

You

*10
years
with
You*

*10 Years of professional partnership with You
10 Years of tailor making solutions for You
10 Years of success with You
This year we celebrate
10 Years with You*



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Key figures

BB+
Ram Rating reaffirmed

Rs. 1.30
Dividend per share

145 MN
Net Profit After Tax

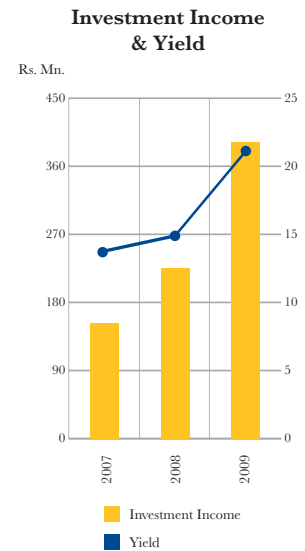
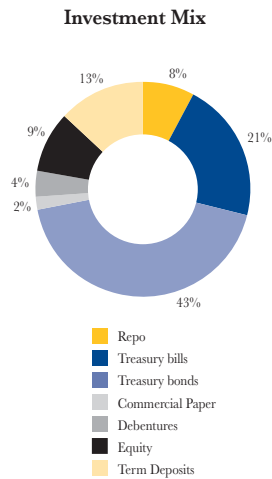
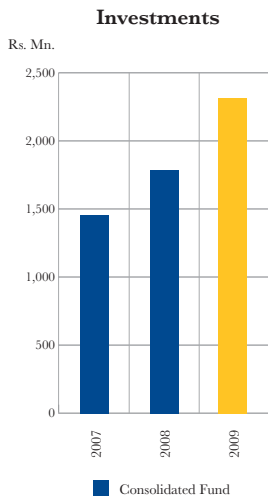
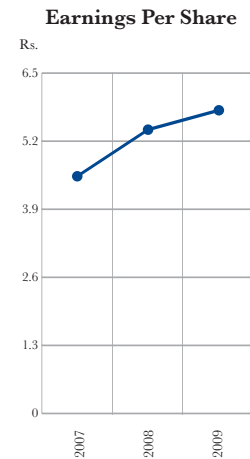
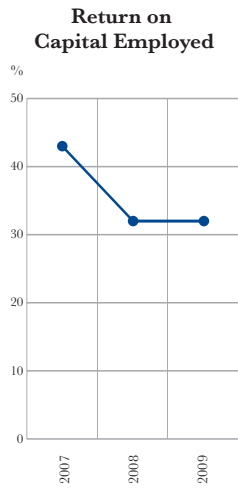
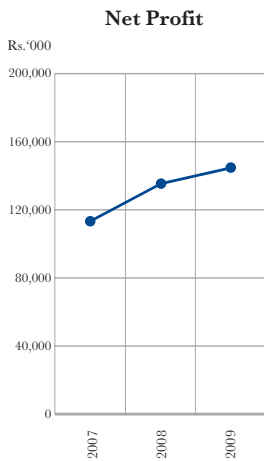
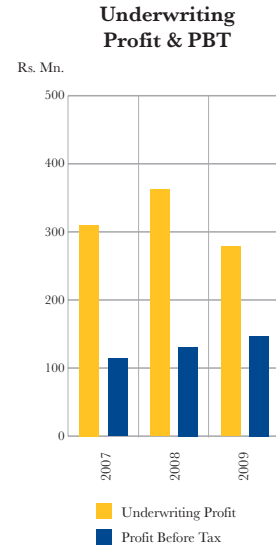
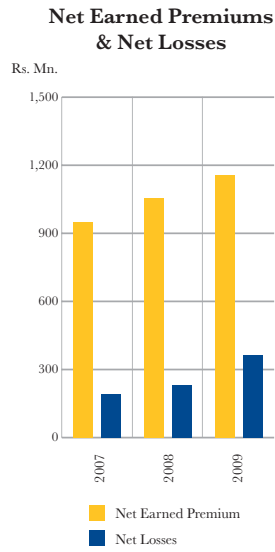
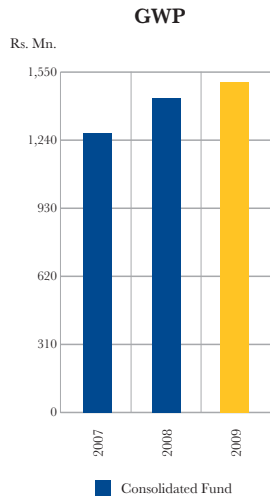
Rs. 2.3 BN
Total Investments

Rs. 1.5 BN
Life Fund Value

SOLVENCY
Life and Non life exceed
required margins

Key Figures

In Rs.'000	2009	2008	2007	2006	2005
Gross Written Premium - Life	1,009,031	970,077	890,793	747,934	577,695
Gross Written Premium - Non Life	496,749	459,771	383,590	417,679	353,281
Total Gross Written Premium	1,505,780	1,429,848	1,274,383	1,165,613	930,976
Profit Before Tax - Life	195,000	160,000	115,241	66,091	20,000
Profit Before Tax - Non Life	(47,893)	(28,854)	(807)	2,109	8,281
Total Profit Before Tax	147,107	131,146	114,434	68,200	28,281
Total Assets	2,732,163	2,140,725	1,939,293	1,617,914	808,218
Total Net Assets	517,540	404,060	268,656	167,860	97,092
Net Cash Provided by:					
Operating activities	242,152	129,815	446,008	314,928	201,432
Investing activities	(187,704)	(125,523)	(438,067)	(298,187)	(197,765)
Financing activities	(31,298)	-	(12,500)	(10,882)	(10,082)
Market Capitalisation	1,400,000	750,000	993,750	356,250	212,50
Market Value per share as at the period end (Rs.)	56.00	30.00	39.75	14.25	8.50





The Chairman & you

On behalf of the board of directors of Asian Alliance Insurance PLC, it is my pleasure to present to you the Annual Report and the Audited Financial Statements for the year ended December 31, 2009, to review the performance for such year and outline our future direction. The Company reached a milestone by completing a decade in the Insurance Industry and established its standing and name.

The general downturn in the Sri Lankan economy continued to have an impact on the business climate and investor sentiment, only somewhat assuaged by the historic end to the almost 30 years of civil conflict. The financial services industry had to weather soaring interest rates, the high cost of capital and reduced margins, which dampened the performance of the sector in the year under review. However, the Company maintained a commendable growth in terms of both revenue and profitability, which helped us record a performance comparable to the previous year.

The Company boasts a growth in revenue of 19% year-on-year, with a premium income of over Rs. 1.5 billion from both the life and non-life sectors. The net profit after tax attributable to shareholders stands at Rs. 145 million. Investments showed a

staggering growth of 30% and stands at Rs. 2.3 billion, greatly strengthening the Company's financial position, and giving testament to its fundamentally sound management. Net Assets reached Rs. 517 million, an impressive growth of 28% from the previous year. The Company capitalised on the potential of the recently liberated Northern and Eastern locations of Sri Lanka by making its presence felt in Jaffna through opening a regional distribution office.

In order to better serve the public, the customers and other interested parties an investment was made into purchasing the Oracle Financial product, which promises a greater integration with the front-end systems, with the aim of considerably increasing efficiency levels in the future.

The life division continued to be the major contributor to the Company's performance, exhibiting a 4% growth in premium income and a 22% growth in profitability. For the first time ever the life division exceeded Rs. 1 billion annual premium income. In view of this excellent performance the Actuarial Consultant has recommended a substantial bonus to the policy holders. In the coming year the life division will be looking to introduce revolutionary new products, improvement in customer service

and hence retention, and adding to its already well structured distribution channels.

The non-life division also performed satisfactorily, showing a growth of 8% although the overall business in the country shrunk. The marine department was notable in its performance. Moreover, the non-life division anticipates an incremental growth in the financial year 2010 following the signing up with Lloyd's of London in a re-insurance relationship in addition to our existing treaty re-insurance panel. The Financial Year 2010 will also be a period of intensive training of both the Underwriting and Marketing staff.

The Company continued to maintain healthy solvency margins in both the life and non-life businesses, over and above the stipulated requirements, adding further credence to the security of all policy holders. Upon assessing the performance and

In conclusion, I wish to thank my colleagues on the board of directors for their support in promoting the Company, all members of the staff for their dedication and commitment, and the stakeholders of the Company for their continued support.



J. H. Paul Ratnayake
Chairman

15 February 2010

“In order to better serve the public, the customers and other interested parties an investment was made into purchasing the Oracle Financial product...”

processes of the insurance operation of the Company, RAM Ratings awarded a BB+ rating for the third consecutive year, based on the soundness of the Company's operations and financial strength. The Company also continues to comply with all the regulations stipulated by the Insurance Board of Sri Lanka (IBSL); the regulatory body for Sri Lanka's insurance industry.

The year under review has brought in several changes to the board of directors. I extend my sincere appreciation to both of the former Chairmen, Dr. Sena Yaddhige as well as Mr. Harsha Amerasekera, for their leadership and invaluable services to the Company. I wish to warmly welcome Mr. Mano Nanayakkara who brings with him considerable experience in the financial sector and will undoubtedly contribute to the future growth of this Company.

I extend my appreciation to Mr. Lalit De S. Wijeyeratne who served on the Board of Directors for over 9 years and has since resigned. I also cordially welcome Mr. Chanaka De Silva who has considerable experience in the field of insurance and Mr. Ranjith Wickramasinghe who is an accomplished accountant who have joined the board of directors as independent directors.



The Chief Executive Officer & you

It is with pride that I report the progress of your Company, recording remarkable results, in a difficult year of business. The Management experienced a time of severe testing, facing challenges from almost every front in the business climate, where they spared no effort to reap the benefits of the Peace dividend with the conclusion of the 30 year war on terrorism ending in May 2009.

The Gross Written Premium (GWP) achieved from both Life and Non Life businesses grew 5% to reach Rs. 1,505 Million. The profitability of the Company grew by 12% over last year recording a profit of Rs. 147 Million before tax, and Rs. 145 Million after tax. With this performance, the Earnings Per Share (EPS) increased to Rs. 5.79, which is a 7% growth year on year; a Return on Capital (ROC) of 32%, whilst the Company Investments grew by 29% from Rs.1,787 Million to Rs. 2,314 Million. Your Company's Net Assets increased to Rs. 517 Million.

The Life business grew 4%, with a Gross Written Premium (GWP) of Rs. 1.0 Billion, with the Non Life business too showing growth of 8% with a GWP of Rs. 0.5 Billion. The Life Insurance business which continues to contribute significantly to the Company's performance, recorded a growth of 22% in Profits Before Tax. The Life Fund grew by 30% over last year to Rs. 1,560 Million.

The highlight of the year was making good on the promise made to our shareholders in 2008, **“it is the opportunities that we seek to explore and we choose to exploit the situations that would create niches for the Company to thrive in”**. Your Company was one of the first entities to set up business in the Jaffna peninsular reaping the benefits of the post war rebuilding efforts. We have made the perfect fit of our products and services to the people of Jaffna building a viable enterprise and a worthy contribution.

The best practices adopted through a “process driven strategy”, strengthened the implementation of the business model adopted in the Life insurance operation. This further enhanced our position in adding value to our business portfolio, with the Average Policy Value increasing to Rs. 44,003; the highest in the industry. A niche was created through product development in the latter part of the year, with the introduction of the Premium Relief Plan, built on the platform of the Vanishing Premium concept; a first in the industry. The outstanding feature of our Life business has been the emphasis laid on providing protection to our policyholders, rather than pure investment, which sustains the stability of the Life fund, whilst adding true value to the needs of our policyholders. A total of Rs. 72 million was made available for the distribution of Bonuses to our policyholders, who have benefitted year over year, accruing real value with an Asian Alliance Life policy.

The Non Life business too grew with sustainable strength. The Company attracted large corporate and state sector businesses, which enabled the company to participate in larger risks, within a slack general insurance market, which saw a contraction of 3.45% or Rs 1.2 Billion in 2009. Product innovation was developed on personal lines of Non Life insurance, and was introduced to the market, with success.

A major concern for the development of the Non Life business is the limited role of the private sector in the rehabilitation and rebuilding process of the post war development efforts. The Company has been actively quoting for the various infrastructure projects, including highways. The recent changes at Sri Lanka Insurance, with the state sector, reentering and competing aggressively in the industry, has changed the competitive landscape of general insurance very significantly. A major challenge and concern to the industry is the participation of the National Insurance Trust Fund in underwriting Non Life insurance within the state and private sector. The industry is addressing this issue with the Insurance Board of Sri Lanka.

The Year 2009 marked the entry of the two major State Banks, The Bank of Ceylon and Peoples Bank, to the industry. Although these entities enjoy the advantage of captive state sector patronage, we are well poised to compete effectively in this uneven playing field.

The Management of your Company exercised due caution and diligence in carrying out all its activities, to chart yet another year of significant performance. The close engagement with the Board of Directors ensured proper governance in guiding and supporting policy decisions and operational functions.

Board meetings, Board Audit and Board Investment Committee meetings were held regularly, to ensure the optimization of resources, in order to meet with the business objectives and compliance requirements of the Company. Confidence and investor interest in the Company remained stable during the year which was reflected in the share price holding at steady levels within the volatile environment that was prevalent during the year in review.

“Your Company recognizes the reality that “permanence is in change”. The Management is aware that the business model and the markets within which we serve in is bound to change, and that our position would be challenged at all times, in a highly competitive arena. Recognizing this fact, your Company launches the year and the new decade, under the theme “reassuringly different”

For the third consecutive year, purely on the performance and internal processes, RAM Ratings Limited reaffirmed the BB+ rating assigned to the Company. The rating underscores our Claims Paying Ability, based on the soundness of the Company's operations and financial strength. Although the implementation of the requirement for obtaining a rating as proposed by the Insurance Board of Sri Lanka is not in force as at date, the Management continues to obtain a rating, as a worthy barometer to independently confirm the financial stability of the Company and validate its processes.

Company / Regulator interaction:

Your Company remains very closely engaged with the regulator, the Insurance Board of Sri Lanka as well as with the Insurance Ombudsman. The Company has always been compliant with the regulations, and has at all times adopted and streamlined best practices of Corporate Governance, that is vital in establishing our credibility and engagement with YOU, our stakeholders.

The main concern under discussion was the slow growth and contraction of the Non Life Insurance premiums in the year gone by, which experienced a drop of 3.45 %. The entire Industry being affected, were of the view, that this was a result of the drastic drop in motor vehicle imports last year, and the prevalent economic situation in the country, which is yet to reap the benefits of the peace dividend.

The IBSL concluded a fact finding study, on the introduction of the Risk Based Capital (RBC) concept in determining the Capital Adequacy of insurance companies. The RBC is expected to be implemented as a measure for Adequacy of Insurance companies in Sri Lanka in due course.

The Company continues to enjoy a close working relationship with the Insurance Ombudsman, and avails itself of his useful counsel at times to resolve doubts and issues pertaining to policyholders. Your Company continues to assist in his efforts to spread the awareness of insurance and to educate the public on the facts and details of an insurance contract. A program is being launched under the aegis of the Insurance Association of Sri Lanka with the objective of creating awareness of insurance among the general public, Asian Alliance is represented in this effort.

The Company actively participates in the deliberations of the National Insurance Trust Fund, and serves on its technical committee.

Our contribution to the Industry and the Community at large:

Asian Alliance is proud to actively participate in the progress of the insurance industry, by being an active member of the Insurance Association of Sri Lanka (IASL). The CEO of your Company serves as the Vice President of the IASL.

The Company effectively participates and actively engages itself in the developments of the Industry, and continues to address issues that affect the Company as well as impact upon the Industry. Your Company is represented at the Life Insurance Forum, (LIF), which is the technical arm of the IASL, as well as the General Insurance Forum, (GIF) which sets the tone and temper of the Life and Non Life Insurance industry, respectively.

