship							
	Softlogic Capital PLC	Parent Co	6,421	-	33,567	-	39,988	-	-
	Asia Securities(Pvt) Ltd	Affiliate Co	-	-	-	-	-	-	45,562
	Asia Capital PLC	Affiliate Co	-	-	-	-	-	-	1,937
			6,421	-	33,567	-	39,988	-	47,499

			Non-Life Insurance		Life Insurance		Company		
			2012	2011	2012	2011	2012	2011	2010
			Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000
16	Other Liabilities								
	Commission Payable		78,630	47,449	96,237	68,256	174,867	115,705	25,096
	Claims Payable	(16.1)	201	1,812	92,230	76,399	92,431	78,211	66,531
	Current A/C with Non-Life		-		86,225	96,212	-	-	-
	Premium Deposit & Other		-	-	53,249	42,264	53,249	42,264	46,223
	Tax & Other Statutory Payables		25,550	15,712	28	-	25,578	15,712	3,063
	Accruals & Others		66,490	54,127	54,207	25,490	120,697	79,617	159,035
			170,871	119,100	382,176	308,621	466,822	331,510	299,948
16.1	Movement of Claims Payable								
	Balance as at 1 January		1,812	773	76,399	76,026	78,211	76,799	71,310
	Claims Approved during the year		541,794	300,383	275,544	194,325	817,338	494,708	645,273
	Claims Paid during the year		(543,405)	(299,344)	(259,713)	(193,952)	(803,118)	(493,296)	(650,052)
	Balance as at 31 December		201	1,812	92,230	76,399	92,431	78,211	66,531

Notes to the FINANCIAL Statements

		Non-Life Insurance		Life Insurance		Company	
		2012	2011	2012	2011	2012	2011
		Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000
17	Gross Premiums on Insurance Contracts						
17.1	Gross Written Premium						
	First Year Premium			678,745	499,337	678,745	499,337
	Renewal Premium			1,338,800	1,062,949	1,338,800	1,062,949
	Group Life Premium			11,794	9,953	11,794	9,953
	Single Premium			4,745	6,952	4,745	6,952
	Fire	162,902	94,710			162,902	94,710
	Marine	61,290	41,010			61,290	41,010
	Miscellaneous	346,495	163,003			346,495	163,003
	Motor	619,705	329,440			619,705	329,440
	Total Gross Premiums	1,190,392	628,163	2,034,084	1,579,191	3,224,476	2,207,354
17.2	Premiums ceded to reinsurers on insurance contracts						
	Reinsurance	234,590	166,757	326,981	257,635	561,571	424,392
		234,590	166,757	326,981	257,635	561,571	424,392
17.3	Investment income						
	Rental Income from Investment Properties	-	-	-	1,200	-	1,200
	Financial Assets at Fair Value through PL (Trading)						
	- Interest Income	1,437	-	8,922	-	10,359	-
	- Dividend Income	23,260	34,491	10,032	21,013	33,292	55,504
	Held to Maturity Financial Assets Interest Income	-	-	4,872	-	4,872	-
	Available for Sale Finnacial Assets						
	- Interset Income	39,173	19,345	105,312	157,404	144,485	176,749
	- Dividend Income	-	-	4,007	-	4,007	-
	Loans & Receivables Interest Income	35,757	26,406	163,817	44,218	199,574	70,624
	Total Income from Investments	99,627	80,242	296,962	223,835	396,589	304,076
17.4	Realised Gains / (Losses)						
	Property, Plant & Equipment	1,214	-	63	-	1,277	-
	Profit on Sale of Investment Property	-	-	-	1250	-	1,250
	Available for Sale Financial Assets						
	- Realised Gains - Money Market	2,739	-	48,411	54,393	51,150	54,393
	- Realised Losses - Money Market	-	-	(1)	-	(1)	-
	Total Realised Gains/(Losses) for AFS	2,739	-	48,410	54,393	51,149	54,393
	Total Realised Gains /(Losses)	3,953	-	48,473	55,643	52,426	55,643
17.5	Fair Value Gains /(Losses)						
	Fair Value Gains/(Losses) on FVTPL (Trading)	10,957	(346,376)	(8,345)	(33,502)	2,612	(379,879)
	Total Fair Value Gains/(Losses)	10,957	(346,376)	(8,345)	(33,502)	2,612	(379,879)

		Company	
		2012	2011
		Rs. ' 000	Rs. ' 000
17.6	Insurance Revenue Accounts		
17.6.1	Non-Life Insurance Revenue Account		
	Gross Written Premium	1,190,392	628,163
	Net Earned Premium	685,394	347,578
	Net Benefit Payment	(516,685)	(271,300)
	Net Acquisition cost	(58,977)	(25,958)
	Expenses	(305,446)	(178,510)
	Net Underwriting Result	(195,714)	(128,190)
	Investment & Other Income	114,537	(266,134)
	Net Profit / (Loss) for the Year	(81,177)	(394,324)
17.6.2	Life Insurance Revenue Account		
	Gross Written Premium	2,034,084	1,579,191
	Net Earned Premium	1,707,103	1,321,556
	Net Benefit Payment	(143,117)	(123,547)
	Net Aquision Cost	(509,495)	(291,226)
	Expenses	(694,476)	(539,018)
	Net Underwriting Result	360,015	367,765
	Investment & Other Income	347,203	255,891
	Surplus from Life Insurance before Transfers	707,218	623,656
	Transfer to Insurance Provision - Life	(551,339)	(423,656)
	Transfer to Shareholders Fund	155,879	200,000

		Non-Life Insurance		Life Insurance		Company	
		2012	2011	2012	2011	2012	2011
		Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000
18	Net benefits and claims						
18.1	Insurance benefits and claims paid	535,007	286,754	260,867	212,657	795,874	499,412
18.2	Claims ceded to reinsurers	(45,070)	(32,903)	(124,576)	(95,798)	(169,646)	(128,702)
18.3	Change in Claims Outstanding liabilities	166,071	6,991	40,903	566	206,974	7,556
18.4	Change in contract liabilities - Life	-	-	551,339	423,656	551,339	423,656
18.5	Change in Claims Outstanding liabilities ceded to reinsurers	(139,323)	10,458	(34,077)	6,122	(173,400)	16,580
	Net Insurance benefits and claims	516,685	271,300	694,456	547,203	1,211,141	818,502
19	Net Acquisition Cost						
	Net policy acquisition cost	82,403	31,419	495,701	296,110	578,105	327,529
	Increase in Deferred Acquisition Expenses	(28,956)	(8,129)	-	-	(28,956)	(8,129)
	Other insurance related cost	5,530	2,668	13,794	(4,884)	19,323	(2,216)
		58,977	25,958	509,495	291,226	568,472	317,184

		Non-Life Insurance		Life Insurance		Company	
		2012	2011	2012	2011	2012	2011
		Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000
20	Operating & Administration Expenses						
	Depreciation on Property, Plant & Equipment	12,717	8,325	18,010	15,246	30,727	23,571
	Auditors' Remunerartion - Audit related	765	582	1,786	1,358	2,551	1,940
	- Non Audit	300	-	700	-	1,000	-
	Employee Benefits Expenses	5,915	500	2,589	5,060	8,504	5,560
	Other Expenses	284,202	166,850	666,313	512,209	950,515	679,058
	Total Operating & Administration Expenses	303,899	176,257	689,398	533,873	993,297	710,129

			Company	
			2012	2011
			Rs. ' 000	Rs. ' 000
21	Income Tax Expense			
	Current Income Tax			
	Current Tax Expense on Ordinary Activities for the Year	(21.1)	-	-
	(Charge)/Reversal of Previous Year Economic Service Charge	(21.4)	(1,410)	(3,721)
	Deferred Income Tax			
	Deferred Taxation (Charge)/ Reversal	(21.3)	-	-
			(1,410)	(3,721)

21.1 Numerical Reconciliation Between Tax Charge and the product of Accounting Profit multiplied by the applicable tax rate

	Non-Life Insurance		Life Insurance		Company	
	2012	2011	2012	2011	2012	2011
	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000
Accounting Profit/(Loss)	(81,177)	(394,324)	155,879	200,000		
Aggregate Disallowed Items	105,372	361,826	43,500	24,571		
Aggregate Allowable Expenses	(17,435)	(13,211)	(478,198)	(482,069)		
Aggregate Allowable Income	(116,735)	(43,895)				
Taxable Profit/(Loss)	(109,975)	(89,604)	(278,819)	(257,498)	(388,794)	(347,102)
Tax Losses Brought Forward					(2,600,840)	(2,253,738)
Tax Loss Carried Forward					(2,989,634)	(2,600,840)
Statutory Tax Rate					28%	28%
Current Income Tax Expense					Nil	Nil

21.2 The Company is liable to income tax at the rate of 28% of its taxable profit. However no provision is made in view of the tax loss. The tax loss carried forward as at 31st December 2012 is Rs.2,989,634,452 (2011 is Rs. 2,600,840,727)

		Company	
		2012	2011
		Rs. ' 000	Rs. ' 000
21.3	Deferred Tax Assets & Liabilities		
	Unrecognised Deferred Tax Assets		
	Deferred Tax Assets have not been recognised in respect of following items		
	Tax Losses Carried Forward	2,989,634	2,600,840
	Retirement Benefits	34,399	27,863
	Total Deductible Temporaray Differences	3,024,033	2,628,703
	Unrecognised Deferred Tax Assets	846,729	736,037

Unrecognised Deferred Tax Liabilities

No provision has been made in respect of deferred taxation as the Company has incurred tax losses and the temporaray differences are not expected to reverse due to the above component and it is not probable that future taxable profit will be available against which the Company can utilise the benefits therefrom. The amount of taxable temporaray differences and the resultant tax effects are as follows.

		Company	
		2012	2011
		Rs. ' 000	Rs. ' 000
	Property Plant & equipments	25,881	18,812
	Total Taxable Temporary Differences	25,881	18,812
	Unrecognised Deferred Tax Liabilities	7,247	5,267
21.4	Economic Service Charges		
	Economic Service Charges (ESC) is accounted under taxes, which is recoverable from the annual tax payments.		
	An amount of Rs.19,272,660 is shown as ESC Recoverable.		
	ESC (Charged) / Reversal	(1,410)	(3,721)
	An amount of Rs. 1,409,826 is written off to the Statement of Comprehensive Income as unrecoverable taxes as per the tax legislations.		
21.5	Notional Tax Credit		
	The Company is entitled to following notional tax credit in case of a future tax liability		
	Notional Tax Credit	136,478	119,810

22 Earnings/(Loss) Per Share

Basic Earnings/(Loss) per Share

Basic Earnings per Share is calculated by dividing the net profit for the year attributable to ordinary shareholders' by the weighted average number of ordinary shares outstanding as at year end.

The following reflects the income and share data used in the Basic Earnings per Share computation.

	Company	
	2012	2011
Profit Attributable to Ordinary Share Holders (Rs. ' 000)	73,292	(198,045)
No of Ordinary Shares (Rs. ' 000)	37,500	37,500
Earnings Per Share (Rs.)	1.95	(5.28)

23 Dividends per Share

The dividend per share is calculated by dividing the dividend proposed , by the number of ordinary shares in issue.

	Company	
	2012	2011
Final Dividend - (Rs. 000)	-	75,000
No of Ordinary Shares	-	37,500
Dividend Per Share (Rs.)	-	2.00

24 Related Party Disclosures

24.1 Transactions with Group Companies and Director related entities

Company	Relationship	Nature Of Transaction	2012 Rs. ' 000	2011 Rs. ' 000
Softlogic Holdings Plc & Group	Soft Logic Holdings PLC owns 18.88% of the Company's issued Share Capital	Insurance Placed	41,979	6,964
		Claims Incurred	23,992	356
Softlogic Holdings PLC	do	Investments in Equity Shares	50,050	
		Dividend Income	1,378	
Softlogic Capital PLC	Soft Logic Capital PLC owns 76.44% of the Company's issued Share Capital	Management Fees Paid	35,784	-
Softlogic Information Technologies (Pvt) Ltd	Group Company of Soft Logic Holdings PLC	Purchase of Fixed Assets	8,740	1592
Softlogic Communication Services (Pvt) Ltd	do	Investments in Commercial Papers	26,234	-
		Interest Income	9,415	-
Uni Walkers (Pvt) Ltd	do	Purchase of Fixed Assets	6,740	403
		Investments in Commercial Papers	114,031	-
		Interest Income	15,693	-
Softlogic Finance PLC	do	Investments in Fixed Deposits	-	100,000
		Investments in Commercial Papers	111,062	-
		Interest Income	26,220	3,066
		Consultancy Fees Paid	24,490	-
Softlogic Stockbrokers (Pvt) Ltd	do	Broker Charges	720	-
Softlogic Destination Management (Pvt) Ltd	do	Foreign Travelling Expenses Paid	10,882	-
Asiri Hospital Holdings PLC	do	Investments in Equity Shares	-	43,000
		Dividend Income	620	422
Asiri Surgical Hospitals PLC	do	Investments in Equity Shares	55,000	8,175
		Dividend Income	264	-

24.1.1 The Amounts Due From and Amounts Due to above related partis are disclosed in Note No. 6.2 and 15 respectively.

24.2 Transactions with Key Management Personnel

24.2.1 The key management personnel comprises the Directors, Chief Executive Officer and the General Managers of the Executive Committee.

The compensation paid to key management personnel is as follows.

	2012 Rs. ' 000	2011 Rs. ' 000
Short Term Benefits	31,320	33,203
Long Term Benefits	11,468	14,508
	42,788	47,711
24.2.2 Directors' Fees & Remuneration	7,350	9,647

24.2.3 A number of key management personnel or the related parties holds positions in other entities that results in them having control or significant influence over the financial or operating policies of the following entities.

Company	Relationship	Nature of Transaction	2012 Rs. ' 000	2011 Rs. ' 000
Asia Capital PLC	Director Related Entity	Insurance Placed	1,875	1,802
		Claims Incurred	-	1,224
		Management Fees Paid	-	7,543
Asia Assets Finance Ltd	Director Related Entity	Insurance Placed	442	642
		Claims Incurred	2,860	301
		Sale of Investment Property	-	38,000
Asia Securities (Pvt) Ltd	Director Related Entity	Insurance Placed	-	126
		Claims Incurred	-	15
		Share BrockerageCharges incurred	-	6,755
Asia Siyaka Commodities (Pvt) Ltd	Director Related Entity	Insurance Placed	-	3,975
		Claims Incurred	-	638
Investor Access Asia (Pvt) Ltd	Director Related Entity	Insurance Placed	-	547
Asia Tea Pacakging (Pvt) Ltd	Director Related Entity	Rental Income	-	1,200
Richard Pieris & Co.Plc	Director Related Entity	Insurance Placed	3,671	19,094
		Claims Incurred	19,815	12,119
Richard Pieris Distributors Ltd	Director Related Entity	Insurance Placed	-	57
		Claims Incurred	-	623
Arpico Interiors (Pvt Ltd)	Director Related Entity	Fixed Assets Purchases	-	1,035
		Insurance Placed	-	54
NDB Bank Plc	Director Related Entity	Insurance Placed	39,765	-
		Investments in Equity Shares	986,219	917,081
		Interest Income	2,928	-
		Dividend Income Received	3,270	22,176
Paul Rathnayeke Associates	Director Related Entity	Insurance Placed	296	291
		Claims Incurred	70	-
		Legal Fees Paid	702	229
P. R. Secretarial Services (Pvt) Ltd	Director Related Entity	Insurance Placed		-
		Secretarial Fees paid	312	698
Hidramani Group of Companies	Director Related Entity	Insurance Placed	-	1,544

25 Commitments & Contingencies

25.1 Capital Expenditure Commitments

The Company does not have significant Capital Commitments as at the Statement of Financial Position date.

25.2 Contingent Liabilities

In the opinion of the Directors and in consultation with the Company lawyers,litigation as currently pending against the Company will not have any material impact on the reported financial results or future operations of the Company.

26 Events after the Reporting Period

There were no material events occurring after the Reporting Period which require adjustments or disclosure in the Financial Statements, except for the following.

26.1 Deutsche Investitions - Und Entwicklungsgesellschaft Mbh of Germany (DEG) and Netherlandse Financierings - Maatschappij Voor Ontwikkelingslanden N. V of Netherlands (FMO), has signed an agreement with Asian Alliance Insurance PLC, to invest in the Company. Consequent to this agreement, DEG and FMO would each purchase 19% shares of the Company at a total value of Rs. 1.8 billion in year 2013.

27 Comparative Informations

The comparative information has been reclassified wherever necessary to confirm to the current year presentaion.

28 Explanation on Transition to SLFRS

The equity as at 1st January 2011 & 1 st January 2012 was restated for transitional adjustments as disclosed below.

	Description	Impact to equity as at 1 January2011 (Rs. 000)	Impact to equity as at 31 December2011 (Rs. 000)	Impact to equity as at 31 December 2012 (Rs. 000)	Impact to Statement of Financial Position as at 31 December 2012 (Rs. 000)
a)	Investments classified as Available-for-Sale (AFS)	60,128	(4,276)	48,625	48,625
b)	EIR Adjustment for investments	10,197	(19,613)	-	-
c)	Provision for Family Income Benefits	10,268	8,066	-	-
d)	Actuarial Gains/(Losses) on Retirement Benefits	-	(185)	(314)	(314)
		80,593	(16,008)	48,311	48,311

28.1 Notes to the reconciliation of SLAS to SLFRS

a) Fair value adjustment for Available-For-Sale Financial Asset

Part of the investments in government securities, investments in listed equity securities & debentures that was previously measured at cost/fair value are now classified as Available-for-sale financial assets and measured at fair value.