Members of our staff, including our senior management, are actively involved with the Sri Lanka Institute of Insurance (SLII), by participating in their various courses of developing qualified insurance professionals. Candidates from Asian Alliance, record amongst the highest success rates in terms of numbers, both at the Foundation levels as well as in the Licensing examinations for insurance agents. It is our belief that nurturing professional qualifications of our staff, whilst enhancing the strength of the Company, will contribute towards the robustness of the Industry.

Your Company is actively involved in strategic Corporate Social Responsibility (CSR) projects. Nurturing the Young Entrepreneurs Scheme, and our project of Moulding Future Professionals are, we believe our worthy contribution of arresting the brain drain and developing the future generation of this Country.

Paving the way forward:

In keeping with the need to leverage technology for well informed decision making, and to provide real time information, the Company successfully completed and obtained validation of its in house developed Non Life and Life insurance systems. Due to the success and unique operating features of this product, the Company took steps to register and patent this product branded as iSYS.

In order to streamline our financial information and to generate real time information, the Company has commenced a project to introduce the Oracle Finance system, which would form a part of a Enterprise Resource Planning infrastructure. The initiatives of our Information and Communication Technology capabilities, is geared to meet the demands of our long term business strategies.

Your Company recognizes the reality that “permanence is in change”. The Management is aware that the business model and the markets within which we serve in is bound to change, and that our position would be challenged at all times, in a highly competitive arena. Recognizing this fact, your Company launches the year and the new decade, under the theme “reassuringly different”. Whilst strengthening the value system of professionalism and innovation that your Company subscribes to, we look forward to creating and developing new markets, including offshore, which would further consolidate the returns that we enjoy, from the niche markets that we serve in. Asian Alliance has always adopted a strategy of being different in terms of its business model, products and processes. The stabilizing factor of this strategy is that the fundamentals of the business mix, in building a viable and sustainable enterprise, is diligently practiced and not compromised for the sake of innovation.

Leveraging the resources of our talented staff members at all levels, using Knowledge management and Training to nurture professionalism, shifting paradigms in terms of marketing, research, product development, and distribution, will be central to paving the way forward for Asian Alliance. This I believe will help the company to position itself as a significant player in this highly confidence based financial service.

Acknowledgements:

I welcome our new Chairman Mr. Paul Ratnayeke, who has been at the helm of the Company since December 2002, and served as the Deputy Chairman during this period. Mr Ratnayeke has been closely involved in the operations of the Company, during his tenure as Deputy Chairman of the Company. Mr. Manohan Nanayakkara - Chairman Asia Capital, joined the Board in June 2009, as the Deputy Chairman. His finance and academic expertise coupled with excellent business acumen will indeed propel your Company to new heights of progress. I also extend our welcome to Mr. Ranjith Wickramasinghe, and Mr. Chanaka De Silva who joined our Board in February 2010. It is with much gratitude that I thank the Chairman and the Board of Directors for placing their trust, and confidence in me, by inviting me to the Board of Directors in July 2009. I take this opportunity to thank Dr. Sena Yaddhige, and Mr. Harsha Amarasekera, our former Chairmen, who contributed immensely towards the progress of your Company to become “a force to be reckoned with, in the Insurance industry”.

Mr. Lalit De S. Wijeyaratne who served on the Board of Directors, from the incorporation of Asian Alliance, pioneering the growth of the Company through its formative years, resigned from the Board in February 2010. His contribution, particularly as the Chairman of the Board Audit Committee is noted with much gratitude, and has ensured that your Company has been compliant and prudent in regulatory and fiscal matters at all times. I take this opportunity to thank him for the support and guidance extended to me during his tenure, and wish him well in his endeavours.

The significant results recorded in the Annual Report has been made possible, as a result of the engagement and synergy of our multi talented team of professionals who are focused on serving YOU. The team constitutes the Executive Committee of General Managers, Deputy General Managers, Assistant General Managers, Managers, Executives and Non executives, and the Field staff, who continuously connect with YOU to make ensure that nothing but the best fit of tailor made insurance solutions are delivered with lasting value.

Resilience and determination, is endemic to the working culture at Asian Alliance. This fact was proved when our General Manager Life, Mr. Siri Jayasinghe, having taken ill suddenly, did not let his condition in any way deter his contribution towards the vital technical underwriting output, during the most critical period of the year. The excellent Life Surplus, which has directly contributed to the profitability of the Company at the close of 2009, is a result of his efforts and prudent underwriting decisions. I wish him great health.

Mr. Udeni Kiridena brought youth and a fresh outlook to the usually predictable technical area of the Non Life business operations. A Chartered Insurer with over 20 years of hands on experience, and a National level sportsman, he succeeded in bringing about a speedy turnaround to the Non Life underwriting results. Udeni has since revamped the Non Life insurance operations, particularly the reinsurance arrangements of the Company along with fresh managerial talent; the company is now well poised to reach levels of sustainable profitability.

I take this opportunity to thank our loyal staff and field staff members, who continue to place their faith and confidence in the Company despite the constant lure of lucrative offers for alternate placements being made to them, by competitors. We have spared no efforts in retaining our talented, well trained and

professional staff, by motivating and nurturing them through their professional development with educational and training schemes, which is the best in the Industry. It is with gratitude that I value their support and contribution towards the achievements and performance recorded within the year in review. Their engagement with YOU is indeed the success of our journey of 10 years!

The near perfect synchrony of Siri, Chula, Saliya and Udeni - our General Managers, who work at my elbow, has steered your Company successfully through its most difficult year in operation. The excellent understanding, timely response and teamwork displayed at all times, is a vital ingredient of success at Asian Alliance.

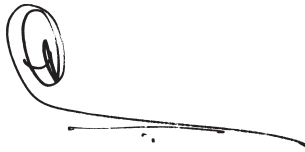
Our Senior Management team, Deputy General Manager Non Life, an icon in the Industry, Victor Colombage, and Deputy General Manager training and Knowledge Management, Leelaratne Piyasena, our talented and academically qualified Assistant General Managers, Hashra, Nadi, Amal, and Annesly, who guide and implement the elements of engagement and connection with YOU. Our Sectional Heads, Departmental Managers, Managers, Zonal Managers, Regional Distribution Managers, Field Management, Executive as well as the Non Executive cadres in all our offices and the various roles played by our people are celebrated to bring about yet another year of continued success!

My special appreciation goes out to our Reinsurers, who have very kindly come forward to wish us well in our efforts. Mr. Peter Ackers, Chief Executive Officer of Munich Re, Mr. Yogesh Lohia, Chairman/Managing Director of General Insurance Corporation of India (GIC) and Mr. Rajesh Yagnik, of Interlink Re insurance Brokers India, generously volunteered to be featured in our Annual Report. Their encouragement and enthusiasm in the operations and progress at Asian Alliance is a great strength to our progress.

Our Consultant Life Actuary, Mr. M. Poopalanthan, whose engagement and thorough knowledge and understanding of our Life business is indeed an essential ingredient to our success. The prudence and diligence exercised in his valuation, forms the backbone of stability at Asian Alliance. I thank him for his services and contribution.

Our Non Life Actuary, Mr. Akshay Pandit of M/s K.A. Pandit, Consultants and Actuaries, have ensured that the Non Life business of Asian Alliance, is sustainable and stable. I thank him for his continuous guidance and contribution.

Our engagement with YOU, our stakeholders, including our policyholders, brokers, intermediaries, clients and most importantly, our shareholders, are celebrated in our journey of 10 years. I thank YOU for placing your trust and confidence in myself and my team, to manage your investment and interests in your Company. I look forward to your support to take Your Company onto a new decade of progress and success, with a new complexion, trail blazing in the Insurance industry, with "reassuring difference".



Ramal G. Jasinghe
Chief Executive Officer/ Director

15 February 2010

The Board & you

From Left to Right

Prof. Lakshman R. Watawala, W. D. Nimal. H. Perera, K. D. Dhammika Perera,
Ramal G. Jasinghe, J. H. Paul Ratnayake, H. L. L. Manohan Nanayakkara,
Asanga C. Seneviratne, Lalit N. de S. Wijeyeratne



Mr. J. H. Paul Ratnayeke - Chairman

Mr. Paul Ratnayeke is a Senior Corporate Lawyer who is also the precedent partner of Paul Ratnayeke Associates, a leading law firm in Sri Lanka which he founded in 1987 handling all areas of law and international legal consultancy work.

Mr. Ratnayeke is a Solicitor of England and Wales and an Attorney at Law of the Supreme Court of Sri Lanka. He has been awarded a Masters Degree in Law by the University of London.

Currently Mr. Ratnayeke holds directorships in several companies of which 8 are public quoted companies. He has also been elected/ appointed as Chairman/Deputy Chairman to several of these companies.

At Paul Ratnayeke Associates, he specialises in corporate and commercial areas of law including mergers and acquisitions, aviation, insurance and maritime law.

Mr. H. L. L. Manohan Nanayakkara

Mr. Manohan Nanayakkara possesses the undermentioned academic qualifications and experience:

- Fellow Member of the Institute of Chartered Management Accountants (FCMA)
- Master of Science in Accounting from James Maddison University of Virginia USA
- Master of Business Administration (MBA) and Master of Applied Finance (MAF) from Queensland University of Technology, Queensland, Australia.

Presently, Mr. Nanayakkara is a Director of Pradana Limited an Investment Management Company. He was the former Chief Operating Officer/Director of Asian Hotels and Properties Limited formerly known as Crescat and the General Manager of Bureau for Infrastructure Investment (BII). He also acted as the Chief Executive Officer/Managing Director of CF Venture Fund.

He was the Project Specialist who designed and managed Capital Market Project of USAID which provides assistance for Privatization and establishment of Securities and Exchange Commission of Sri Lanka (SEC) and the development of the Colombo Stock Exchange (CSE)

Mr. K. D. Dhammika Perera - Director

Mr. Dhammika Perera is the Chairman/Director-General of the Board of Investment of Sri Lanka (BOI). He is a Member of the Board of Strategic Enterprise Management Agency (SEMA) and Sri Lanka Export Development Board (EDB). Mr. Perera is a well-known prominent entrepreneur and investor whose business interests include Hydropower Generation, Manufacturing, Hospitality, Entertainment, Banking and Finance.

He serves as the Chairman of The Fortress Resorts PLC, Vallibel Power Erathna PLC, Vallibel Finance Ltd, Vallibel Holdings (Pvt) Ltd and holds directorships in his other private sector companies. He is also the Deputy Chairman of Royal Ceramics Lanka PLC, LB Finance PLC, Amaya Leisure PLC, Director of Sampath Bank PLC, Hayleys PLC, Haycarb PLC, & Hotel Reefcomber PLC.

Prof. Lakshman R. Watawala - Director

Prof. Lakshman R. Watawala, FCA, FCMA, FSCMA is the former Chairman of the National Insurance Trust Fund and former Chairman/Director General of the Board of Investments of Sri Lanka and also the Chairman of many leading private organisations and a Committee Member of the Ceylon Chamber of Commerce and the President - Society of Certified Management Accountants of Sri Lanka. He is also the Past President of the Institute of Chartered Accountants and the Former Chairman of Peoples Bank and Peoples Merchant Bank of Sri Lanka. Prof. Lakshman R. Watawala is also a Director of Richard Peiris & Company PLC, Lanka IOC PLC, & Abans Electricals PLC.

Mr. W. D. Nimal H. Perera - Director

Mr. Nimal Perera is the Deputy Chairman of Pan Asia Banking Corporation PLC, Managing Director of the Royal Ceramics Lanka PLC, The Fortress Resorts PLC, Group Finance Director of Amaya Leisure PLC and Hotel Reefcomber PLC. He also serves as a Director to LB Finance PLC, Vallibel Power Erathna PLC, Vallibel Finance Ltd, Hayleys PLC and Sathosa Motors Ltd. He counts over 25 years of experience in the fields of Finance, Capital Market operations, Manufacturing, Marketing and Management services.

He is a member of the Sri Lanka Institute of Marketing.

Mr. Lalit N. De S. Wijeyeratne - Director

Mr. Lalit de S Wijeyeratne is a Fellow of the Institute of Chartered Accountants of Sri Lanka. He has over twenty five years' experience in finance, both locally and internationally. He was the former Finance Director of Richard Pieris & Company PLC. Presently he is a Director in several listed and unlisted Companies.

Mr. Asanga C. Seneviratne - Director

Mr. Asanga Seneviratne currently serves as the Director/CEO of Asia Capital PLC and Director of all its subsidiaries. He is the Chairman of Investor Access Asia (Pvt) Ltd, promoter of the first real time on-line securities trading system linked directly to the Colombo Stock Exchange. Furthermore he is the Managing Director of Asia Fort Asset Management (Pvt) Ltd and Tharu villas' Holdings (Pvt) Ltd & Anilana Resorts Ltd, a chain of luxury boutique hotels.

Mr. Ramal G. Jasinghe - Director

He holds a MBA from the University of Sri Jayewardenepura. He also holds a Fellowship of the Chartered Institute of Marketing UK, and is a Fellow of the Academy of Marketing Sciences USA. His career which spans a period of over 25 years in the field of marketing and manufacturing includes 14 years in the insurance industry.

He has participated in top management programmes at Stanford University Palo Alto, California, USA and the Indian Institute of Management Ahamdabad, India.



The Executive Committee & you

From Left to Right

Udeni Kiridena, Saliya Wickremasinghe, Ramal G. Jasinghe, Chula Hettiarachchi, Siri Jayasinghe

Mr. Ramal G. Jasinghe - Chief Executive Officer

He holds a MBA from the University of Sri Jayewardenepura. He also holds a Fellowship of the Chartered Institute of Marketing UK, and is a Fellow of the Academy of Marketing Sciences USA. His career which spans a period of over 25 years in the field of marketing and manufacturing includes 15 years in the insurance industry.

He has participated in top management programmes at Stanford University Palo Alto, California, USA and the Indian Institute of Management Ahamdabad, India.

Mr. Siri Jayasinghe - General Manager - Life Technical

He has a record breaking uninterrupted career spanning over 50 years in the insurance industry. Having held senior positions in the Public sector insurance corporation, as well as in the private sector, he continues to spearhead the Life technical operations with innovation and prudence at Asian Alliance.

Mr. Saliya Wickremasinghe - General Manager - Finance

He 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 a period of 28 years which includes a stint abroad. Saliya's varied experience brings a wider perspective to the finance operations of the Company.

Mr. Udeni Kiridena - General Manager - Non Life

Began his career in insurance in 1985, Mr. Kiridena is a Chartered Insurer of the Chartered Institute of Insurance UK (CII) and a Senior Associate of the Australian and New Zealand Institute of Insurance and Finance. He also holds a Diploma in Business Management from National Institute of Business Management (NIBM). Mr. Kiridena serves as the Honorary Secretary of the Council of the Sri Lanka Insurance Institute (SLII) and has served on its executive committee for many years.

Mr. Kiridena a product of Trinity College, Kandy and has excelled in sports, especially, in boxing and has been awarded the coveted "Boxing Lion". Currently, he is the president of the Amateur Boxing Association of Sri Lanka and a qualified international referee/judge.

Mr. Chula Hettiarachchi -

General Manager - Sales & Marketing

He holds B.Com. and M. Com degrees from the University of Kelaniya. He also holds a Postgraduate Diploma in Finance and Business Management from the Institute of Chartered Accountants of Sri Lanka, and is a member of the Asian Direct Marketing Institute. 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 in insurance spans a period of 15 years. He spearheads the Life and Non-Life distribution operations in an astute and professional manner.



The Management team & you

From Left to Right

Amal Dharmapriya, Hashra Weerawardena, Nadi Dharmasiri, Leelaratne Piyasena, Victor Colombage, Annesley Arsakulasuriya

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 49 years, of which 6 years was spent overseas. He overlooks the Non life technical operations of the Company, with diligence and proficiency.

Leelaratne Piyasena

Deputy General Manager - Training and Knowledge Management

He holds a B Com. degree from the University of Peradeniya. His career in insurance spans a period of 27 years. He is a highly trained motivator and trainer, with exposure to the best practices at Allied Dunbar UK and Eagle Star UK. His exposure and experience provides the "wind beneath the wings" to our field force and staff.

Hashra Weerawardena

Assistant General Manager - HR, Legal and Administration
BA (Col), MBA (Col), MCIM, Attorney-at-law, Dip CII (U.K)

He bears a career of 17 years serving in various capacities from Marketing to Legal within the Insurance industry. He is presently working towards his Chartered membership of the Insurance Institute UK. He is a multi talented personality, who heads his functions with great detail.

Nadi Dharmasiri

Assistant General Manager - Marketing

She holds an MBA (Merit) from the University of Sri Jayewardenepura, and is a Chartered marketer of the Chartered Institute of Marketing UK. Is a full member of the CIM UK, (MCIM). Her career in marketing and branding spans a period of 20 years of which 6 years has been in the insurance industry. She guides the marketing support operations, channel development and branding activities of the Company, seeking perfection at all times.

Amal Dharmapriya

Assistant General Manager - Information & Communication Technology

He is a BSC in Applied Sciences from the University of Sri Jayewardenepura. His career in the insurance industry spans a period of 6 years. The high point of his career was developing in house the complete non life system at Asian Alliance, which is considered a pioneering effort within the local insurance industry.

Annesly Arsakulasuriya

Assistant General Manager - Corporate Business

He cut his teeth into the insurance industry as a school leaver, serving in various capacities. He bears hands on experience in corporate insurance sales of 19 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.

The staunch partnership of our reinsurers has leant us abundant support in the highly competitive business of insurance.

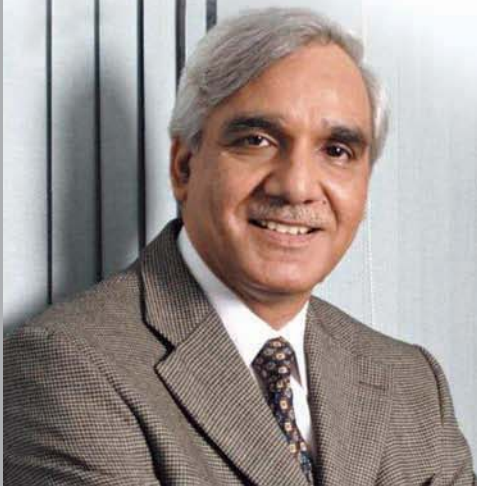
Our continuing relationships, which has grown by leaps and bounds over the last decade, stands testimony to a bond that is set to endure, enhancing one another, for years more.

Our reinsurers

“I extend my heartiest congratulations to Asian Alliance Insurance on completing 10 very successful years! Our long association with AAI has been a mutually beneficial relationship, and I am confident that this would be further strengthened to the advantage of both the organisations, in the future. GIC Re will continue to provide every possible support to AAI, aiding and abetting its future growth.”

Mr. Yogesh Lohiya

Chairman/Managing Director
General Insurance Corporation India



“Munich Re is the leading global re-insurer, with its core in risk management and product design. Munich Re has been AAI's Life Re-insurance partner for many years, and is very happy to have such an exemplary partnership with a truly professional company.”

Mr. Peter Akers

Chief Executive Officer
Munich Re India Services (Pvt) Ltd.



“Our professional relationship with Asian Alliance commenced in 2001, and since then, we have grown from strength to strength. Our partnership has grown over the years, due to the highly professional, and simultaneously, very friendly people at all levels at Asian Alliance. During a decade of association, it has been a singular delight to stand by them through thick and thin. I wish them the best for the future.”

Mr. Rajesh Yagnik

President
Interlink Insurance and
Reinsurance Brokers (Pvt) Ltd.



Our partners

Asian Alliance Insurance, over the last ten years has cultivated lasting and valuable relationships with the gamut of our stakeholders, who constitute the life blood, running through the veins of your company. These lasting bonds continue to be the basis of our foundation for success and impel your company forward in every sphere of activity. They express their sentiments about your company...

“I have been a full fledged partner with Asian Alliance from its very inception, and the service and solutions provided, have always exceeded my expectations. I don't see a reason to even entertain any other insurer in the foreseeable future. My suggestion is that Asian Alliance change their name to 'Business Alliance', because truly, that is what they are: an alliance in every sphere of mine - from the hospitality trade to venture capital, manufacturing and trading garments to even my fishing projects. I wish them every success in the future.”

Mr. Julian Davis

Managing Director Sanchia (Pvt) Ltd., The Buying House (Pvt) Ltd., Euro Sourcing Lanka (Pvt) Ltd. and the Director of Yala Village.



“I've enjoyed a professional association with AAI since its very inception. Over the last decade, I have continually admired their ability to understand and cater to the unique needs of each customer. My relationship with AAI goes well beyond a normal Client - Company relationship, defining the essence of a true partnership.”

"Jeevanashuri, Deshashakthi, Deshabandu" Mr. Ajith Karunaratne
Chairman/Managing Director of Sumith Tyre House (Pvt), Sumith Rubber Industries (Pvt), Wayamba Swashakthi (Pvt) Ltd.



“A poor school such as ours has remained completely ignored by the corporate sphere over the years. Indeed, no other company has assisted us, before. Asian Alliance gallantly came forward to help us, during an exceedingly difficult time for us to raise funds. We will always be grateful for all their help.”

Mrs. R. M. A. I. Wijesekara

Principal, Methodist College, Rawatawatta.



“I have worked with AAI over the last ten years, and it has truly been a wonderful experience, as, in that time, I have gone from being a mere employee, to a true partner in the success and growth of this wonderful company. AAI has shaped my life, helping me become a true professional: efficient and excelling in my work.”

Ms. Nilanthi Silva

Assistant Accountant - Asian Alliance Insurance PLC



“AAI personifies the ideal customer to me and I greatly admire this great company. I continue to be impressed regularly by AAI, as they are always well organised, well planned and prompt, in all our dealings.”

Mrs. Ruwina Thilekaratne
Joint Owner of Tiljaya Computer Forms (Pvt) Ltd.



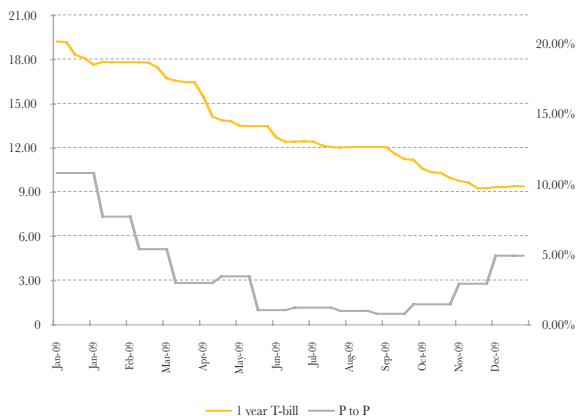
Management
Discussion
& you

“Ten years behind us, it is apt to note that the binding ties we made, have endured, and strengthened, enabling us to record a stellar performance, even in a bleak year...”

Economic review

The year 2009 dawned with much of the pessimism which had plagued the global economy and its financial systems, intact. Worldwide finances were still reeling in the aftermath of the US sub-prime mortgages debacle. In Sri Lanka too, the trickle down effects of this global pandemonium were evident, more so in the export sector which had to contend with major markets and clients going in to recession. The collapse of a local financial giant did not assist in increasing investor confidence, and market perception towards finance companies was at low ebb.

However, on the 18th of May 2009 the long running internal conflict ended, infusing much needed hope into a resurgence of the Sri Lankan economy. Since that point the government of Sri Lanka took steps, in collaboration with international aid agencies and governments, through loans and grants, to launch a massive development drive with special emphasis on the North and East. Further development is planned to build on existing infrastructure with developments in roads, railways, highways, a new port and an airport. The effects of these investments would definitely aid in sustainable growth of the Gross Domestic Product in the medium to long term.



Another sector that would benefit from such development, and which has been a long suffering victim of the internal conflict, is the tourism sector. This sector can finally envision a brighter future due to many areas, formerly held by terrorists or deemed dangerous for travel, being opened up for tourism. Pristine beaches, natural wonders and historical sites, which are prime tourist attractions can now be marketed through a focused campaign targeting specific markets, which could not be done before the end of the conflict. This augurs well for the economy in respect of foreign exchange, which will enter the local market, through either FDI's or consumption.

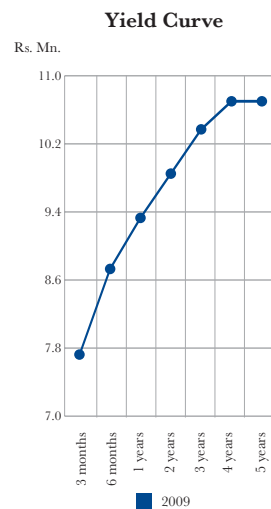
Inflation continued its downward trend from the latter half of 2008, and this resulted in an inflation figure of 3.4 per cent in December 2009, based on annual average computations. This drop, combined with policies implemented by the Central Bank of Sri Lanka via reduction of policy rates, reduction in the statutory reserve ratio etc, fuelled a recovery of the local economy and saw private sector credit growth reverse its trend and begin increasing towards the fourth quarter of 2009.

Interest rates saw a rapid decrease as the year progressed, settling down to 9.33 per cent for the one year Treasury Bill rate, at the end of the year under review. A Stand by Loan from the

International Monetary Fund of US\$ 2.6bn went a long way in re-stocking the depleted reserves of the Central Bank, as a result of artificially propping up the Rupee. At the end of 2009, the bank recorded in excess of US\$ 5bn in its Gross Official International Reserves, by far the highest figure in reserves in history of the Central Bank of Sri Lanka.

The latest in economic plaudits for Sri Lanka is the promotion of the state to middle income emerging market status by the International Monetary Fund. This, from its earlier placement in the list of Poverty Reduction and Growth Trust (PRGT) eligible countries.

The economy is estimated to record a 3.5% growth during 2009, a figure, which does not indicate the optimism felt throughout industry and people alike. The year concluded on a largely positive note, with optimism rife for 2010, with a war relegated to history, political stability clearly evident, rapidly growing investor confidence and abundantly clear opportunities for significant growth.



Industry overview

The financial sector, which includes the gamut of financial institutions: banks, finance companies, leasing companies, insurance companies, pension and provident funds, primary dealers, rural banks, as well as micro finance institutions, has continued to provide yeoman service in terms of expanding the economy. Within this purview, in 2009, the insurance industry as a whole, recorded considerable growth, both in terms of assets and Gross Written Premium. The total industry assets account for approximately 3.1% of the total assets within the financial system.

In 2009, the Gross Written Premium of both the Life and Non-Life insurance business reduced marginally to Rs. 57 billion, which allowed the insurance industry to contribute 1.25% to Gross Domestic Product during the year under review.

Industry-wide, in the year 2009, the contribution to Total Premium Income from Non-Life insurance business was 58%, compared to 42% from Long Term insurance business. However, both classes displayed a reasonable growth in 2009.

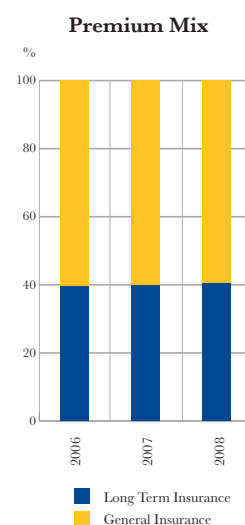
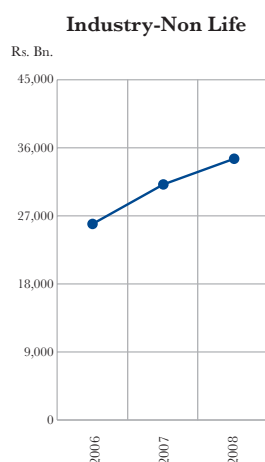
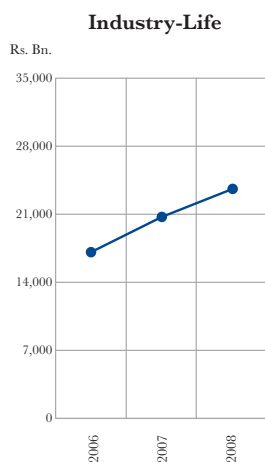
Accordingly, Life Insurance grew by 2% whilst Non Life insurance contracted by 3.45% in 2009; and as Life insurance penetration in the country still remains at around 10%, there is immense potential for the industry to grow.

Premium Income (Rs.'000)							
	2002	2003	2004	2005	2006	2007	2008
Long Term							
Insurance	8,682	10,613	12,518	14,814	17,104	20,729	23,613
General							
Insurance	11,599	13,534	17,037	22,410	25,931	31,156	34,553
Total Premium							
Income	20,281	24,147	29,555	37,224	43,035	51,885	58,166
Gross Domestic							
Product in Billion		1,822	2,091	2,453	2,939	3,578	4,411
Total Premium							
as % of GDP	1.28	1.33	1.41	1.52	1.46	1.45	1.32
Growth							
Rate (%)	20.29	19.06	22.39	25.94	15.61	20.56	12.11

Source : Annual Report 2008 of Insurance Board of Sri Lanka

	2002	2003	2004	2005	2006	2007	2008
No. of New Life Policies Issued	241,412	305,092	304,639	366,132	409,933	527,385	555,886
No. of Life Policies in Force	1,200,763	1,359,536	1,490,191	1,629,061	1,740,648	1,923,550	2,103,809
Total Population (in '000)	19,007	19,252	19,462	19,668	19,886	20,010	20,217
Total Labour Force (in '000)	7,150	7,654	8,061	7,312	7,599	7,489	7,569
Penetration as % of the Total Population	6.3	7.1	7.7	8.3	8.8	9.6	10.4
Penetration as % of the Labour Force	16.8	19	20.8	22.8	24.3	25.3	27.8

Source : Annual Report 2008 of Insurance Board of Sri Lanka



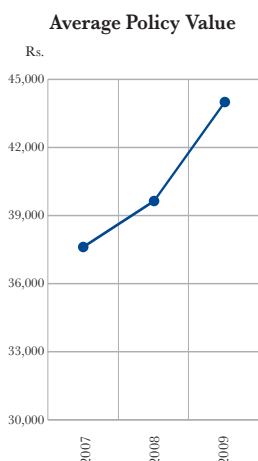
Operational review - life

Focus On YOU

Ten years behind us, it is apt to note that the binding ties we made, have endured, and strengthened, enabling us to record a stellar performance, even in a bleak year. Ten years together with you has honed our professional take on our business model, whetting and fine tuning our personnel and processes. Thus, the enduring partnerships we have formed over the last decade have helped us propel your company, and within it, the Life Division, forward.

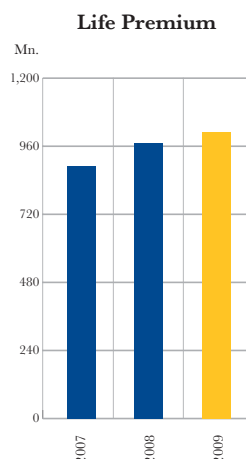
The Life business, once again defied expectation, despite numerous challenges within the macro economic vista of the country, to register a significant growth. Life performance remained consistent, recording substantial top and bottom line growth.