The fair value gain as at 1st January 2011 & 31st December 2011 related to above financial assets was Rs. 55.852Mn and adjusted to the carrying value of the instruments with corresponding increase in Available-for-sale reserves.

b) Effective interest rate adjustment on fixed income securities

Interest income on fixed income securities was previously computed using the straight line method are now changed to effective interest rate method and resultant adjustment of Rs.9.4 Mn was adjusted to the retained earnings as at 1st January 2011 & 31st December 2011.

c) Amortised cost adjustment on Family Income Benefits

The claims payable on Family Income Benefits policies was previously recognised at their gross liabilities and adjusted for the present values and related gain of Rs. 18.335 Mn is adjusted to retained earnings as at 1st January 2011 & 31st December 2011.

d) Actuarial Gains/(Losses) on Retirement Benefits

Actuarial Gains/(Losses) on Retirement Benefits previously recognised in Statement of Comprehensive Income is now recognised in Other Comprehensive Income. Actuarial Loss on Retirement Benefits Rs. 185,000 is adjusted to Retained Earnings as at 31st December 2011.

28.2 Reconciliation of cash flow statement

There are no material differences between the Company Statement of Cash Flows presented under SLFRSs and the Company Statement of Cash Flows presented under SLASs.

28.3 Reconcilation of Statement of Financial Position reported under SLAS to SLFRS

Non-Life

As at 31st December	2011 Rs. ' 000 SLFRS	Adjustment Rs. ' 000	2011 Rs. ' 000 SLAS	2010 Rs. ' 000 SLFRS	Adjustment Rs. ' 000	2010 Rs. ' 000 SLAS
Assets						
Property, Plant & Equipment	39,942		39,942	33,386		33,386
Financial Investments	1,481,469	(2,798)	1,484,267	1,795,673	(918)	1,796,591
Policy Loans & Other Loans	592		592	1,223		1,223
Reinsurance Receivable	60,827		60,827	96,319		96,319
Premium Receivable	189,998		189,998	102,611		102,611
Deferred Expenses	39,298	39,298		25,567	25,567	
Other Assets	168,690	(2,932)	171,622	154,726	81,510	73,216
Cash & Cash Equivalents	43,375		43,375	16,367		16,367
Total Assets	2,024,190	33,568	1,990,623	2,225,873	106,160	2,119,713
Liabilities & Equity						
Equity						
Stated Capital	1,062,500		1,062,500	1,062,500		1,062,500
Other Reserves	230,852	55,852	175,000	160,128	60,128	100,000
Retained Reserves	121,548	(61,583)	183,131	518,825	20,465	498,360
Total Equity	1,414,900	(5,730)	1,420,631	1,741,453	80,593	1,660,860
Liabilities						
Insurance Liabilities Non-Life	392,777	22,586	370,191	275,668	14,462	261,206
Retirement Benefits Obligation	14,257		14,257	14,075		14,075
Interest Bearing Liabilities	11,590		11,590	4,242		4,242
Reinsurance Payables	54,854		54,854	47,369		47,369
Deferred Revenue	16,712	16,712		11,105	11,105	
Amounts due to Related Companies	-		-	47,499		47,499
Other Liabilities	119,100		119,100	84,462		84,462
Total Liabilities	609,290	39,298	569,992	484,420	25,567	458,853
Total Liabilities & Equity	2,024,190	33,568	1,990,623	2,225,873	106,160	2,119,713

28.3 Reconcilation of Statement of Financial Position reported under SLAS to SLFRS (Contd.)

Life

As at 31st December	2011	Adjustment	2011	2010	Adjustment	2010
	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000
	SLFRS		SLAS	SLFRS		SLAS
Assets						
Property, Plant & Equipment	56,423		56,423	46,432		46,432
Financial Investments	2,504,330	(21,267)	2,525,597	2,025,938	71,242	1,954,696
Investment Property	-		-	36,750		36,750
Policy Loans & Other Loans	59,595		59,595	44,656		44,656
Reinsurance Receivable	3,765		3,765	3,618		3,618
Other Assets	82,724		82,724	98,398		98,398
Cash & Cash Equivalents	11,817		11,817	46,071		46,071
Total Assets	2,718,654	(21,267)	2,739,921	2,301,863	71,242	2,230,621
Liabilities & Equity						
Equity						
Stated Capital	-	-	-	-	-	-
Other Reserves	-	-	-	-	-	-
Retained Reserves	-	-	-	-	-	-
Total Equity	-	-	-	-	-	-
Liabilities						
Insurance Liabilities Life	2,353,008		2,353,008	1,929,352		1,929,352
Retirement Benefits Obligation	13,606		13,606	8,663		8,663
Reinsurance Payables	43,419		43,419	34,326		34,326
Other Liabilities	308,621	(21,267)	329,888	329,522	71,242	258,280
Total Liabilities	2,718,654	(21,267)	2,739,921	2,301,863	71,242	2,230,621
Total Liabilities & Equity	2,718,654	(21,267)	2,739,921	2,301,863	71,242	2,230,621

28.3 Reconcilation of Statement of Financial Position reported under SLAS to SLFRS (Contd.)

Company

As at 31st December	2011 Rs. ' 000 SLFRS	Adjustment	2011 Rs. ' 000 SLAS	2010 Rs. ' 000 SLFRS	Adjustment	2010 Rs. ' 000 SLAS
Assets						
Property, Plant & Equipment	96,365	-	96,365	79,818		79,818
Financial Investments	3,985,799	(24,065)	4,009,864	3,821,611	70,324	3,751,287
Investment Property	-	-	-	36,750		36,750
Policy Loans & Other Loans	60,187	-	60,187	45,879		45,879
Reinsurance Receivable	64,593	-	64,593	99,937		99,937
Premium Receivable	189,998	-	189,998	102,611		102,611
Deferred Expenses	39,298	39,298		25,567	25,567	
Other Assets	155,201		155,201	139,089		139,089
Cash & Cash Equivalents	55,192	-	55,192	62,438		62,438
Total Assets	4,646,633	15,233	4,631,400	4,413,700	95,891	4,317,809
Liabilities & Equity						
Equity						
Stated Capital	1,062,500		1,062,500	1,062,500		1,062,500
Other Reserves	230,852	55,852	175,000	160,128	60,128	100,000
Retained Reserves	121,548	(61,583)	183,131	518,825	20,465	498,360
Total Equity	1,414,900	(5,730)	1,420,631	1,741,453	80,593	1,660,860
Liabilities						
Insurance Liabilities Life	2,353,008		2,353,008	1,929,352		1,929,352
Insurance Liabilities Non-Life	392,777	22,586	370,191	275,668	14,462	261,206
Retirement Benefits Obligation	27,863		27,863	22,738		22,738
Interest Bearing Liabilities	11,590		11,590	4,242		4,242
Reinsurance Payables	98,273		98,273	81,695		81,695
Deferred Revenue	16,712	16,712		11,105	11,105	
Amounts due to Related Companies	-		-	47,499		47,499
Other Liabilities	331,510	(18,335)	349,844	299,948	(10,269)	310,217
Total Liabilities	3,231,733	20,963	3,210,769	2,672,247	15,298	2,656,949
Total Liabilities & Equity	4,646,633	15,233	4,631,400	4,413,700	95,891	4,317,809

28.4 Reconcilation of Statement of Comprehensive Income reported under SLAS to SLFRS

	Non-Life Insurance			Company		
For the Year ended 31st December	2011	Adjustments	2011	2011	Adjustments	2011
	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000
	SLFRS		SLAS	SLFRS		SLAS
Gross Written Premium	628,163		628,163	2,207,354		2,207,354
Reinsurance Premium	(166,757)		(166,757)	(424,392)		(424,392)
Net Written Premium	461,406		461,406	1,782,962		1,782,962
Net Change in reserves for Unearned Premium	(113,828)		(113,828)	(113,828)		(113,828)
Net Earned Premium	347,578		347,578	1,669,134		1,669,134
Other Revenue						
Investment income	80,242		80,242	304,076		304,076
Realized Gains/(Losses)	-		-	55,643		55,643
Fair value Gains/(Losses)	(346,376)	(70,501)	(275,875)	(379,879)	(70,501)	(309,378)
Other operating revenue	-		-	9,915		9,915
	(266,134)		(195,634)	(10,245)		60,257
Net Income	81,444		151,945	1,658,889		1,729,391
Insurance benefits and claims paid	(286,754)		(286,754)	(499,412)		(499,412)
Claims ceded to reinsurers	32,903		32,903	128,702		128,702
Change in Claims Outstanding liabilities	(6,991)		(6,991)	(7,556)		(7,556)
Change in contract liabilities - Life	-		-	(423,656)		(423,656)
Change in Claims Outstanding liabilities ceded to reinsurers	(10,458)		(10,458)	(16,580)		(16,580)
Net Insurance benefits and claims	(271,300)		(271,300)	(818,502)		(818,502)
Net Acquisition cost	(25,958)		(25,958)	(317,184)		(317,184)
Operating & Administration Expenses	(176,257)	185	(176,442)	(710,129)	185	(710,314)
Finance Cost	(2,253)		(2,253)	(7,398)		(7,398)
Other Expenses	(204,468)		(204,653)	(1,034,711)		(1,034,896)
Profit/(Loss) Before Tax	(394,324)		(324,008)	(194,324)		(124,008)
Income tax expense	(3,721)		(3,721)	(3,721)		(3,721)
Profit/(Loss) for the year	(398,045)	(70,316)	(327,729)	(198,045)	(70,316)	(127,729)

TEN YEAR Preformance

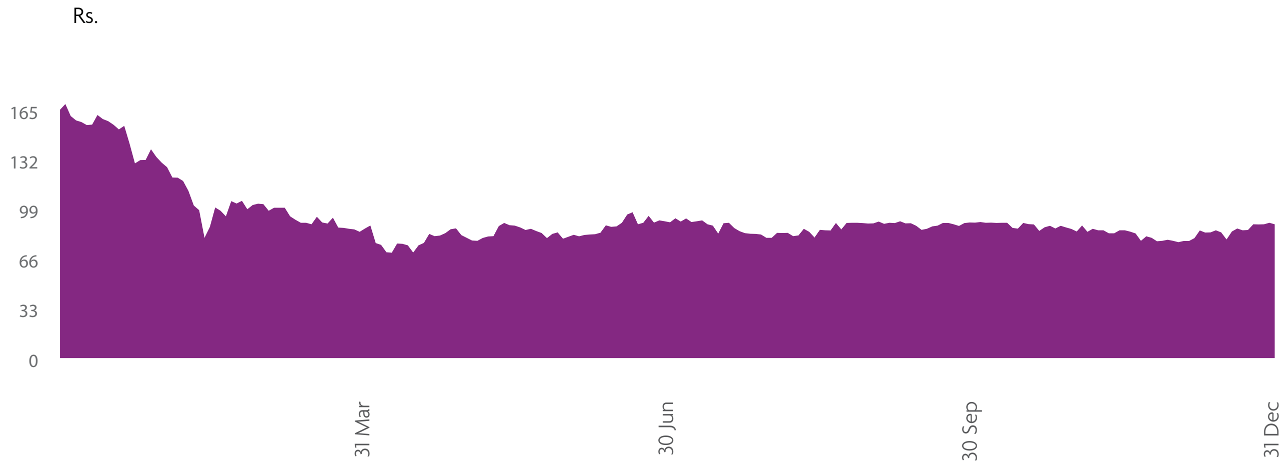
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000
Non Life Insurance Statement of Comprehensive Income										
Gross Written Premium	1,190,392	628,163	430,666	496,749	459,771	383,590	417,679	353,281	310,401	271,097
Net Earned Premium	685,394	347,578	277,860	312,552	243,614	207,089	173,892	139,168	120,036	90,037
Other Revenue	114,537	(266,134)	288,690	87,279	59,214	33,630	21,473	23,864	15,261	16,324
Net Income	799,931	81,444	566,550	399,831	302,828	240,719	195,365	163,032	135,297	106,361
Net Insurance benefits & claims	(516,685)	(271,300)	(246,348)	(275,552)	(183,734)	(151,867)	(115,671)	(100,588)	(89,354)	(53,991)
Net Commssion	(87,933)	(34,087)	(21,133)	(7,805)	5,604	30,621	25,132	34,940	23,382	29,599
Net Deferred Acquisition Cost	28,956	8,129	4,400	15,881	4,723	(1,827)	(4,387)	(2,375)	(3,649)	2,034
Expenses	(305,446)	(178,510)	(186,503)	(180,248)	(158,275)	(118,453)	(107,104)	(86,728)	(64,809)	(75,122)
Operating Profit / (Loss) for the Year	(81,177)	(394,324)	116,966	(47,893)	(28,854)	(807)	(6,665)	8,281	867	8,881
Life Insurance Statement of Comprehensive Income										
Gross Written Premium	2,034,084	1,579,191	1,242,608	1,009,031	970,077	890,793	747,934	577,695	421,681	274,440
Net Earned Premium	1,707,103	1,321,556	1,037,936	843,499	811,449	742,835	631,386	468,317	334,701	226,281
Other Revenue	347,203	255,891	412,081	311,527	173,898	122,487	54,674	22,667	10,415	6,604
Net Income	2,054,306	1,577,447	1,450,017	1,155,026	985,347	865,322	686,060	490,984	345,116	232,885
Net Insurance benefits & claims	(143,117)	(123,547)	(103,076)	(87,529)	(48,902)	(38,942)	(32,730)	(9,443)	(7,267)	(9,012)
Net Acquisition Cost	(509,495)	(291,226)	(247,791)	(165,536)	(155,619)	(164,653)	(139,939)	(129,155)	(112,062)	(92,701)
Expenses	(694,476)	(539,018)	(476,583)	(350,534)	(305,249)	(233,125)	(182,334)	(156,957)	(149,181)	(114,370)
Operating Surplus before Transfer to Insurance Provision -Life	707,218	623,656	622,567	551,427	475,577	428,602	331,057	195,429	76,606	16,802
Transfer from \ (to) Shareholder's Fund	(155,879)	(200,000)	(253,610)	(195,000)	(160,000)	(115,241)	(66,091)	(20,000)	-	2,806
Transfer to Insurance Provision - Life	551,339	423,656	368,957	356,427	315,577	313,361	264,966	175,429	76,606	19,608
Company Statement of Comprehensive Income										
Gross Written Premium	3,224,476	2,207,354	1,673,274	1,505,780	1,429,848	1,274,383	1,165,613	930,976	732,082	545,537
Net Profit \ (Loss) Before Taxation	74,702	(194,509)	370,576	147,107	131,146	114,434	68,200	28,281	866	6,075
Taxation	(1,410)	(3,721)	(2,568)	(2,329)	4,258	(1,138)	2,568	(2,568)	(2,331)	-
Net Profit \ (Loss) After Taxation	73,292	(198,230)	368,008	144,778	135,404	113,296	70,768	25,713	(1,465)	6,075

TEN YEAR Statement of Financial Position Summary

Company	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000
Assets										
Property Plant & Equipment	116,105	96,365	79,818	65,564	54,136	33,948	30,249	34,458	44,288	64,210
Financial Investments	4,825,799	3,985,799	3,821,611	2,314,576	1,787,010	1,457,673	924,700	564,050	325,321	201,431
Investment Property	-	-	36,750	-	-	-	-	-	-	-
Policy Loans & Other Loans	81,398	60,187	45,879	31,453	13,915	6,655	1,884	1,317	5,142	18,736
Reinsurance Receivable	50,921	64,593	99,937	41,041	45,940	283,975	485,915	93,305	171,535	156,540
Premium Receivable	379,720	189,998	102,611	74,517	105,926	78,078	96,267	58,555	65,344	49,615
Deferred Expenses	68,192	39,298	25,567	-	-	-	-	-	-	-
Other Assets	144,185	155,201	139,089	152,872	103,291	57,251	52,627	36,119	21,294	20,454
Cash & Cash Equivalents	34,784	55,192	62,438	52,140	30,507	21,713	26,272	20,414	26,827	26,100
Total Assets	5,701,104	4,646,633	4,413,700	2,732,163	2,140,725	1,939,293	1,617,914	808,218	659,751	537,086
Liabilities & Equity										
Equity										
Stated Capital	1,062,500	1,062,500	1,062,500	250,000	250,000	250,000	250,000	250,000	250,000	250,000
Other Reserves	104,477	230,852	160,128	-	-	-	-	-	7,354	7,354
Retained Reserves	294,526	121,548	518,825	267,540	154,060	18,656	(82,140)	(152,908)	(185,975)	(184,511)
Total Equity	1,461,503	1,414,900	1,741,453	517,540	404,060	268,656	167,860	97,092	71,379	72,843
Liabilities										
Insurance Liabilities - Life	2,904,345	2,353,008	1,929,352	1,560,395	1,203,968	888,391	575,030	310,064	134,635	58,026
Insurance Liabilities - Non Life	681,514	392,777	275,668	275,602	246,139	431,004	611,062	167,855	273,674	194,486
Retirement Benefits Obligation	34,398	27,863	22,738	14,653	10,871	9,213	7,201	5,092	4,452	3,029
Interest Bearing Liabilities	17,881	11,590	4,242	16,412	10,180	-	578	2,157	13,053	48,102
Reinsurance Payables	77,973	98,273	81,695	87,192	55,654	91,923	59,620	82,275	61,325	86,137
Deferred Revenue	16,680	16,712	11,105	-	-	-	-	-	-	-
Amount due to Related Companies	39,988	-	47,499	12,362	2,976	1,884	2,451	13,932	21,207	23,469
Other Liabilities	466,822	331,510	299,948	248,007	206,877	248,222	194,112	129,751	80,026	50,994
Total Liabilities	4,239,601	3,231,733	2,672,247	2,214,623	1,736,665	1,670,637	1,450,054	711,126	588,372	464,243
Total Liabilities & Equity	5,701,104	4,646,633	4,413,700	2,732,163	2,140,725	1,939,293	1,617,914	808,218	659,751	537,086