Our customers, who have always enjoyed our professional approach to their Life Insurance needs, benefited through our unique business model, which focused on the long-term interests of the customer, while ensuring that all stakeholders in the process are looked after. Owing to the volatile market situation, which prevailed within the country, and throughout the world, in 2009, the Life Division focused on strengthening the three key strategic areas in the Life sales model - The Customer, The Product & The Sales Strategy. Accordingly, customer selection was redefined, fine tuning an already stringent process, while the product offering was also keenly honed and tailor-made, matching the benefits offered to existing customer needs, and lastly the sales process to identified potential clientele was imbued with an absolute professionalism, keeping to clearly defined guidelines, ensuring the best returns to the client and your company. Thus, the redefined customer focus, the absolute refinement in customer selection and the streamlines sales process augurs well for the future of your company. Moreover, an existing customer need was also identified through this process, resulting in an innovative new product - Premium Relief Plan, which encompasses a plethora of unique benefits; ultimately benefiting the customer and your company. Furthermore, the selling strategy, during the year under review, focused on strengthening products, the benefits of which will continue to be reaped for years to come. The selling strategy further sought to contain our insurance professionals within clearly identified and relevant guidelines, ensuring long-term benefits for both the customer and your company. This evolutionary process, in short, fine-tuned the whole sales process.

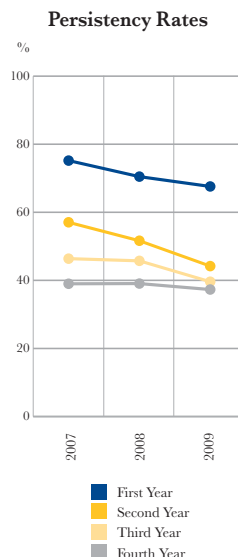


Performance

Last year was tough; is undoubtedly a statement that the majority in business and industry, will agree with. And yet, despite a challenging year, the Life business continued to deliver tangible results, surpassing established targets. In 2009, the Life Division achieved an Annualised New Business Premium of Rs. 444 million, signifying a growth of 33%, compared to 2008. The Life Division further delivered a 4% growth in GWP, amidst adverse conditions year on year, to record a premium income of Rs.1,009 million, over the figure of Rs. 970 million, achieved in 2008. Meanwhile, the regional branch network continued to infuse greater performance levels, maintaining our Average Premium Value at Rs. 44,003 in 2009, a noteworthy fact, considering the volatile conditions under which it was achieved. The Life Division considers the insurance professionals that spearhead their business, our most valuable asset, and take this opportunity to applaud their unyielding effort, which has delivered an incredibly positive result, in a year of industry-wide slow growth.



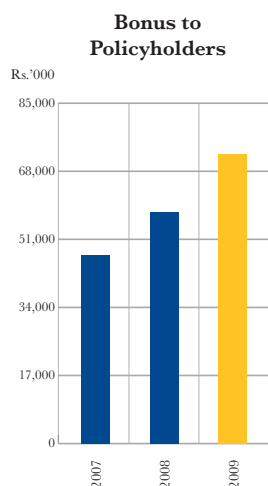
The highest contributors to our Gross Written Premium growth were the Kurunegala branch, with Rs. 122 million, the Colombo branch, with Rs. 108 million, the Panadura branch, with Rs.106 million, the Negombo branch, with Rs. 72 million, the Gampaha branch, with Rs. 70 million and the Kegalle branch, with Rs. 64 million. Meanwhile, Policy Retention, computed on the LIMRA method, for the first year was 68%, for the second year was 44% and for the third year was 40%.



Bonus Declaration & Claims

Considering the growth in performance during the year under review, the company has decided to distribute Rs.72 million as bonus, among 23,304 policyholders this year. The number of policies sold in 2009 has marked a significant increase of 20% over the number of insurance policies in effect in 2008.

However, your company still held true to the promise of speedy and hassle free claim payments, with the total claims paid for the year amounting to Rs.133 million, which signified an increase of 36% from the previous year. Meanwhile, during the year under review, 44% of the claims were directly related to medical claims, which simply goes further to demonstrate your company's commitment to the "living benefit" enjoyed by our policyholders. Of course, Family Healthcare and Family Income benefits are unique to AAI.



Prudent Underwriting

Make no mistake; we have always believed that one of the most important aspects our business is prudent underwriting. This is a norm adhered to diligently by your company, as we continue to adopt one of the most recognised and internationally accepted underwriting practices. Our continued association with the Munich RE Group, one of the world's largest re-insurers and the second largest primary insurer group in Europe, ensures that we enjoy the highest automatic acceptance limits, coupled with flexible benefits that none can match. Your company continues to maintain a strong and stable relationship with Munich Re, reaping immense benefits through their network of 5,000 insurance companies, in over 160 countries around the globe. Thus, our policyholders continue to enjoy unsurpassed security in this area, along with premium rates that are simply unmatched in the industry.

Reaching Out To YOU

The Annualised New Business Premium of Rs. 444 million, achieved despite the adversity prevalent throughout most of 2009, was extremely significant, as it signified a growth of 33%, compared to 2008, which was mainly due to an increase in the number of policies sold. Thus, the number of policies sold grew by 20%, together with an increase in the average policy value of 11%.

During the year, your company managed to extend its reach in the sphere of the branch network, furthering the cause of AAI. Thus, the Jaffna branch came into being, seizing the opportunity in the reawakening of the North and East. The Jaffna branch was opened amidst much fanfare, celebrating the end of hostilities, along with the emergence of a stable political climate in which the country could begin development anew. The new branch came into being pursuant to your company's vision of continued growth and profitability.

And once again, the team spirit and feeling of camaraderie within your company continued to be at an exceptionally high level throughout the year, prompting the commendable results gleaned in a difficult year, and providing hopes for a marked increase in 2010.

New Product Development & Value Additions Just For YOU

Taking our zest for professionalism and tailor-making insurance solutions a step further, your company introduced an innovative insurance solution during the year under review. Simply called the Premium Relief Plan, it is so much more than just that. The new product delivers just what it promises - relief from premium payment. Introduced during the year under review, this innovative product promises to be a grand hit in the years to come.

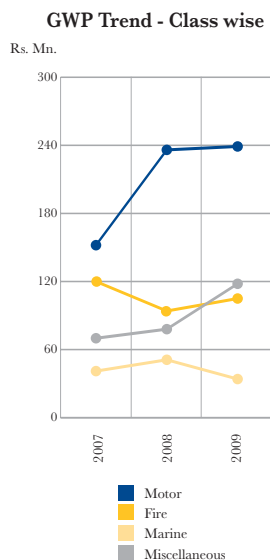
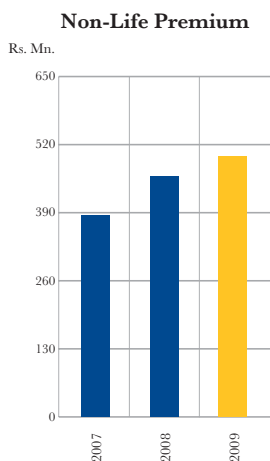
As witnessed in 2008, and now, in 2009, an important value addition complimenting our regular Life policies is the continuing increase in the average policy value. The APV has recorded a marked increase year on year to increase to Rs. 44,003; the highest in the industry, during 2009.

As we surpass the all important 10 year mark in our business and look forward to a glorious 2010, it is crucial to remind ourselves that we continue to enjoy business success thanks to our loyal clientele. They constitute the all important link to our continued prosperity. We take this opportunity to salute all of YOU, who have made everything possible, and we boldly reiterate that together, there is nothing we cannot achieve.

Operational review - non life

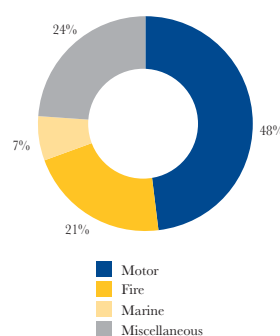
Completing a decade in the sphere of insurance, together with YOU, our clientele, imbues in us, a sense of absolute achievement. The fact that we have grown together, mutually benefiting, being able to enjoy the view from the very apex of success, and together savour the feel of accomplishment, is true cause for celebration. The fact that the Non-Life Division managed to record a growth in a dull year, in the global context, is, suffice to say, creditable. This sense of achievement cannot be easily surpassed, and the results go on to aptly display the confidence the public has in your company, and the resilient and committed nature of the absolute professionals who work for us.

The year under review posed tremendous challenges, with competition rife, and the economic outlook, both local and global, remaining testing, carrying forward the residual effects of the economic debacle witnessed in 2008. It was our professional approach and insurance products steeped in that same philosophy of professionalism, along with our visionary leadership, which foresaw emerging market trends way in advance, and our dedicated and utterly professional members of the AAI family, that saw us through. It was this resilience that saw the Non-Life division post a premium income of Rs. 496.8 million, marking a growth of 8% year on year, and out-performing an expected industry-wide contraction.



Our biggest performer turned out to be the Miscellaneous Insurance category, which recorded a growth of 52% year on year, together with Fire Insurance, which saw an expansion of 11% over 2008. Meanwhile, Motor Insurance grew by a marginal 2%, while the Marine Insurance category recorded a contraction, year on year. Of the premium income mix, the non-motor category accounted for 52% of premium income, while motor contributed 48%. These impressive results were hard earned, with a collaborative professional effort by all concerned in your company.

GWP Mix - Class wise



The continuing adverse conditions in the market tested your company again and again, and we were up to the challenge: not only did we weather the storm, we emerged into the light unscathed, bigger, better and infinitely stronger. As the entire country looks forward to an era of unbound prosperity and tremendous opportunity, your company remains assured, hopeful and poised to reap the benefits of our toil. We continue to strengthen our ideal and business model, realising full well that it is YOU that continually impels us forward to be better than we are, better than even we imagine we can be. Thus, it is that the long-term sustainability of your company is assured for the future; for together, there is no hurdle that we cannot surmount.

Prudent Reinsurance Safeguarding YOU

We continued to work with reinsurers of world renown, ensuring the safety of our policyholders, and providing a guarantee of stability in these volatile times. Realising that it is YOU that is the compelling force in our unique equation, it is bounden duty to safeguard you at all times; and that is just what we achieve year on year, by working with the best, most stable and internationally acclaimed reinsurers the world over. This stratagem remained the same in the year under review, and we can truly say that your company is geared to deal with any calamity that we will face.

Meanwhile, our rating of BB+, provided by the independent entity RAM Ratings, further consolidates our position, and has a significant impact on our reinsurers, as it further strengthens the relationships we have nurtured with them. The rating provided is based on stringent criteria, including soundness and the sustainability of the business in the short, medium and long term, providing a true insight of the stability of your company.

Sales And Marketing Focused On YOU

The focus on a broker oriented sales and strategy to expand retail business remained in force during the year under review.

The firm precept of professionalism, which infuses every aspect of our business model, was firmly present in this aspect too, and this was doubly necessary, as the insurance industry and indeed the country too, weathered a calamitous storm.

The Non-Life division, during 2009, made important forays into both the public and private sector, expanding the insurance business. In both spheres, some very prominent players displayed abundant confidence in the ability of your company to meet any adversity, and its ability to rise to any occasion. The insurance of four new key players in the public and private spheres, represented the bulk of the new business growth in the Non-Life division, which marked a significant growth year on year.

Our insurance professionals continued to receive training in the spheres of emerging trends and existing methodologies, keeping them acutely geared towards market trends and customer needs. The Non-Life division joining hands with internationally acclaimed Iris Technologies in the surgical and hospitalisation spheres, allowed your company to gain new insights. Iris Technologies meanwhile, with their global expertise in surgical and hospitalisation cover, helped your company expedite claims, providing a faster and even more professional service. This union augurs well for both the company and our customers in the long term.

The Non-Life division, which was led by Mr. Nimal Perera went through a metamorphosis during the year under review. A star in the sphere of General Insurance, with over 24 years of experience, took over the reigns of the Non-Life division. Mr. Udeni Kiridena, encompassing vast experience in the field of insurance, was that star, and he took over the position of General Manager - Non-Life, on the 01st of September 2009. Imbuing his professional career with further colour, Mr. Kiridena is an avid boxer, and the current President of the Amateur Boxing Association of Sri Lanka, as well as being an internationally qualified boxing referee. His presence bodes well for the future of the Non-Life division, as well as the company at large, and it is with a supreme sense of confidence your company faces the challenges 2010 has to offer.

Products Driven By YOU

Non-Motor Insurance in 2009, took over from Motor Insurance in 2008, as the primary contributor to bottom line growth, providing 52% of the premium income during the year under review. And as traditionally non-conformist as your company is known, we continued to drive business during the year under review through tangible value additions to our insurance solutions, rather than resort to gimmicks.

With YOU Together In The Future

Your company, in the year under review, as well as in the past decade, continued to uphold the most stringent standards within the insurance industry, cultivating our credo of professionalism further, and extending that outlook to the future. Thus will your company be adequately geared to meet the challenges the future holds. The Non-Life division to capitalise on the euphoria following the conclusion of nearly three decades of conflict is poised to exploit emerging new market opportunities.

Training and Development will continue to be driven with an acute market focus, thereby continuing the distinct advantage your company holds in the marketplace. Our tailor-made insurance solutions will continue to be formulated on existing and emerging market needs, with a focus on individual requirements. Thus, more abundant insurance solutions will be available to our existing and potential clientele, which will better address their needs.

Financial review

Company

Asian Alliance Insurance turned in a stellar performance in 2009, considering the prevalent local, and indeed global economic conditions, which constituted the residual aftermath of a tumultuous 2008, which saw global financial systems wrecked. Yet, AAI once again reiterated their unyielding focus on being the most profitable value driven insurance company in the sphere of Sri Lankan insurance, turning in a sterling performance, in a bleak year.

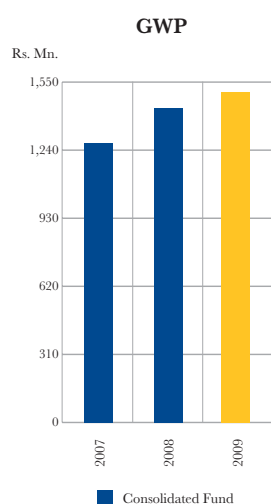
- Gross Written Premium increased by 5% to Rs. 1.5 billion
- Profit After Tax increased by 7% to Rs. 145 million
- Earnings per Share increased by 7% to Rs. 5.79
- Return on Capital was 32% in year 2009

	2009	2008	2007	2006	2005
Gross Written Premium (Rs.'000)	1,505,780	1,429,848	1,274,383	1,165,613	930,976
PBT (Rs.'000)	147,107	131,146	114,434	68,200	28,281
PBT Ratio	9.77%	9.17%	8.98%	5.85%	3.04%
Earning Per Share (Rs.)	5.79	5.42	4.53	2.83	1.03
Return on Capital Employed	32%	32%	42%	41%	26%

Revenue

Considering the local and global backdrop of uncertainty, which hung, spectre-like on financial activity, throughout the year under review, the total Gross Written Premium of your Company recorded an increase of 5% to Rs. 1.5 billion. This growth was driven equally by moderate growth in Life and Non Life division.

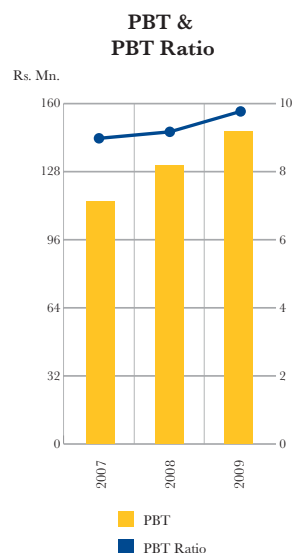
Life Business grew by 4% despite a 34% growth in New Business Premium, which resulted from an increase in number of policies sold and the average policy value. The growth in New Business Premium was recorded in the last quarter of the year where the premium income will flow to next year and thereafter.