INVESTOR Information

Share Price Movement 2012



Your investment in AAI PLC

Asian Alliance Insurance PLC is a public quoted company actively traded on the Diri Savi Board of the Colombo Stock Exchange.

Stated Capital – Rs. 1,062,500,000

Class of share – Ordinary shares

Shares held by the public – 4.68%

Details on the performance of your company share can be found in the above statistics.

Your company outperformed the industry and the economy to break new ground in terms of GWP growth. Life GWP grew by 29% versus industry growth of 5.5% whilst Non Life GWP grew by 90% versus industry growth of 14.6%. This despite turbulent economic activity witnessed during the year, including caps on lending and depreciation of the rupee.

The economic outlook and forecasted GDP was revised downwards twice during the year in question, highlighting the deteriorating economic conditions in the country. This was partly due to depreciation of the rupee, the cap on lending by commercial banks and adverse weather conditions which wrecked havoc with the supply of agriculture produce, which in turn effected inflation. However your company was able to withstand above factors to post impressive growth in both Life and Non operations, and in turn increase its rankings in the industry.

Your company completed the restructuring of its equity portfolio within the year, and as such was not able to recognise significant return on its equity portfolio. However an outstanding performance by the fixed income portfolios of the Company allowed it to overcome an underperforming equity portfolio to post satisfactory returns.

This performance and future potential of the Company was noted by two foreign unilateral development finance companies DEG and FMO, Triple A rated entities which are wholly owned by the governments of Germany and Netherlands respectively. They have each agreed to purchase a joint stake of 38% in your Company, and bring with them synergies in terms of technical assistance, stronger reinsurance arrangements and world best practice methods in business strategy.

	2012	2011	2010	2009	2008
EPS	1.95	(5.28)	13.73	5.73	5.42
PER	45.54	-	5.84	9.73	5.53
Price to Book Value	2.28	4.51	1.73	2.71	1.85
ROCE (%)	5.19	(12.55)	32.8	31.92	32.45
Net Assets Per Share	38.97	37.73	46.44	20.7	16.16

Credit Rating maintained at BBB- (RAM)

Your Company maintained its Claims Paying Ability rating at investment grade at the annual review, which took place midyear. The Company is taking steps to address key factors highlighted in the report to be made affective in 2013, and aims to achieve an improvement in the outlook and in turn the rating in the near future. The rating of the Company was conducted by RAM Ratings (Lanka) Ltd

Additional information relating to shareholder breakdown is given below. Registered shareholders for the year ended 31st December 2012 was 932.

	2012	Q4	Q3	Q2	Q1	2011
Market price per share	89.00	89.00	89.00	94.60	86.20	170.00
Existing shares	37,500,000	37,500,000	37,500,000	37,500,000	37,500,000	37,500,000
Shares traded	1,889,431	507,566	791,259	380,018	210,588	38,516,716
Value of shares traded (Rs. 000's)	169,316,610	42,107,625	73,779,828	30,863,460	22,565,697	5,410,995
Market Capitalisation (Rs. 000's)	3,337,500,000	3,337,500,000	3,337,500,000	3,547,499,925	3,232,499,888	6,375,000,000
Share Price - Highest	181.00	95.00	96.00	97.00	181.00	405.00
Share Price - Lowest	66.00	77.00	79.00	70.00	66.00	73.60
Period End	89.00	89.00	89.00	94.60	86.20	170.00

	As at 31st December 2012			As at 31st December 2011		
Number of Shares	No. of Share Holders	No. of Shares	% of Total	No. of Share Holders	No. of Shares	% of Total
1-1000	687	137,008	0.37	655	175,491	0.46
1001-10000	207	598,576	1.60	129	380,252	1.01
10001-100000	34	905,116	2.41	23	704,150	1.88
100001-1000000	1	112,172	0.30	4	767,500	2.06
1000001- & Over	3	35,747,128	95.33	3	35,472,607	94.59
Total	932	37,500,000	100.00	814	37,500,000	100.00

Resident / Non Resident

	As at 31st December 2012			As at 31st December 2011		
Number of Shares	No. of Share Holders	No. of Shares	% of Total	No. of Share Holders	No. of Shares	% of Total
Resident	923	37,415,959	99.78	809	37,484,800	99.96
Non Resident	9	84,041	0.22	5	15,200	.04
Total	932	37,500,000	100.00	814	37,500,000	100.00

Individual/Institution

	As at 31st December 2012			As at 31st December 2011		
Number of Shares	No. of Share Holders	No. of Shares	% of Total	No. of Share Holders	No. of Shares	% of Total
Individual	860	1,177,800	3.14	758	957,802	2.55
Institutional	72	36,322,200	96.86	56	36,542,198	97.45
Total	932	37,500,000	100.00	814	37,500,000	100.00

INVESTOR
Information

As at 31st December 2012			
Share Holder	No. of Shares	%	Rank
Softlogic Capital PLC	20,748,702	55.33	1
National Development Bank PLC/Softlogic Capital PLC	7,916,667	21.11	2
Softlogic Holdings PLC	7,081,759	18.88	3
Snackings (Pvt) Limited	112,172	0.30	4
Sampath Bank PLC / Boston Capital (Pvt) Limited	77,300	0.21	5
Mr. Gajath Chryshantha Goonetilleke	76,550	0.20	6
Softlogic Finance PLC	69,052	0.18	7
Mr. Pattiyapawulage Don Raj Rohitha Weeraratne	57,400	0.15	8
Mr. Arrumadura Samantha Rayynor Silva	56,400	0.15	9
Mr. Roland Felchlin	55,029	0.15	10
Mr. Vithana Palpita Koralalage Anusha Palpita	40,626	0.11	11
NWS Financial Services (Pvt) Ltd/Divasa Equity (Pvt) Ltd	36,340	0.10	12
Navara Capital Limited	29,500	0.08	13
Mrs. Mohamed Hilmy Fathima Shereen Fazna	28,000	0.07	14
Mr. Asantha Peter Wijeyeratne	25,020	0.07	15
Mr. Fazlur Rahman Muzammil	24,500	0.07	16
Merchant Bank of Sri Lanka PLC/JAS Piyawardena	23,994	0.06	17
Mr. Mohamed Subair Fouzal Haqque	22,200	0.06	18
Mrs. Kodippila Hettiarachchige Nirosha Jeevanikumari	20,000	0.05	19
Seylan Bank PLC / Tharana Gangul Thoradeniya	19,831	0.05	20
Merchant Bank of Sri Lanka LTD A/C 01	19,800	0.05	21
Mr. Calistus Nimalanathan Pakianathan	18,000	0.05	22
Waldock Mackenzie Ltd / Mr. M.Z.M Wafik	17,700	0.05	23
Mr. Mushtaq Mohamed Fuad	17,198	0.05	24

As at 31st December 2011			
Share Holder	No. of Shares	%	Rank
Softlogic Capital PLC	19,125,000	51.00	1
Mandatory Offer by Softlogic Capital PLC	9,398,191	25.06	2
Softlogic Holdings PLC	6,949,416	18.53	3
Seylan Bank / W.D.N.H Perera	336,200	0.90	4
Divasa Equity (Pvt) Limited	205,100	0.55	5
Snackings (Pvt) Limited	118,700	0.32	6
Asia Trust Investments (Pvt) Limited	107,500	0.29	7
Sampath Bank PLC / Boston Capital (Pvt) Limited	77,300	0.21	8
Mr. Gajath Chryshantha Goonetilleke	76,550	0.20	9
Mr. Mohideen Rifky Badurdeen	70,300	0.19	10
Mr. Arrumadura Samantha Rayynor Silva	70,100	0.19	11
Mr. Pattiyapawulage Don Raj Rohitha Weeraratne	57,400	0.15	12
First Capital Markets Limited / Mr. W.V.J Pushpakumara	45,200	0.12	13
Seylan Bank PLC / Tharana Gangul Thoradeniya	34,700	0.09	14
Mr. Chamara Nuwan Samarathunga	30,400	0.08	15
Mrs. Mohamed Hilmy Fathima Shereen Fazna	28,000	0.07	16
Mrs. Kodippila Hettiarachchige Nirosha Jeevanikumari	20,000	0.05	17
Axis Financial Services (Pvt) Limited	19,900	0.05	18
Seylan Bank PLC / Nalaka Harshijeeva Godehewa	19,800	0.05	19
Lince Holdings (Pvt) Limited	19,100	0.05	20
Mr. Fazlur Rahman Muzammil	18,900	0.05	21
Mr. Vithana Palpita Koralalage Anusha Palpita	15,300	0.04	22
Mr. Vemindra Kumara Sangakkara	15,000	0.04	23
Mrs. Sonali Gomis De Silva	14,000	0.04	24

GLOSSARY of Insurance Terms

Accumulation
The situation where a significant number of risks insured or reinsured with the same Company may be affected simultaneously by a loss event.

Assessor
Professional employed by an insured to look after his interest in a loss settlement

Aircraft Perils
A peril that covers damage to property caused by aircraft and other aerial devices including damage by articles dropped there from.

Assured
Assured means the same as insured but is more commonly used in life insurance / insurance and marine insurance.

Acquisition expenses
All expenses, which vary with, and are primarily related to, the acquisition of new insurance contracts and the renewal of existing insurance contracts (eg: commissions)

Actuary
An expert concerned with the application of probability and statistical theory to problems of insurance, investment, financial management and demography.

Actuarial Valuation
A determination by an actuary at a specific date of the value of a Life Insurance Company's assets and its liabilities. The purpose of a valuation is to determine if the Company holds adequate assets to fund the Company's liabilities.

Administrative expenses
Costs of an administrative nature including those arising from premium collection, portfolio administration, handling of bonuses and rebates, and inward and outward reinsurance, including staff costs and depreciation provisions in respect of property, plant and equipment.

Admissible assets
Assets that may be included in determining an insurer's statutory solvency. Such assets are specified under the rules made by the Insurance Board of Sri Lanka under the Regulation of Insurance Industry Act No. 43 of 2000.

Annual basis of accounting
A basis of accounting for Non Life insurance business whereby a result is determined at the end of the accounting period reflecting the profit or loss from providing insurance cover during that period and any adjustments to the profit or loss of providing insurance cover during earlier accounting periods.

Annuity
A series of regular payments. Annuities include annuities certain, where payments are made at definite times, and life annuities, where payments depend on the survival of an annuitant. A life annuity is a contract that provides a regular payment typically monthly during the lifetime of the policyholder or a fixed period if less. If the payments start at the outset of the contract, it is an immediate annuity. If they start at some point in the future, it is a deferred annuity.

Approved asset
Assets that represent the technical reserve and the long - term insurance fund as per determination made under the RII Act, No. 43 of 2000.

Beneficiary
A person named by the policyholder as the recipient of the sum insured and other benefits due in the event of the policyholder's death.

Bonus
Bonus is a method of distribution of surplus amongst the participating policyholders of a Life Insurance Company. A bonus is an enhancement to the basic sum assured under a contract, and is declared as a percentage of the sum assured.

Broker
A sales and service representative who handles insurance for clients, generally selling insurance of various kinds and for several companies.

GLOSSARY
of Insurance Terms

Claims
The amount payable under a contract of insurance arising from the occurrence of an insured event such as destruction or damage of property and related death or injuries, the incurring of hospital or medical bills, death or disability of the insured and gratuity claims.

Claims Incurred
The aggregate of all claims paid during the accounting period together with attributable claims handling expenses, where appropriate, adjusted by the gross claims reserve at the beginning and end of the accounting period.

Claim Ratio (Net loss ratio)
$$= \frac{\text{Net claims incurred}}{\text{Net Earned Premium}}$$

Claims Outstanding - Non Life Insurance Business
The amount provided to cover the estimated ultimate cost of settling claims arising out of events which have occurred by the balance sheet date, including IBNR claims and claims handling expenses, less amounts already paid in respect of those claims.

Claim Outstanding - Life Insurance Business
The amount provided to cover the estimated ultimate cost of settling claims arising out of events which have been notified by the balance sheet date being the sums due to beneficiaries together with claims handling expenses, less amounts already paid in respect of those claims.

Claims Incurred But not Reported (IBNR)
A reserve to cover the expected cost of losses that have occurred by the Balance Sheet date but have not yet been reported to the insurer.

Clause
A section of a policy contract or endorsement dealing with a particular subject.

Commission
The part of an insurance premium paid by the insurer to an agent or broker for his services in procuring and servicing the insurance.

Corporate Governance
The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

Consequential Loss
A loss directly arising from another loss.

Cover Note
Temporary written evidence of insurance cover

Cedent
Insurer who cedes business under a reinsurance agreement (Client of reinsurance Company)

Cyclone, Storm, Tempest
Violent commotion of the atmosphere accompanied by rain, hail or snow

Co-insurance
An arrangement whereby two or more insurance undertakings enter into a single contract with the insured to cover a risk in agreed proportions at a specified premium.

Credit Life Insurance- {Decreasing Term Assurance Policy (DTAP)}
Term Life Insurance issued through a lender or lending agency to cover payment of a loan, installment purchase or other obligation, in case of death

Credit Risk
The potential for loss due to the failure of a borrower, endorser, guarantor or counterparty to repay a loan or honour another predetermined financial obligation.

Contribution
If more than one insurance has been effected on the same risk, insurers share the loss. Not applicable to Life and Personal Accident insurances.

Deferred Acquisition Expenses/Deferred Acquisition Expense Reserve
Expenses, which vary with and are primarily related to the acquisition of new insurance contracts and renewal of existing contracts, which are deferred as they relate to a period of risk subsequent to the Balance Sheet date.

Deductible
An American word, now widely used. The first part of a loss (generally quite sizeable) carried by the insured in exchange for a reduction in premium.

Earned Premium
Written premium adjusted by the unearned premium reserve at the beginning and end of the accounting period.

Embedded Value
The combination of the present value of the future profits of the existing book of business and net assets.

Earnings Per Share (EPS)
Profits of the Company after tax and after the transfer to Life Fund divided by the number of issued ordinary shares.

$$= \frac{\text{Net Profit after Tax}}{\text{Weighted Average No of Shares}}$$

Endowment
Life insurance payable to the policyholder if living on the maturity date stated in the policy or to a beneficiary if the insured dies before that date.

Earthquake
A sudden violent shaking of the ground, caused by movements within the earth's crust.

Endorsement
A clause appended or affixed to the policy embodying some alteration to the policy terms or documentary evidence of a change to the risk insured (new car, change of address, increase in sum insured, etc) some times carries an additional or a return premium.

Ex-gratia payment
A payment made to an insured where there is no liability to pay under the terms of the policy. In some cases an insurer may feel there has been a mistake or a misunderstanding and it may pay claim, even though he does not appear to be liable.

Excess
That part of a loss for which the insured is liable.

Exclusion
A contractual provision that denies coverage for certain perils, persons, property or location.

Explosion
The sudden and violent rendering of any object by force of internal steam or other fluid pressure causing bodily displacement of any part of such object, together with forcible ejectment of any contents.

Facultative Reinsurance
Oldest form of reinsurance. This is the reinsurance of an individual risk on terms and conditions agreed with the reinsurer specifically for that risk. Particulars of each risk are submitted by the ceding Company to the reinsurer who may accept or decline at will. This is useful when dealing with risks outside the ceding Company's treaty arrangements.

Flood Insurance
Insurance against damage caused by the escape of water from the normal confines of any natural or artificial water course (other than water tanks, apparatus or pipes) or lake, reservoir, canal or dam

GLOSSARY
of Insurance Terms

Non Life Insurance Business
Insurance (including reinsurance) business falling within the classes of insurance specified as Non Life Insurance Business, under the Regulation of Insurance Industry Act No. 43 of 2000

Gross Claims Reserve - Non Life Insurance
The amount provided, including claims incurred but not reported and claim handling expenses, to cover the estimated ultimate cost, arising out of events occurred by the end of the accounting period, less amounts already paid in respect of those claims.

Gross/Net
The terms gross and net mean before and after deduction of the portion attributable to business ceded in reinsurance. Instead of "net," the term "for own account" is sometimes used.

Gross Written Premium - Life
Premium to which the insurer is contractually entitled and received in the accounting period.