Profit Before Tax (PBT)

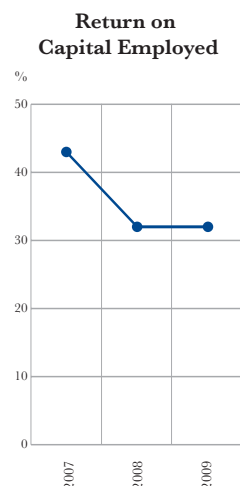
Your company recorded a highly commendable profit before tax of Rs.147 million in 2009, representing a 12% growth over the previous year; and the main contributor to this profitability was the Life Division. The share of profit from the Life Division amounted to a laudable Rs.195 million, a noteworthy 22%

growth over the previous year. The PBT margin too has increased marginally to 9.77%, over 9.17% in 2008; praiseworthy, given the context under which it was achieved.



Return on Capital Employed

The return on capital employed ratio has remained static at 32% in year 2009, due to an increase in earning before tax. However, this figure clearly displays the potential prevalent within the Company to earn a significant return, on behalf of the shareholders, on a year on year basis.



Life Operations

In the year under review, the Life Division continued to be the major contributor fuelling AAI's growth, and impelling your company forward. For the first time in AAI's decade-long history, the Life Premium Income surpassed the Rs.1 billion mark; marking a significant milestone in the company's evolution. Meanwhile, the Average Policy Value recorded a significant growth to reach Rs. 44,003 above the Rs.39,640 recorded in 2008. This in turn, meant that your company now enjoys the highest Average Policy Value in the Sri Lankan Insurance arena.

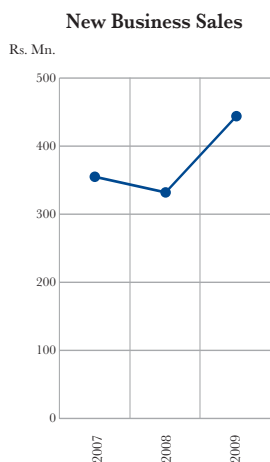
(Rs.'000)	2009	2008	2007	2006	2005
GWP	1,009,031	970,077	890,793	747,934	577,695
Life Operating Surpl	551,427	475,577	428,602	331,058	195,249
Life Surplus to					
Shareholders	195,000	160,000	115,241	66,091	20,000
Bonus to Policyholders	72,273	57,902	47,169	36,822	13,447
Life Fund	1,560,395	1,203,968	888,391	575,030	310,064
Investments	1,632,612	1,255,203	999,993	639,240	367,646

Accordingly, in the year under review, Gross Written Premium in Life Assurance has exceeded the One Billion mark, to reach Rs.1,009 million, a 4% growth over the previous year. The growth in premium, even during adverse conditions, was a direct result of the high premium persistency rates, evident from the first year onwards. Moreover, prudent underwriting, claims management and high policy retention, with healthy investment income, helped the Company augment its fund growth, appreciably by 30% in 2009. The Company's Life Fund meanwhile, has continued to post a record growth, at a far healthier pace than its industry peers in the Sri Lankan insurance industry.

Incredibly, in a lacklustre year at best for all industries, AAI increased its bonus payouts to individual policyholders for the fifth consecutive year. The company aims to continue this trend of increasing bonus payouts, while maintaining a healthy Life Fund, adopting prudent management techniques. Meanwhile, in the Life segment, the solvency ratio is required to be 5% or more of an insurer's long-term liability. In 2009, AAI's solvency margin remained at 2.21 times; well above the stipulated requirement.

New Business Sales

	2009	2008	2007	2006	2005
Annualized New Business					
Premium (Rs.'000)	443,637	332,417	354,665	351,773	290,571
No. of policies sold	10,082	8,386	9,429	9,608	8,563
Average Policy Value (Rs.)	44,003	39,640	37,614	36,613	33,933

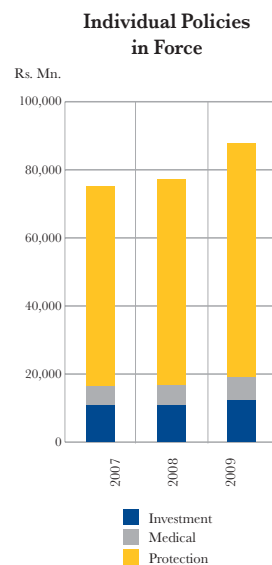


During the year under review, the Life Division achieved an Annualised New Business Premium of Rs.444 million, which signified an incredible growth of 33% over the previous year. The growth is mainly due to an increase in the number of policies by 20%, coupled together with an increase in average policy value by 11%; two remarkable feats in a tedious year of global business. Your company is honoured to hold the unique

distinction of maintaining the highest average policy value, a feat that is astonishing, considering our competition.

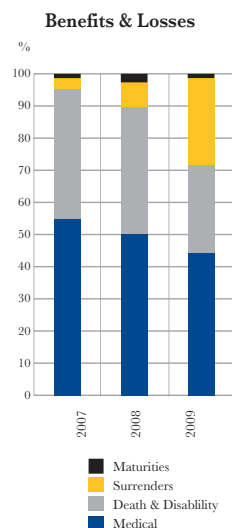
Individual Policies in Force

The total value of insurance in force grew by 11% to Rs. 86 Bn in the year 2009. Medical and protection components account for 85% of the total policies in force, as our Life products are more skewed towards protection and health, rather than on investment. We believe these figures reflect the high level of trust we garnered from our policyholder, as well as the high acclaim we continue to receive for our after sales service.



Benefits & Losses

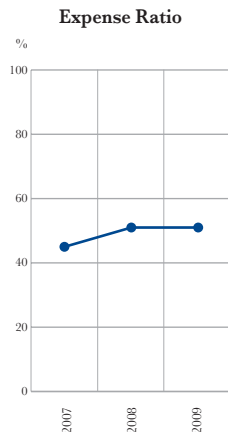
Total claims for the year amounted to Rs.133 million, an increase of 36% from the previous year. In the year 2009, 44% of the claims were related to medical claims, which go on to demonstrate your company's commitment to the "living benefit" our policyholders. The medical benefits enjoyed by our policyholders include Family Healthcare, Hospital Cash benefits and Critical Illness cover. Death claims meanwhile, includes family income benefits, paid monthly to the families of the lives assured. It is important to note that Family Healthcare and Family Income benefits are unique to AAI.



Financial review

Expense Ratio

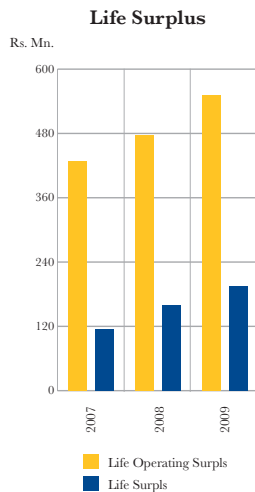
Commendably, the Life Division's expense ratio for the year 2009 remained static at 51%, compared to the previous year. Though we increased our number of branches from 19 to 22, in order to gain more coverage in the island, the close monitoring of the expenses allowed the company to maintain the same ratio, compared to 2008. This strategy is expected to reap dividends in future years too, in terms of more market penetration and future economies of scale.



Life Operating Surplus

	2009	2008	2007	2006	2005
Life Operating Surplus (Rs.'000)	551,427	475,577	428,602	331,058	195,249
Life Surplus to Shareholders (Rs.'000)	195,000	160,000	115,241	66,091	20,000

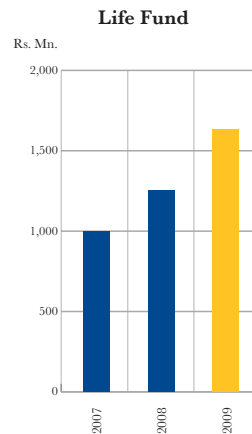
Over the past five years, the Operating Surplus has been growing significantly, due to a combination of important factors - high policy value, retention rates above the standard industry level and the prudent management of insurance claims by AAI and return on investment income. Accordingly, the Life Operating Surplus posted a growth, all things considered, of 16% in 2009, while the surplus to shareholders increased by 22%, to a remarkable Rs.195 million. These figures are based on the independent actuarial valuation.



Life Fund

Asian Alliance, over the last ten years of its existence, has diligently paid out insurance claims and benefits, and continued

to do so in the year under review as well, and yet, the long-term fund grew by an inconceivable 30% ratio, to stand at Rs.1.6 billion by the end of 2009.



Policy Liability vs Investment

(Rs.'000)	2009	2008	2007	2006	2005
Policy Liabilities	1,309,618	980,813	726,348	484,314	273,849
Investments	1,632,612	1,255,203	999,993	639,240	367,646

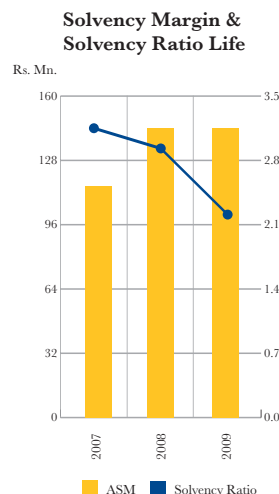
Increases in our investments have exceeded policy liabilities, covering the required insurance reserves after the actuarial valuation. Company policy liabilities reached Rs. 1.3 Bn as at 2009, against the investment base of Rs. 1.6 Bn, indicating the strength of its financial soundness.

Solvency Margin - Life

In terms of Section 26(1) of the Regulation of Insurance Industry Act, No. 43 of 2000, AAI has maintained a solvency margin of such amount as determined by the IBSL in respect of Life Insurance throughout the year 2009.

Statement of Solvency as at 31st December 2009

Value of Admissible Assets (Rs.'000)	1,731,565
Policy Liability (Rs.'000)	1,309,618
Other Liabilities (Rs.'000)	277,427
Available Solvency Margin (Rs.'000)	144,520
Factor	5%
Required Solvency Margin (Rs.'000)	65,481
Solvency Ratio	2.21



Non Life Operations

In the Non-Life segment of the business, the acute focus on quality business, coupled together with the restructuring of the retail business unit, resulted in a moderate GWP growth of 8% in 2009, when compared to the previous year. However, this growth becomes all the more remarkable, when considering the financial climate prevalent in the country, throughout the year. Restructuring of the retail business unit was to focus on the profitable segment of the business, as the unit performance did not meet the company expectations in terms of revenue and underwriting results.

(Rs.'000)	2009	2008	2007	2006	2005
Gross Written Premium	496,749	459,771	383,590	417,679	353,281
Net Earned Premium	312,552	243,614	207,089	173,892	139,168
Underwriting Results	45,076	70,207	84,016	87,740	71,145
Technical Reserves	246,868	227,693	171,244	159,385	104,685
Investments	681,964	531,807	457,680	196,404	170,034
Claim Ratio	88%	75%	74%	67%	72%
Expense Ratio	55%	61%	43%	47%	37%

The driven focus on the quality business during the second half of the year, with an impetus to achieve a higher margin, is not reflected in the underwriting results, because, although the higher margin was achieved, it did not prove sufficient to offset the high claims paid during the same period in the year under review, for policies sold in the first half of the year. The benefit of this strategic shift is widely expected to become clearly visible only in 2010.

Meanwhile, though the expense ratio in the Non-Life Division has remarkably reduced by six percentage points, this sole improvement alone in operational efficiency was not quite sufficient to offset the increased claim ratio in both motor and medical portfolio.

Revenue from Non Life Operation

(Rs.'000)	2009	2008	2007	2006	2005
Fire	105,367	94,632	120,235	145,818	120,466
Marine	33,931	51,471	40,794	51,848	32,812
Miscellaneous	117,708	77,656	70,140	80,406	84,180
Motor	239,743	236,012	152,421	139,607	115,823
Total	496,749	459,771	383,590	417,679	353,281

The Non Life division of the Company recorded a moderate growth of 8% in Gross Written Premium in 2009, by focusing, almost exclusively on the improved customer services. Premium growth in Non-Life business during the year under review was predominantly driven by a growth in the Miscellaneous and Fire business class.

An analysis of the class-wise performance of the Non Life business in AAI, in relation to the results gleaned over the previous year, indicates that the miscellaneous class shows a growth of 52%, with fire recording a growth of 11% and motor registering a marginal improvement of 2%.

Fire Insurance

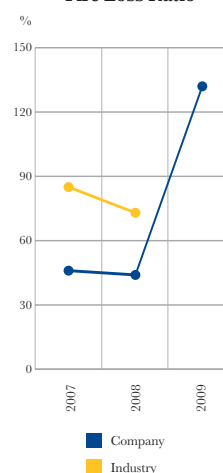
	2009	2008	Growth %
GWP (Rs.'000)	105,367	94,632	11%
U/W Profit (Rs.'000)	21,685	29,080	-25%
U/W Profit to GWP	21%	31%	
Net Loss Ratio	132%	44%	

The Gross Written Premium for the Fire insurance business handled by your company during 2009, improved by a significant 11% margin over the previous year; this is a positive change in trend, where, previously, over a two year period, the Fire insurance business had recorded a negative growth.

Meanwhile, the underwriting profit margin of the Fire Class decreased to 21%, a drop of 10 percentage points, compared to the previous year, due mainly to the increase in the Net Loss ratio by 88% to 132%.

However, despite the significant increase in loss ratio, the Fire Class was nonetheless, able to make an underwriting profit of Rs.22 million. This is primarily due to the reinsurance arrangements made during the year under review, where 97% of the Gross Written Premiums were ceded to Re-Insurers. This arrangement allowed the business to absorb the increased loss ratio, with minimal impact to underwriting results, while also enabling your company to receive a higher re-insurance commission inward, directly due to higher reinsurance outgo.

Fire Loss Ratio



Marine Insurance

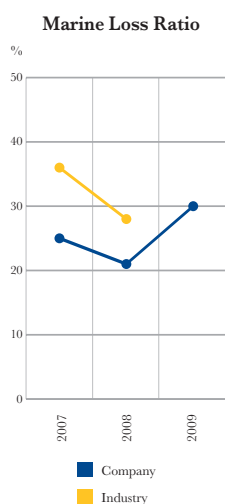
	2009	2008	Growth %
GWP (Rs.'000)	33,931	51,471	-34%
U/W Profit (Rs.'000)	11,866	16,646	-29%
U/W Profit to GWP	35%	32%	
Net Loss Ratio	30%	21%	

Considering the marine insurance business, the Gross Written Premium recorded a notable decline of 34%, due to a number of adverse market conditions, including increased competition and an amplified focus on quality business.

However, despite this adversity, the underwriting profit margin of the marine business increased to 35%, recording a positive growth of three percentage points, compared to the previous year results.

Financial review

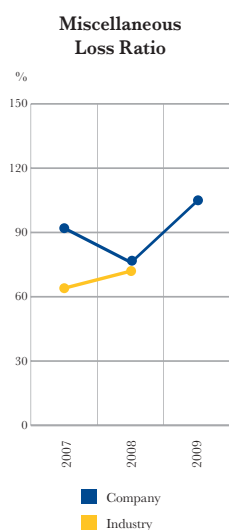
Considering the year under review, the marine net loss ratio, which stands at 30%, is slightly above the industry average loss ratio of 28%. This trend also clearly reflects that, though your company enjoys a small market share in the marine segment, by focusing on quality business your company was able to maintain the business risk in line with the industry.



Miscellaneous Insurance

	2009	2008	Growth %
GWP (Rs.'000)	117,708	77,656	52%
U/W Profit (Rs.'000)	(2,018)	10,987	(118%)
U/W Profit/(Loss) to GWP	(2%)	14%	
Net Loss Ratio	105%	76%	

In the business segment concerning Miscellaneous Insurance, Gross Written Premium marked a significant increase during the year 2009, recording a jump of 52%, compared to the previous year. The growth, which surpassed industry standards by a wide margin, was achieved by narrowing the focus down to corporate clients.