Gross Written Premium - Non Life Insurance
Premium which an insurer is contractually entitled to receive from the insured in relation to contracts of insurance.

Insurance
Insurance is a contract whereby one party the insurer, in return for a consideration i.e. the premium, undertakes to pay to the other party the insured sum of money or its equivalent in kind, upon the happening of a specified event that is contrary to the interest of the insured.

Insurance risk
Uncertainty over the likelihood of an insured event occurring, the quantum of the claim, or, the time when claims payments will fall due.

Insurance Liabilities - Non-life
This comprises the gross claims reserve, unearned premium reserve net of re-insurance and the deferred acquisition expenses.

Insurance Provision - Long Term
The fund or funds to be maintained by an insurer in respect of its Long Term Insurance business in accordance with the Regulation of Insurance Industry Act No. 43 of 2000.

Indemnity
Basic object of insurance. Seeks to put insured in same financial position after loss as he/she was in immediately before that loss (Not applicable to Life Insurance)

Interim Payments
Periodic payments to the policyholders on a specific type of policy

Insurance Risk
The risk of loss due to actual experience being different than that assumed when an insurance product was designed and priced. Insurance risk exists in all our insurance businesses, including annuities and life, accident and sickness, and creditor insurance, as well as our reinsurance business.

Life Insurance Business
Insurance (including reinsurance) business falling within the classes of insurance specified as Long Term Insurance Business under the Regulation of Insurance Industry Act No. 43 of 2000.

Life Surplus
The excess of the assets over the liabilities as determined by the actuary (taking into account solvency requirements) and after distribution of dividends to policyholders.

Life Fund
Net Assets kept to meet the obligation towards Life Policyholders.

Lapsed Policy
A policy terminated at the end of the grace period because of non-payment of premiums.

Loss Adjuster
An independent qualified person, used by insurers to settle large or difficult losses. The insured is free to employ his own professional help (called Loss Assessor)

Maturity
The time at which payment of the sum insured under a Life Insurance policy falls due at the end of its term.

Market Risk
The potential for a negative impact on the balance sheet and/or income statement resulting from adverse changes in the value of financial instruments as a result of changes in certain market variables. These variables include interest rates, foreign exchange rates, equity and commodity prices and their implied volatilities, as well as credit spreads, credit migration and default.

Minimum Capital Required (MCR)
The statutory absolute minimum capital that is required to be maintained by insurers at all times. Whenever MCR falls below a pre-specified level, an appropriate supervisory action may be initiated.

Malicious Damage
Unlawful damage caused by the malicious act of any person motivated by ill- will in circumstances not amounting to a riot.

Net Combined Ratio-Non-Life
This ratio indicates the profitability of the insurer's operations by combining the net loss ratio with net expense ratio. The combined ratio does not take account of investment income.

Net Combined Ratio (Formula)
$$= \frac{\text{Net Claims Incurred} + \text{Other Expenses}}{\text{Net Earned Premium}}$$

Net Earned Premium
Gross premium adjusted for the reinsurance incurred and for the increase or decrease in unearned premium.

Net Expense Ratio - Non-Life
A formula used by insurance companies to relate income to acquisition and administrative expenses (e.g. commissions, taxes, staff, selling and operating expenses).

$$\frac{\text{Reinsurance commission (net of acquisition expenses) and Expenses excluding non-technical expenses}}{\text{Net earned premium}}$$

Net Loss Ratio - Non-Life
A formula used by insurers to relate net claims incurred to net earned premium (i.e. after deducting relevant reinsurances).

Net Written Premium
Gross written premium less reinsurance premium payable.

Net Claims Incurred
Claims incurred less reinsurance recoveries.

Net Asset Value per share (NAV)
$$\frac{\text{Net Assets}}{\text{No. of Ordinary Shares}}$$

Non-medical Limit
The maximum face value of a policy that a given Company will issue without the applicant taking a medical examination.

Non-participating Business
Life Insurance business where policyholders are not entitled to share in the surplus of the relevant life fund.

Operational Risk
The potential for loss resulting from inadequate or failed internal processes or systems, human interactions or external events, but excludes business risk.

Policy Loan
Under an insurance policy, the amount that can be borrowed on the security of the surrender value of a Life Insurance policy at a specific rate of interest from the issuing Company by the policyholder, who used the value of the policy as collateral for the loan. In the event the policyholder dies with the debt partially or fully unpaid, the insurance Company deducts the amount borrowed, plus any accumulated interest, from the amount payable.

GLOSSARY
of Insurance Terms

Premium
The payment or one of the regular periodic payments, that a policyholder makes to own an insurance policy.

Policy
The printed document issued to the policyholder by the Company stating the terms of the insurance contract.

Proposal form
Pre-printed form which seeks to identify all relevant questions for a particular type of insurance

Price Earning Ratio
Market price of a share divided by earnings per share.

Market price per share
Earning per share

Participating Business
Life Insurance business where the policy holders are contractually entitled to share in the surplus of the relevant life fund.

Primary Insurers
Insurance companies that assume risks in return for an insurance premium and have a direct contractual relationship with the holder of the insurance policy (private individual, firm or organisation).

Profit Commission
Commission received from the reinsurer based on the net profit of the reinsurer as defined in the agreement between the insurer and reinsurer.

Portfolio Transfer
Amounts payable in respect of the transfer between a cedent and a reinsurer of the liability under a reinsurance contract for premium expiring after a fixed date or on claims incurred prior to a fixed date, normally the date on which the contract commences or ends

Reinsurance
Transfer of all or part of the risk assumed by an insurer under one or more insurances to another insurer, called the reinsurer.

Reinsurance Commission
Commission received or receivable in respect of premium paid or payable to a reinsurer.

Reinsurance Premium
The premium payable to the reinsurer. Reinsurance is an arrangement whereby one party (the reinsurer), in consideration for a premium, agrees to indemnify another party (the cedent) against part or all of the liability assumed by the cedent under a policy or policies of insurance.

Reinsurance inwards
The acceptance of risks under a contract of reinsurance.

Reinsurance outwards
The placing of risks under a contract of reinsurance.

Retention
That part of the risk assumed which the insurer/reinsurer does not reinsure/retrocede, i.e. retained net for own account.

Retrocession
The reinsurance outwards of risks previously accepted by an insurer as reinsurance inwards. The recipient is known as the retrocessionaire.

Revenue Account
An account which shows a financial summary of the insurance related revenue transactions for the accounting period.

Rider
An amendment to an insurance policy that modifies the policy by expanding or restricting its benefits or excluding certain conditions from coverage.

Risk Based Capital (RBC)

Amount of required capital that the insurance company must maintain based on the inherent risks in the insurer's operations. These risks include Asset Depreciation Risk, Credit Receivables Risk, Underwriting Risk and Off-Balance-Sheet Risk.

Risk Based Capital Required (RCR)

Measures the required capital as per the proposed RBC framework

Risk-based Capital Adequacy Ratio (CAR)

Measures the adequacy of Total Available Capital (TAC) in insurance and shareholder's funds collectively, to support the Risk Based Capital Required (RCR)

RCAR, expressed as a percentage, is computed for long-term and Non Life insurers as follows;

RCAR = (Total Available Capital/Risk Based Capital Required) * 100

Segment

Constituent business units grouped in terms of nature and similarity of operations.

Solvency margin - Life

The difference between the value of assets and value of liabilities, required to be maintained by the insurer who carries on Life insurance business (Long Term Insurance) as defined in Solvency Margin (Long Term Insurance) Rules, 2002 made under section 26 of the Regulation of insurance Industry Act No. 43 of 2000.

Solvency Margin - Non-life

The solvency margin is the difference between the value of the admissible assets and the value of the liabilities, required to be maintained by any insurer who carries on Non Life insurance business. The minimum required solvency margin shall not be less than highest of the following:

(a) Rs. 50 Mn; or

(b) A sum equivalent to 20 % of net written premium; or

(c) A sum equivalent to 40% of the average net outstanding claims for the three years immediately preceding the current year.

Surrender

Termination of an insurance policy by the insured before the expiry of its term (more common in Life insurance).

Surrender Value

The sum payable by an insurance Company upon the surrender of a Life insurance policy before it has run its full course.

Surplus

The excess of assets held by the Company after deducting the actuarial liability and the provision for margin of solvency as determined by the actuary at the actuarial valuation.

Salvage

Whatever is recovered of an insured item (or part of it) on which a claim has been paid?

Schedule

Part of the policy which records the specific details of the contract

Technical Reserve

This comprises of the claims reserve net of reinsurance, unearned premium reserve net of reinsurance and the deferred acquisition expenses.

Title Insurance

Insurance which indemnifies the owner of real estate in the event his/her clear ownership of property is challenged by the discovery of faults in the title that was passed to him

Total Available Capital (TAC)

Measures the actual available capital held by an insurer eligible to calculate capital adequacy

Tsunami

Series of catastrophic ocean waves generated due to earthquake, volcanic eruption or landslides beneath the ocean.

GLOSSARY
of Insurance Terms

Third party Cover

The insurer indemnifies the insured against the legal liabilities to third parties (other than employees of insured) for bodily injury and/ or third party property damage arising from the insured 's activities.

Unexpired risk reserve

The excess of the estimated value of claims and expenses likely to arise after the end of the financial year from contracts concluded before the date, insofar as their estimated value exceeds the provision for unearned premiums (after deduction of any acquisition costs deferred).

Underwriting profit

This is the profit generated purely from the Non Life insurance business without taking into account the investment income and other non-technical income and expenses (No. 32 and No. 33).

Underwriting

The process of classifying applicants for insurance by identifying such characteristics as age, sex, health, occupation and hobbies. People with similar characteristics are grouped together and are charged a premium based on the group's level of risk. The process includes rejection of unacceptable risks.

Unearned Premium

The portion of premiums already taken into account but which relates to a period of risk subsequent to the balance sheet date.

Underinsurance

Insurance where the sum insured is less than the full value at risk and would not be adequate to meet a total loss.

Vanishing Premium Concept

Policies which require premium payments for a years and thereafter the policy "paid for itself" out of interest earnings.

Written premium - Non Life insurance business

Premiums which an insurer is contractually entitled to receive from the insured in relation to contracts of insurance. Under the annual basis of accounting, these are premiums on contracts entered into during the accounting period and adjustments arising in the accounting period to premiums receivable in respect of contracts entered into in prior accounting periods.

Written premium - Life insurance business

Premiums to which the insurer is contractually entitled and received in the accounting period. A person concerned with the application of probability and statistical theory to problems of insurance, investment, financial management and demography.

Regional DISTRIBUTION Network

Colombo Central
460, Galle Road,
Colombo 3.
Tel: 011 2564551 – 2
Fax: 011 2372981

Panadura
293 1/1, Galle Road,
Panadura.
Tel: 038 2240401 – 2
Fax: 038 2240224

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17, Station Road,
Negombo.
Tel: 031 2231788
Fax: 031 2231789

Gampaha
95/1, Colombo Road,
Gampaha.
Tel: 033 2230890
Fax: 033 2230891

Kurunegala
76, Negombo Road,
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Tel: 037 2220016
Fax: 037 2220017

Kandy
514, Peradeniya Road,
Kandy.
Tel: 081 2201990
Fax: 081 2201992

Matara
312, Galle Road,
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Kottawa
129/10, 1st Floor,
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Fax: 011 2851787

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118, Matara Road,
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Tel: 091 2226367
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Kegalle
218, 2nd Floor,
Kandy Road,
Kegalle.
Tel: 035 2230654
Fax: 035 2230656

Kiribathgoda
4, Sirimavo Bandaranayake
Mawatha,
Mahara,
Kadawatha.
Tel: 011 2926473
Fax: 011 2926472

Kaduwela
329, New Kandy Road,
Kaduwela.
Tel: 011 2538151
Fax: 011 2538155

Moratuwa
482, Galle Road,
Rawatawatte,
Moratuwa.
Tel: 011 2641635
Fax: 011 2641387

Horana
212, 1st Floor,
Panadura Road,
Horana.
Tel: 034 2261631 – 2
Fax: 034 2261633

Kurunegala City Office
254, Colombo Road,
Kurunegala.
Tel: 037 2222052 – 3
Fax: 037 2222054

Gampola
12/B1, Navalapitiya Road,
Gampola.
Tel: 081 2350591
Fax: 081 2230891

Ja-Ela
266, Colombo Road,
Weligampitiya,
Ja-Ela.
Tel: 011 2229351 – 2
Fax: 011 2229297

Nugegoda
224, A1/1, Highlevel Road,
Nugegoda.
Tel: 011 2826776
Fax: 011 2826778

Jaffna
11/8, 1st Floor,
Stanley Road,
Jaffna.
Tel: 021 2221162
Fax: 021 2221163

Colombo Metropolitan
131, St. Michael's Road,
Colombo 3.
Tel: 011 2331882
Fax: 011 2336423

Colombo 3
131, St. Michael's Road,
Colombo 3.
Tel: 011 2473040
Fax: 011 2336423

Battaramulla
24/1/1, Kaduwela Road,
Battaramulla.
Tel: 011 2884516
Fax: 011 2884518

Piliyandala
78/1/1, Horana Road,
Piliyandala.
Tel: 011 2608822
Fax: 011 2608606

Wattala
396/1/1, Negombo Road,
Wattala.
Tel: 011 2981300
Fax: 011 2981256

Minuwangoda
113B/1, Veyangoda Road,
Minuwangoda.
Tel: 011 2281540
Fax: 011 2281540

Puttlam
35, Poles Road,
Puttlam.
Tel: 032 2266180
Fax: 032 2266180

Wennappuwa
56/B, Chilaw Road,
Wennappuwa.
Tel: 031 2251201
Fax: 031 2251201

Regional DISTRIBUTION Network

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521/1, Maithreepala
Senanayake Mawatha,
Anuradhapura.
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Fax: 025 2225938

Warakapola
8, Meerigama Junction,
Warakapola.
Tel: 035 2267521
Fax: 035 2267521

Ratnapura
232/A/2/1, Colombo Road,
Moragahayata,
Ratnapura.
Tel: 045 2231160
Fax: 045 2231161

Batticaloa
601D, Trinco Road,
Batticaloa.
Tel: 065 2228625
Fax: 065 2228624

Chilaw
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Chilaw.
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Fax: 032 2224233

Ampara
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Ampara.
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Fax: 063 - 2224120

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Dambulla.
Tel: 066 2283186
Fax: 066 2283286

Kalutara
126/1/1, Main Street,
Kaluthara South.
Tel: 034 2229333

Ragama
61/A/1, 1st Floor,
Mahabage Road,
Ragama.
Tel: 011 2957753
Fax: 011 2957758

Polonnaruwa
1/3, Sawmill Junction,
Kaduruwela,
Polonnaruwa.
Tel: 027 2225227
Fax: 027 2225338

Avissawella
69 1/2, 2nd Floor,
Yatiyanthota Road,
Avissawella.
Tel: 036 2231160
Fax: 036 2231164

Trincomalee
10, Kandy Road,
Trincomalee.
Tel: 026 2225101 – 2
Fax: 026 2225103

Hingurakgoda
Free Lanka Hardware Building,
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Mahiyanganaya
102/C, Padiyathalawa Road,
Mahiyanganaya.
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Fax: 055 2257610

Matara II
548, Galle Road,
Pamburana,
Matara.
Tel: 041 2236144
Fax: 041 2236155

Corporate INFORMATION

Legal Form
A Public Limited Company Incorporated in Sri Lanaka on 21st April 1999 under the provisions of the companies Act No 17 of 1982
Registered Office
7th Floor, Millennium House,
46/58, Nawam Mawatha,
Colombo 02

Consultant Actuaries
Auctorial & Management Consultants (vt) Ltd
1st Floor, 434, R.A. De Mel Mawatha,
Colombo 03

NMG Consulting
A-13A-5 Block A, Northpoint
Mid Valley City
No 1 Medan Syed Putra Utara
59200 Kuala Lumpur

External Auditors
KPMG
(Chartered Accountants)
32A, Sir Mohomad Macan Markar Mawatha,
Colombo 03

Internal Auditors
Ernst & Young Advisory Services (Pvt) Ltd
201, De Saram Place
Colombo 10

Tax Consultants
Amarasekara & Co
(Charted Accountants)
No.12, Rotunda Gardens,
Colombo 03

Lawyers
Paul Ratnayake Associates
Attorney –at-Law
59, Gregory's Road,
Colombo 07

Bankers
Sampath Bank PLC
Hong Kong & Shanghai Banking Corporation Ltd
Pan Asia Banking Corporation PLC
Commercial Bank PLC
Nations Trust Bank PLC
Deutsche Bank AG

Secretaries
P.R. Secretarial Services (Pvt) Ltd
59, Gregory's Road,
Colombo 07

Directorates

Chairman
Ashok Pathirage

Deputy Chairman
J.H. Paul Ratnayeke

Director/Chief Executive Officer
Ramal G. Jasinghe

T.M. Iftikar Ahamed, Director
Sujeewa Rajapakse, Director
Suraj N. Fernando, Director
Mohan Ray Abeywardena, Director

Executive Committee
Ramal G. Jasinghe
Chula Hettiarachchi
Saliya Wickramasinghe
Udeni Kiridena
Asaf Khan