In this category, the underwriting results reflect a loss of 2% to Gross Written Premium in 2009, compared to the profit margin of 14% achieved in the previous year. Accordingly, despite the incredible growth, the high loss ratio remains the primary reason for the drop in underwriting results in the miscellaneous business.

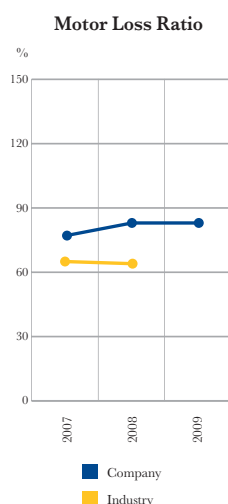
AAI's miscellaneous loss ratio has recorded an increase due to a concurrent increase in the medical portfolio of the business. In the year under review the company experienced very unusual high medical claims from a particular corporate portfolio which resulted in a very high claim ratio in the miscellaneous class. In order to arrest this adverse situation, the Company galvanised into action, and has since, already adopted strategies to do selective underwriting of the medical business, by improving its client screening process.

Motor Insurance

	2009	2008	Growth %
GWP (Rs.'000)	239,743	236,012	2%
U/W Profit (Rs.'000)	29,091	14,261	104%
U/W Profit/(Loss) to GWP	12%	6%	
Net Loss Ratio	83%	83%	

In the challenging arena of motor insurance business, Gross Written Premium displayed a marginal growth of 2%, mainly due to the restructuring of the retail business.

Meanwhile, the underwriting profit margin of the motor insurance segment improved to 12%, thereby recording a positive growth of six percentage points, when compared with previous year. Accordingly, an increase in the earned premium helped to improve the underwriting profits in motor insurance business segment.

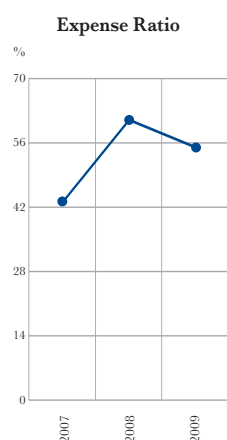


AAI's motor loss ratio has been above the industry loss ratio, and this is a result directly due to low market share, drop in average premium and increase in claims. In order to arrest this adverse situation, the company has adopted a strategy to carry out selective underwriting that has shown positive results for the last quarter of the year under review.

Expenses

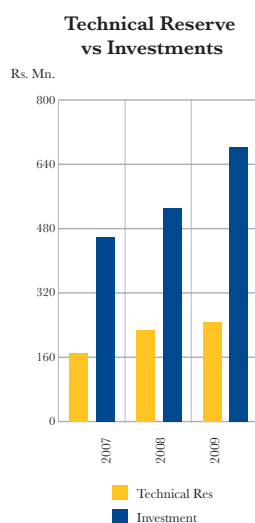
	2009	2008	2007	2006	2005
Expense Ratio	55%	61%	43%	47%	37%

During 2009, your company's decision to restructure the regional distribution network resulted in laying-off unproductive staff. Aligned with this, the close monitoring of variable expenses, together with focused advertising and business promotion, allowed the company to manage expenses effectively, contributing significantly to the end result. The strategy ultimately resulted in a drop in the expense ratio by six percentage points, to end at 55%. Further, the company continued to work towards improving its expense management process, one of the priorities in its medium-term business plan.



Technical Reserves vs Investments

AAI increased its Technical Reserve to Rs. 247 Mn in the year 2009, a growth of 8% over the last year. Investments have grown by 28% to Rs. 682 Mn, which is above the Technical Reserve, reflecting financial soundness in AAI's non-life operations.

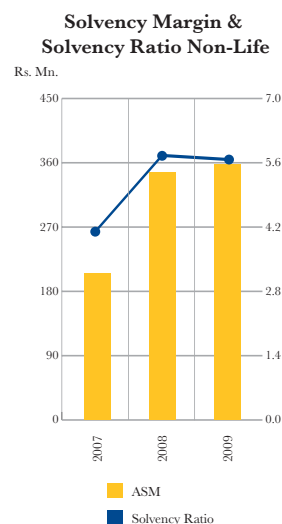


Solvency Margin - Non Life

In terms of Section 26(1) of the Regulation of Insurance Industry Act, No. 43 of 2000, AAI has maintained in respect of each class of insurance business, a solvency margin of such amount as determined by the IBSL in respect of Non Life Insurance throughout the year 2009.

Statement of Solvency as at 31st December 2009

	Rs.'000
Value of Admissible Assets	715,779
Amount of Total Liability	356,908
Available Solvency Margin	358,871
Required Solvency Margin	63,290
Solvency Ratio	5.67



Investment review

Investment Review

During the year under review, the total investment increased to Rs. 2.3 billion, recording a significant growth of 29% over the previous year, adequately demonstrating the financial stability of your company.

Meanwhile, interest rates dipped dramatically, though to compensate for this movement, the share market broke records during its bull run. Your company had the foresight to invest in this segment, which assisted in total income from investments increasing to Rs. 391 million, which amounted to a growth of 70% year on year. Taking into account record low inflation figures towards the end of 2009, the return on investment can be construed as positive in nature, in comparison to previous years of negative return.

Investments with significant discounts were available towards the long end of the yield curve, which allowed for investments to be locked in for 4 to 5 year maturities. However, due to the dearth in long-term investment products, in particular government securities, beyond four year tenors, achievement of asset liability management (ALM) was not possible to an extent in the Life Fund, as ALM requires long term assets to match long term liabilities, due to the long term nature of its products.

As such, the portfolio turnover is relatively short-term, when taking into consideration the long-term objectives of the Life Fund. This though does not have the same effect on the short-term objectives of the Non Life Fund, due the nature of its products being short-term.

Investment Policy

The company continued to plan investments using the guidelines issued by the Insurances Board of Sri Lanka (IBSL) as its bedrock. As such, the Investment Committee of the company, adopted the policy and diversified into various assets, apart from dealing with specifications in the type of asset to invest, in what quantum. Inflationary movement, economic and political changes were also taken into consideration in all investment decisions taken by the Investment Committee during the year.

Change in Weightage

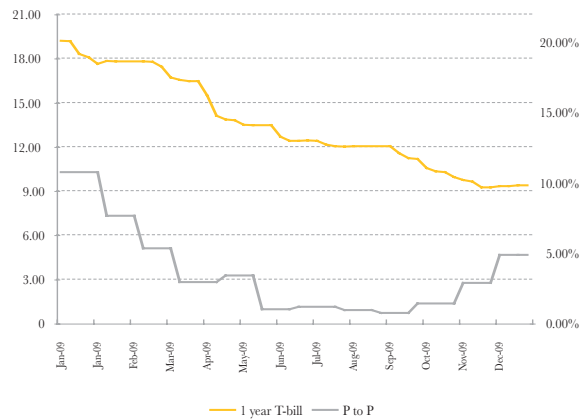
Weightage given to asset classes saw a shift, based on decisions taken by the Investment Committee, to counter the reduction in interest rates in the first quarter of the year.

A step in this direction was taken early in the year with regard to additional purchases of bonds, which allowed the company to secure a return on the said instrument, through both interest and discounts. Corporate debt exposure was reduced, as the company had borne additional risk in increase of equity and wished to place a cap on comparatively risky investments.

The company maintained a healthy balance in government securities, with long-term tenors favoured for the Life Fund, whilst short to medium-term tenors were favoured for the General Fund, in keeping with the nature of the respective products offered. Due to the drop in rates of short-term government securities, a shift was made towards term deposits with licensed banks and additional investments in equities.

The existing equity portfolio was continued with and enhanced, to take advantage of capital gains in the market.

The increase in investment in equity has brought substantial gains to the company, and investment in this asset category continues to be done in accordance with IBSL guidelines, as well as the internal policies of the company, taking into regard, research into both entity, as well as macro and micro economic factors



Custodian for Securities

Your company took additional steps to safeguard its investments, particularly its foundation of government securities, by creating a Custodian account in Deutsche Bank, a global entity, to house all government securities allocated to your company by way of outright purchases of Treasury bills and bonds, as well as securities assigned on behalf of repurchase agreements, had with Primary Dealers. This ensured that no movements in securities would be carried out without prior approval, which needed to be obtained by your company. This further ensured that adequate securities would also be provided for repurchase agreements, increasing the safety barrier.

Primary Dealer Network

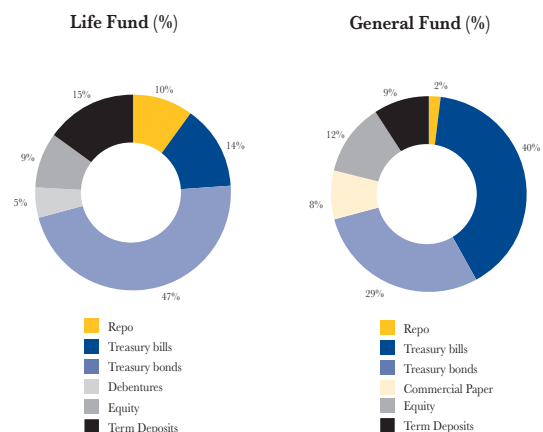
Steps were taken to maintain the present network of Primary Dealers, though care was taken to avoid concentration with any one dealer, which would have resulted in concentration risk. The current network of dealers that the company has the capability to trade with now stands at three.

Audit

Regular reports are supplied to the Insurance Board of Sri Lanka on investments, together with independent access to all holdings in government securities and equities through Lanka Secure at the Central Bank of Sri Lanka, as well as the Central Depository System at the Colombo Stock Exchange.

Growth

The funds of both the Life and Non Life divisions grew at a consistent rate, as a result of the steady inflow of funds from operations. This allowed for a satisfactory performance of settlement, whilst early identification of excess funds allowed management to structure investments for the best possible returns, strictly adhering to Insurance Board of Sri Lanka guidelines.



Investor information

Highlights

- Credit Rating of BB+ with a 'Stable outlook' Re-affirmed

RAM Ratings has reaffirmed the BB+ claims-paying ability rating of Asian Alliance Insurance PLC, with a stable outlook, in their review finalised in December 2009.

- Market Capitalisation

Market capitalisation increased as a result of a rise in share price of the company. Capitalisation for year ended December 2009 stood at Rs.1,400,000,000.00

The AAI PLC Share

Asian Alliance Insurance PLC is a public quoted Company. The issued share capital of the Company is listed on the Dirisavi Board of the Colombo Stock Exchange of Sri Lanka.

Stated Capital - Rs. 250,000,000 (i.e. 25,000,000 shares of Rs. 10 each)

Class of Shares - Ordinary Shares of Rs. 10 each

Voting rights - One vote per Ordinary Share

Shares held by the Public - 2.50%

The Colombo Stock Exchange turned in an exemplary performance in 2009, following on from the dismal year that 2008 turned out to be. Although global economic woes continued, the conclusion of the long-standing conflict in Sri Lanka, posed immensely positive results for the country. However, investor and customer confidence remained at a low ebb due to the continuing financial problems in the world and the collapse of a financial behemoth in Sri Lanka. However, the Sri Lankan bourse recorded a stellar performance, with both indices concluding the year on record highs.

AAI PLC share recorded momentous gain to close the financial year ended 2009 at Rs. 56, as against the previous year's close of Rs. 30. The share traded between a high of Rs. 58.75 and a low of Rs. 25.50 during the year under review. The minority shareholder base has slightly reduced in comparison to previous year and read as 2.50%. In addition, the holdings of the resident and non resident shareholders has reduced.

Movement of listed ordinary shares of the company

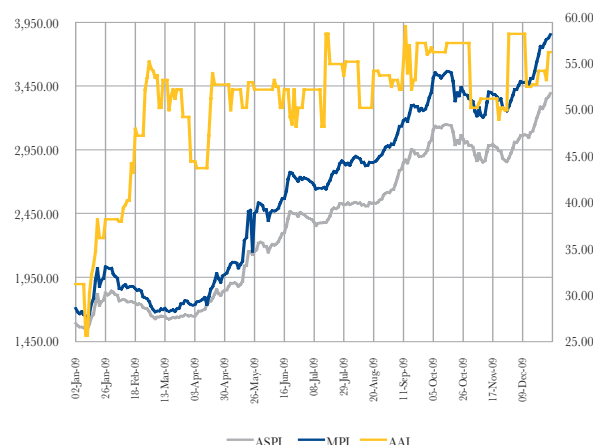
Share Information	2009	Q4	Q3	Q2	Q1	2008
Highest Price (Rs.)	58.75	58.00	58.75	53.75	55.00	44.50
Lowest Price (Rs.)	25.50	48.75	48.00	43.50	25.50	23.25
As at period end (Rs.)	56.00	56.00	55.75	52.00	49.00	30.00

	2009	2008	2007	2006	2005
EPS	5.79	5.42	4.53	2.83	1.03
PER	9.67	5.53	8.77	5.03	8.26
Price to Book Value	2.71	1.85	3.70	2.12	2.19
ROCE	31.92%	32.45%	42.17%	42.16%	26.48%
Net Asset Per Share	20.70	16.16	10.75	6.71	3.88

Trading Statistics	2009	Q4	Q3	Q2	Q1	2008
Number of transactions	724	65	110	182	367	421
Shares traded	3,010,820	85,800	110,806	2,588,210	226,004	229,807
Value of shares traded (Rs.000's)	149,489,055	4,728,550	5,754,225	129,461,590	9,544,690	7,975
Market Capitalisation (Rs.000's)	1,400,000,000	1,400,000,000	1,393,750,000	1,300,000,000	1,225,000,000	750,000

In keeping with the buoyant attitude of the local economy, your company too enjoyed an upbeat year, with the share value rising over 90% year on year.

Movement of listed ordinary shares of the Company



Earnings Per Share

Earnings per share of the company grew marginally in 2009 to register Rs.5.79 per share, as compared with the previous figure of Rs. 5.42 at Year End December 2008.

Price Earnings Ratio

The PE ratio as at 31st December 2009 of 9.67, easily outdistanced the previous year's figure of 5.53, recording a massive gain and reflecting the prevailing positive market conditions.

Price To Book Value

The ratio recorded an increase of 2.51 times, as opposed to the previous year's 1.84 times. This was as a result of the rise in the closing share price, which increased from Rs. 30.00 in December 2008 to Rs. 56.00 in December 2009.

Return on Capital Employed (ROCE)

This ratio gives the measure of the return that is achieved from capital employed. The return marginally reduced from the previous fiscal year, adapting to existing market conditions.

Investor information

Shareholders

The number of registered shareholders of the Company as at 31st December 2009 was 381

The distribution and analysis of shareholdings were as follows:

Resident	As at 31st December 2009			As at 31st December 2008			
	Number of Shares	No. of Shareholders	No. of Shares	% of Total	No. of Shareholders	No. of Shares	% of Total
1 - 1000		292	75,133	0.34	318	85,013	0.34
1001 - 5000		51	121,850	0.54	72	187,500	0.75
5001 - 10000		15	120,250	0.54	17	140,200	0.56
10001 - 50000		6	162,000	0.72	7	148,320	0.59
50001 - 100000		2	136,500	0.61	1	76,500	0.30
100001 - 500000		2	679,600	3.02	2	785,500	3.15
500001 - 1000000		2	1,362,100	6.06	2	1,362,100	5.46
1000001 & Over		6	19,814,467	88.17	7	22,172,967	88.85
Total		376	22,471,900	100.00	426	24,958,100	100.00

Resident / Non Resident

	As at 31 December 2009			As at 31 December 2008		
	No. of Shareholders	No. of Shares	% of Total	No. of Shareholders	No. of Shares	% of Total
Resident	376	22,471,900	89.89	426	24,958,100	99.83
Non Resident	5	2,528,100	10.11	8	41,900	0.17
Total	381	25,000,000	100.00	434	25,000,000	100.00

Individual/Institution

	As at 31 December 2009			As at 31 December 2008		
	No. of Shareholders	No. of Shares	% of Total	No. of Shareholders	No. of Shares	% of Total
Individual	347	3,658,874	14.64	397	1,321,674	5.28
Institutional	34	21,341,126	85.36	37	23,678,326	94.72
Total	381	25,000,000	100.00	434	25,000,000	100.00

Major Shareholder List

Name of Shareholder	As at 31 December 2009		As at 31 December 2008	
	No. of Shares	%	No. of Shares	%
Asia Fort Sri Lanka Direct Investment Fund	5,612,200	22.44	5,507,700	22.03
Asia Capital PLC	4,826,642	19.30	7,289,642	29.15
Richard Pieris & Co. PLC	3,750,000	15.00	3,750,000	15.00
Vallibel Investments (Pvt) Ltd	3,750,000	15.00	3,750,000	15.00
Richard Pieris Distributors Ltd	2,500,625	10.00	2,500,625	10.00
Mr. Vijayeswaran S. Vijayaratham	2,500,000	10.00	-	-
Mr. K. D. D. Perera	737,100	2.94	737,100	2.94
Vallibel Leisure (Pvt) Ltd	397,000	1.58	397,000	1.58
Asia Fort Asset Management (Pvt) Ltd	282,600	1.13	388,500	1.55
Mr. G. C. Goonetilleke	76,500	0.30	76,500	0.30
Mas Capital (Pvt) Ltd	60,000	0.24	-	-
Seylan Bank PLC	50,000	0.20	-	-
Asia Asset Finance Ltd	28,300	0.11	-	-
Mr. B. M. Amarasekera	25,300	0.10	41,800	0.16
Merchant Bank of Sri Lanka Ltd	23,100	0.09	23,100	-
Mrs. E. M. D. Bandaranaike	20,000	0.08	20,000	0.08
Pershing LLC S/A AverbachGrauson & Co.	15,100	0.06	15,100	0.06
AIO Investments (Pvt) Ltd	15,300	0.06	-	-
Mr. J. H. P. Ratnayake	10,000	0.04	10,000	0.04
Mr. D. W. G. Ponweera	10,000	0.04	10,000	0.04
Mr. S. B. Hewage	10,000	0.04	10,000	0.04
Mr. E. Gunathunga	10,000	0.04	10,000	0.04
Mr. J. R. J. Ephraums	10,200	0.04	-	-

Information communication technology review

Information Communication Technology continued to play the pivotal role it has always played during the year under review, adding tangible value to the people and processes at your company. In both aspects of the insurance business - Life and General, ICT ensured smooth flexibility and service standards, coupled seamlessly with product innovation that translated into solid benefits to the end consumer. Not only did ICT prompt greater efficacy within the company, but it translated that same effectiveness into real, lasting relationships between your company and our loyal clientele, by providing timely, attuned and insightful responses and solutions. ICT has truly made our professional approach to every aspect of the business of insurance a clear and abundant reality.

During the year under review, your company focused on using in-house ICT strengths as a competitive advantage in formulating winning corporate strategies. The ICT division was successful in developing a module, which had an all too real competitive edge, when compared with the competition in the local insurance arena. It was a module through which different and diverse information could be summoned at the push of a single button; and the product delivered accurately and on time, every time. Through this innovation emerged a flexible and cost-effective change management procedure, which is a benefit, in real terms, to the nature of the business we are involved in; where change in market dynamics is a constant feature, and keeping abreast of that change is of paramount importance. The module further provided flexible and cost-effective system integration, through the enterprise resource planning (ERP) carried out in 2009. Thus, the in-house developed system for the front-end facilitated the ERP in a cost-effective, efficient and reliable manner, adding further credence to ICT being the life-blood running through the veins of your company.

The in-house developed ICT strength played yet another key role throughout 2009, becoming a differentiating factor with regards to customer service. In essence, the in-house developed systems provided greater credit control to users, thereby streamlining a vast tract of the process involved in the insurance business. This necessarily resulted in improved business efficacy, while managing the risk involved in operations effectively. Through ERP in the year under review, the role of ICT emerged redefined for the future, laying claim to a bigger role to be played.

In keeping with the need to leverage technology for well informed decision making, and to provide real time information, the Company successfully completed and obtained validation of its in house developed Non Life and Life insurance systems. Due to the success and unique operating features of this product, the Company took steps to register and patent this product branded as iSYS.

The Management Information System proved effective in management decision making, providing effective monitoring and adequate controls. The MIS also played a key feature in formulating new business strategies. Ultimately, the beneficiary is YOU - our client. Given that this solution has been completely conceptualised and designed in house, provides abundant praise for the professional expertise we see among the members of our team. It also provides us with the impetus to do better, in order to achieve better results, while formulating better strategies and products that deliver concrete results.

Development Centre In Moratuwa Delivers Results

The Systems Development Centre initiated by Asian Alliance Insurance, a pioneering effort, delivered tangible results, forming the backbone of our clearly visible ICT strength, during the year under review. The Systems Development Centre based in Moratuwa, and formulated in 2008, began yielding concrete and incredible results during the year under review, adding value to your company in the near term. Thus, the in-house developed technologies, have proved instrumental in furthering the company objectives, and constitutes a recurring sense of pride. It is the systems and processes formulated through this very same ICT Centre that continues to provide cutting edge solutions to your company's quest for professional excellence, always maintaining its position, a step ahead of the competition. Developing further on its principle of conceptualisation, the Systems Development Centre continues to fulfil the needs of your company, providing timely and efficient ICT solutions that continue to deliver results. The forward thinking methodologies of the AAI management has become manifest and apparent through the continuing success story that is the ICT Centre in Moratuwa.

Strengthening ICT Capability

ICT continued to play a pivotal role in combining the strength of our branch network, which extended further during the year under review, to become 22. The strategic expansion of our branch network was ably met by our now comprehensive and pragmatic ICT infrastructure, which connected and integrated our branch network seamlessly. The end result would naturally mean higher accessibility of our products and services by YOU, our customer, further strengthening our solid relationships. ICT continued to support our existing product portfolio, as in the past, in a seamless and reliable manner, interfacing with the customer on many levels.

ICT Into 2010

It is a testament to the enduring importance of the right kind of ICT infrastructure that the management of Asian Alliance has decided to invest in Oracle Financials, the most recognised and internationally acclaimed, financial ICT solution, in order to streamline processes in your company. This world class ICT solution will enable AAI to enter a new vista of reliability concerning processes, which will ultimately cascade downward to translate into value additions and tangible, real-time benefits to YOU, the customer.

*Social
Responsibility
& you*

“Rather than following a traditional interpretation of social responsibility based on ‘feel good’ philanthropy, our efforts and attention focus on a wholesome development of communities and people...”

Corporate social responsibility

“Our CSR vision involves a very real and intrinsic bond of partnership, that is continually renewed, each time we engage with our community. Rather than following a traditional interpretation of social responsibility based on 'feel good' philanthropy, our efforts and attention focus on a wholesome development of communities and people.”

The CSR philosophy of Asian Alliance Insurance has always had the hallmark of sustainability ingrained within it, rendering yeoman service to the community at large, in tangible and meaningful ways. A constant challenge is to identify those projects that are worthy of our CSR focus, rather than adhere to a necessary corporate phenomenon. In our 10th year of existence, while celebrating decade-long partnerships, our CSR initiatives take on added significance.

In 2009, AAI focused its energies on making a difference for the future of our youth by partnering the Debater's Council of Sri Lanka, and through them the Schools' Debating League.

Asian Alliance DC Schools' Debating League 2009

Under AAI's flagship CSR program, themed “Contributing towards moulding future professionals”, the company has taken steps to recognise the skills and talents, and indeed hone the potential, of many school children.

AAI joined hands with The Debaters' Council of Sri Lanka, in order to sponsor the Schools Debating League 2009. The top eight ranked schools from the Sri Lanka Schools' Debating Championships in 2009 were chosen to participate in this tournament, aptly named “Asian Alliance DC Schools League 2009”.

The selected schools involved the cream of youthful talent, including St. Thomas' College, Bishops College, St. Josephs College, Royal College, St. Bridget's Convent, Wesley College, Methodist College and Colombo International School. The competition commenced on 15th March 2009, with a grand total of 56 debates taking place within a period of seven months. All the individual debating events were hosted by the respective participating schools.

The finals of the Asian Alliance DC Schools League took place at the BMICH, on the 15th of December 2009. Wesley College and Bishops College were the two finalists contending for the prestigious title. Mr. Mohan Peiris, Attorney General, President's Counsel graced the occasion as the Chief Guest, whilst Ms. Nadi Dharmasiri, Asst. General Manager Marketing of AAI participated as the Guest of Honour for the event.

The Debaters' Council of Sri Lanka was formally founded by members of the debating fraternity in Sri Lanka in 2006, with the primary objective of nurturing a culture of debate and recourse within the country; a goal, which AAI fully endorses. The DCSL presently enjoys the membership of debating institutions, as well as eminent debaters, from all around the island.

Although this project constituted our focus during the year under review, with no less than flagship status attributed to it, our other ongoing, sustainable community projects, went ahead unhindered.

The ongoing CSR endeavours of Asian Alliance Insurance has sustainability as one of its key facets; and this was aptly demonstrated in some of the initiatives, which have been seamlessly continued since 2006, all of which went relentlessly ahead in 2009 as well.

Nurturing Future Professionals

Identified as being the true professional in the insurance industry, Asian Alliance Insurance PLC has always taken the initiative in developing and nurturing future professionals. Since 2006, under AAI's unique CSR program themed “Contributing Towards Moulding Future Professionals”, the company has taken many steps to recognise and honour the talents of school children.

AAI plays a vital role in establishing professionalism both within the student and in the school, by being intrinsically involved in school events, such as Sports Meets, Inter-School Competitions, Prefect Days, Prize Giving Ceremonies, Talent Shows and other, similar Annual Events. Absorbing the cost involved in designing, printing and production of certificates, invitations, files, appreciation cards, awards, trophies, in its totality, AAI's contribution to this unique programme has held high significance, and was the focus of the company's CSR initiative in past years.

The table on page 40 shows the number of certificates, invitations and files provided for various schools in 2009.

CSR Initiatives for Sustainable Development

Fostering the Differently Able

International White Cane Day 2009

Being an organisation that believes in equality for all, AAI partnered the Sri Lanka Welfare Society for the Visually Handicapped to sponsor this momentous event for the fifth consecutive year. White Canes and dry rations were distributed to 350 visually handicapped individuals, commemorating International White Cane Day. This significant event, close to the heart of your company, took place on the 25th of October 2009, at the Vocational Training Institute in Seeduwa.

Nurturing the Arts

Symphony Orchestra 2009

With the objective of promoting the talents and competencies of professionals, AAI continued their close partnership with the



- 01 Asian Alliance DC Schools' Debating League 2009
- 02 Sponsorship of St. Thomas' College Rugby Team
- 03 The Key Person's Forum 2009
- 04 Western Province Super 10's Rugby Tournament 2009



Moulding Future Professionals

“Our flagship project since 2006 - 'Moulding Future Professionals', relies on the platform that achievements are recognised and honoured. With the country's free education system already burdened with numerous expenses for primary needs, our project with schools around the country assists deserving, high achieving students by honouring their achievements.”

Symphony Orchestra of Sri Lanka, sponsoring their annual concert for the 4th consecutive year. The concert, held at Ladies' College Auditorium on 19th October 2009, featured two prominent Japanese musicians - Ms. Keiko Kobayashi and Mr. Atsushi Kimura.

The Symphony Orchestra of Sri Lanka has over 200 talented individuals within its membership, and they are responsible for educating and nurturing the music talents in this country. AAI considers it a bounden duty to assist them in this endeavour.

Nurturing Entrepreneurs

Annual Exporters Awards 2009

For the second consecutive year, AAI partnered the premier exporting body in the country, the National Chamber of Exporters of Sri Lanka (NCE-SL), as the principal sponsor for its annual award ceremony. This annual event, which felicitates exporters, who have made contributions to the country's economy, holds notable significance. The event took place at the Colombo Hilton, on the 25th of September 2009.

Nurturing Creativity

Reggie Candappa Creative Awards 2009

AAI sponsored the Reggie Candappa Creative Awards (Reggies), held on the 11th of December 2009, at Park Street Mews café, for the second consecutive year in 2009. The 'Reggies', which seeks to foster craft in the advertising fraternity, is one of the premier awards ceremonies in this country. The awards also recognise the skills and expertise involved in creative advertising and reward high standards of professionalism; complimenting your company's corporate credo.

Recognising several more annual events that are worthy of our CSR attention, your company ventured into new ground, helping nurture and foster talents and professionalism of a different nature. Charting a fresh course for our CSR initiatives in 2009, AAI plans to continue to support these endeavours for years to come.

Corporate social responsibility

School	Event	Certificates	Invitations	Trophies/Files
Ananda College	Prefect Day	100	100	Files 1000
	Maths Day			
	Prefects Cricket Encounter	300		
	Leadership Program	600		
	Arogya 2009 Exhibition	1,000	500	
Ananda Balika Vidyalaya	Science Day			Files 200
Christ Church College - Matale	Sports Meet	1,500		
Christ King College - Ja-Ela	Maths Day			Files 150
	Athletic Meet	750		
D S Senanayake College	Science Day	200		
Debaters Council of Sri Lanka	Debaters Workshop	300		2 Trophies
De Mazanod College - Kandana	Inter school quiz competition - Astronomy society	100		
Dharmaloka Vidyalaya	Debate Competition	500		
Dharmapala Vidyalaya - Kottawa	Buddhist Society Competition	400		
Ellakkala Maha Vidyalaya	Sports Meet	1,000		
Galle Education Department	Year 5 Scholarship Program	1,500		
Gateway College	Leadership Training Program	130		
	Musical Competition	200		
Isipathana College	Science Day 2009			Files 170
Mathugama Educational Division	Sports Meet	700		
Moratuwa schools Sports Division	District Sports Meet	1,000		
Nalanda College	Astronomy Day 2009			Files 500
Prince of Wales College	Media Day	100	150	Files 700
	Literature Day	200		
	Colours Night	150		
	Annual Rugby Encounter	170		
	Language Day	150		
	Prefect day			
	English day			
	Annual Walk	3,500		
	Anti Narcotics Day	100		
	Sports Meet	1,400		
	Science Day	300		
Punchi Theatre	Awards Ceremony	300		
Rajasinha MV - Imbulgoda	Sports Meet	450		
Rawathawatte Methodist College	Annual Prize Giving	150		Files 300
Royal College	Maths Day	200	100	12 Trophies
	Science Day	200		
	Drama Competition 2009	100		
	Cricket Day	150		
	Stamp Exhibition			
Sirimavo Bandaranaike Vidyalaya	Science Day	100		Files 600
SL Schools Hokey Association	U - 13 championship	1,500		
St.Bridget Convent	Interact Club - Event	40		
Taxila College - Gampaha	Sports Meet	1,500		
Thurstan College	Astronomical Society	400	100	Files 500
UN - SL Model United Nations	Annual Conference	1,500	200	Files 1500
University of visual and performing arts	Cricket Tournament	100		
Visaka Vidyalaya	Commerce day	200	200	300 - Souvenirs
	Hostle Day	250		
	Digital Art Competition	50		
	Tennis Tournament	150		
	Literature day	400		
Zonal Educational Division - Gampaha	Sports Meet	1300		
	Total	25,390	2175	



- 05 Annual Exporters Awards 2009
- 06 International White Cane Day 2009
- 07 Reggie Candappa Creative Awards 2009
- 08 Symphony Orchestra 2009

Nurturing The Future

The Next Step: Investment and Private Forum

Asian Alliance took pride in sponsoring this unique forum, which was hosted by ART TV, on the 31st of March 2009, at the Hilton - Grand Ballroom. The main objective of the forum was to explore the myriad opportunities available to the private sector in a post-conflict Sri Lanka.

A series of high profile speakers addressed the large gathering of prominent members of the business community at the event, focusing on future government led plans for promoting investments. The speakers included Dr. Sarath Amunugama, Mr. Dhammika Perera, Mr. Bernard Gunathilake and Mr. Ajith Nivard Cabral.

Developing Industry Knowledge

The Key Person's Forum

AAI sponsored the Key Person's Forum (KPF) 2009, held on the 25th of March 2009, at the Hilton Residencies, organised by the Federation of Chambers of Commerce & Industry of Sri Lanka (FCCISL), as part of their public awareness effort on issues pertaining to the economy. The KPF provides a platform for eminent individuals to discuss and share their experiences on policy perspectives, face-to-face, on matters of interest to the private sector. The event is aimed at entrepreneurs, corporate heads, bankers, consultants, members of the legal community, company secretaries and other representatives of the Private Sector, as well as Civil Society.

The forum was addressed by Dr. Wickrama Weerasooriya, the Insurance Ombudsman, and his speech aptly focused on the topic: "The Role of Ombudsman and How Insurance Holders Can Be Benefited and Protected".

Nurturing Sports

Western Province Super 10's Rugby Tournament

Charting new ground, AAI sponsored the Western Province Super 10's Rugby Tournament for the first time in 2009. The event was organised by the Western Province Rugby Football Union. CR & FC emerged victorious at this year's championship, beating Air Force 17 - 7, in the final, played at Longden Place.

Sponsorship of St. Thomas' College Rugby Team

Staying true to a primary object of your company - that of developing professionals in many areas, AAI stepped forward to sponsor the St. Thomas' College Rugby Team for the 2009 season.

The Thomians opened their campaign against Royal on the 15th of March, and although they lost their initial encounter against their arch rivals, the STC boys enjoyed a successful season, managing to win all their remaining matches, finishing second in the table.

Our professionals

“We believe that nurturing professional qualifications of our staff, whilst enhancing the strength of the Company, will contribute towards the robustness of the Industry.”

No.	Name	Branch/Dept	P. Exam
1	Irushi Weliwitigoda	Finance	IFC
2	Anjana Hettiarachchi	Life - H/O	CIP
3	Rishma Minoshanie	RBU	IFC
4	Piumi Samankula	Motor	IFC
5	Harani Jayaweera	Life - H/O	IFC
6	Surangajith De Soya	Life - H/O	CIP
7	Apnarai Peiris	Life - H/O	IFC
8	Dilan Sumithraarachchi	Fire	Dip CII
9	Charitha Boteju	Life - H/O	Dip CII
10	Kushani Gurusinghe	Moratuwa	IFC
11	Vathsala Tennakoon	Life - H/O	IFC
12	Achini Amarasinghe	Matara	IFC
13	Lasantha De Alwis	Fire	ACII
14	Asiri Piyathissa	Finance	IFC
15	Dilhari Palliyaguru	RBU	IFC
16	Christoper Hemachandra	Motor	Dip CII
17	Asha Perera (<i>Absent</i>)	Misc	Associateship III

Seventeen emerging insurance professionals zealously following their dream; the Company moulds them to someday become the movers and shakers of the industry. Their achievements reinforce your Company's credo of professionalism.



Our People & YOU

It is truly a momentous occasion - the first 10 years of our existence, is certainly cause for celebration. And what better way to celebrate that fact than celebrate the people who have made it possible. In all the milestones and accolades we have collected along the way, incidentally winning the hearts and minds of our clientele, the fantastic people who work for Asian Alliance Insurance have formed the focal point, from which all things have been made possible. Even during a difficult year, such as the one being reviewed, where the residual effects of a calamitous global economic meltdown in 2008, still lingered, it is our people that have stood us in good stead, recording a fantastic performance under absolutely adverse conditions. As always, the people of your company, complete and utter professionals every last one of them, have been the solid foundation your company has come to depend on. They have successfully ingrained the notion of professionalism on the face of insurance in Sri Lanka, imbuing the Sri Lankan psyche with an indelible trust in the very concept of insurance. They have not only redefined the standard of insurance, but set the bar so high, that others continue to strive to measure up. During the year under review too, they have continued to deliver solid results, never compromising their integrity or their professionalism, but, rather providing new impetus for our clients to renew their faith in us.

Keeping with tradition, at the corporate planning session held at the beginning of 2009, all the divisional heads, as usual got together to plan out the year ahead, providing an effective methodology to chart the course for the year. This was especially significant, considering the adverse economic conditions facing Sri Lanka, and indeed, the world at large. Thus, we can see how our people have strengthened our business equation from the very outset, laying the foundation for a successful year, in demanding times. Following this visionary foundation, they have been continuously involved in the process, at strategic junctures throughout the year, keeping your company true to its vision.

AAI Employee Ethos

It is no secret that the distinct individuals who work for us are hand-picked. But, the impetus your company provides them simply does not cease there. With our guidance and the continual incentives provided, these distinct, carefully chosen individuals, who are the very essence of professionalism, are thought to hone their skills further, indeed, not only achieving their potential, but even surpassing that benchmark. It is in this vein that your

company encourages the people who work for us to qualify themselves academically and professionally, so that they will be enabled to savour the very zenith of achievement one day. Although qualifications in Insurance and a host of other professional qualifications are encouraged, it is by no means limited to those spheres of learning, as your company has tied in a handsome incentive scheme for insurance professionals qualifying in a multitude of disciplines. For the successful completion of such endeavours, not only does AAI compensate the expenses incurred, but has come up with a unique career advancement plan that ties in such qualifications with rapid career progression. Intrinsically linked with this same scheme are attractive salary increments that provide added incentive for qualifying; the end result, of course, benefits our clientele, who enjoy the services of a professional, well-informed and qualified staff. The perfect example of this enduring principle, is a distinct individual within the folds of your company; having joined as an Office Assistant, he is now occupying an executive position, after less than five years of being employed, having partly qualified in a professional series of examinations. Once fully qualified he can even climb the ladder to be placed in a managerial position. The same career progression is made available to all at AAI, helping define our corporate culture in a brand new light.

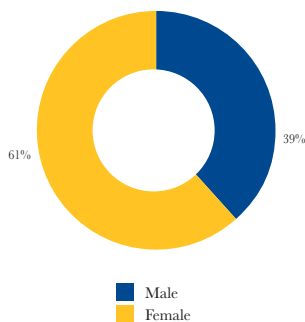
The Corporate Training and Knowledge Management Centre, which we established in 2008, continues to deliver viable and tangible results, serving as a training hub for our entire team, including the sales force. Meanwhile, our training calendar continues to be extensive and exhaustive, continually including programmes that are not only job oriented, but also designed for the development of soft skills, that assist in creating rounded individuals, who are adept at every aspect of life.

The dynamism and go-getter attitude clearly visible in our corporate culture is undoubtedly a result of the people, who possess those same qualities in abundant measure, and who are driven by committed line managers in all departments.

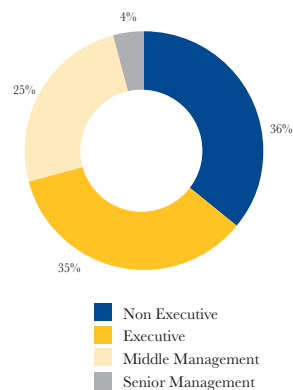
Room For The Best

At your company, we make room for only the best, as our recruitment process is a stringent and streamlined one, ensuring that the right people with right aptitude, attitude and talents are hired for the right jobs. Your company in the year under review, stuck to their premise of a smaller team, which ensured that their inputs during the year were noteworthy and exceptional.

Analysis by Gender



Analysis by Grade



Our professionals

Just as it is dynamic in the recruitment stage, the rewards gleaned from our one-of-a-kind company are also exceptional. Your company is the only one within the insurance sphere in Sri Lanka to provide a celebrated and unmatched incentive scheme for every employee who has completed two years with AAI. Constituting a truly exceptional reward for truly exceptional people, this celebrated incentive scheme remains unmatched and unparalleled in the Sri Lankan insurance sphere.

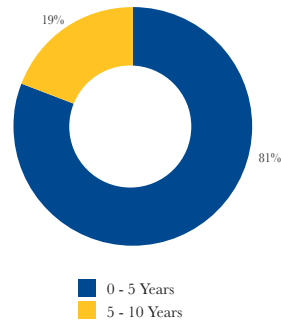
In similar vein, your company extended its reach during the year under review, expanding our branch network to 22, having our presence felt in Jaffna. For this ambitious expansion program, we were successful in recruiting some exceptional people, who are already proving their mettle on the field, and we are quite confident that they will continue to do so, well into the future.

In 2009, our appraisal system continued to be consistent with our processes, allowing for better insight into individual potential. The Board Remuneration Committee continued to make the final decision, regarding increments, based on Management recommendations.

AAI The Employer

Our almost 600 staff members constitute an invaluable contribution, propelling your company forward. With well established goals set before them, our professionals take immense pride in achieving those very goals. And their dedication, diligence and ability are celebrated every step of the way by your company. Their achievements are aptly celebrated at the Annual Awards Ceremony, where, in a calendar year, six medals of recognition would be awarded to advisors having brought in business of more than Rs.1 million, where they would be presented with the half sovereign Silver Alliance Award, and ten medals of recognition are awarded when premium business exceeds Rs.1.5 million, and professionals falling in to this bracket are presented with the prestigious one sovereign Gold Alliance Award. Meanwhile, Best Regional Managers, Best Performers and Most Valuable Sales Person and Runners Up in these categories continue to be recognised in this gala ceremony. Meanwhile, rewards continue to comprise of competitions held during the quarter, the winners get to enjoy a well-deserved, fully paid holiday, at exciting tourist destinations.

Service Analysis



Beyond just recognition of achievements, your company continues to cultivate a benevolent attitude towards all employees, benefiting their lives and loved ones in so many more ways. All our employees continued to enjoy medical cover, including their entire family, providing cover for critical illness, disability, accidents and death. Meanwhile, extra-curricular activities, a necessary fundamental in the corporate sphere continued to foster fellowship and unity in our team culture during 2009, with activities all year round. Our annual sports days, religious festivals and entertainment activities continued unabated, ensuring the right kind of attitude and camaraderie prevailed during the year, and will continue to endure for years more.

Corporate governance

Our corporate governance practices are collection of best practices of Institute of Chartered Accountant of Sri Lanka, Securities and Exchange Commission (SEC) of Sri Lanka, Colombo Stock Exchange listing rules (specially section 7 on corporate governance rules and other relevant rules), Insurance Board of Sri Lanka, requirements of Company's Act No.7 of 2007 and other relevant statutory laws, and our own code of conduct (employees) in relation to policies and procedures.

Our corporate governance obligations (operational level) are incorporated into business processes and activities and staff are sufficiently involved in planning and implementing the corporate governance by setting up various committees (internal) with clear roles and responsibilities under the leadership of the Director/CEO.

On the other hand, strategic level corporate governance obligations are effectively complied by the Board of Directors by complying with various statutory provisions and rules on best corporate practices issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities Exchange Commission of Sri Lanka and Listing rules of the Colombo Stock Exchange.

Our corporate governance principles are transparent and are embedded into our business processes and activities and demands impeccable standards from the Directors and the employees in performing their official duties. The employee code of conduct issued by AAI requires all employees to:

- Conduct professionally with courtesy with whom they come into contact in the course of their duties
- Maintain the highest standards of competence, business ethics and dignity advocated by the company

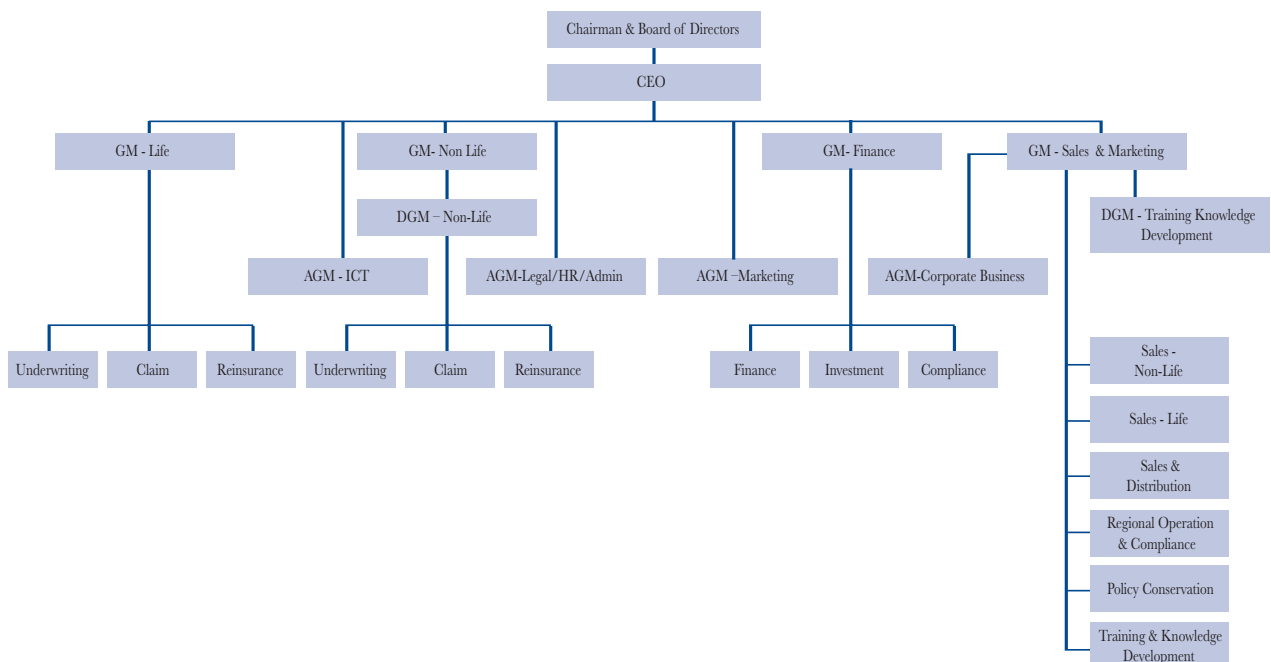
- Comply with Audit Committee recommendations in relation to HR issues
- Not to accept gifts other than those of a promotional nature such as diaries, calendars etc

Further to above, our field staff is issued with Code of Conduct which requires all field staff to:

- Act ethically as an intermediary for the policy holders and the Company
- Always follow the professional approach in following the Company procedure
- Provides the best financial solution to the policy holders that considering the requirements of the policy holders and the Company

Nowadays the regulators, legislators and society at large have intensified their focus on how businesses are being run and controlled. As such, AAI adopts best corporate governance practices with an emphasis of “true professionalism culture” to sustain long term development which in turn allows AAI to be successful in its operations and maintains its image in the insurance sector.

AAI's governance structure presented below depicts the distinction between the functions of the board and the management whilst maintaining effective cooperation and communication between them.



Corporate governance

Our best practices on Corporate Governance are as follows:

Corporate Governance Principle	AAI's Compliance
<p>The Board of Directors</p> <p>Board of Directors - direct, lead and control the company</p>	<p>The Board of Directors of AAI comprises of eight Directors. The Chairman and CEO are Executive Directors and other Directors hold office in a Non-Executive capacity.</p> <p>The day to day running of operations of the organization has been delegated to the CEO and the Executive Committee is governed by policies, procedures and authority.</p> <p>The Directors are responsible to the shareholders for ensuring that the Company is appropriately managed and that it achieves its objectives. It meets regularly to determine the Company's strategic direction, to review 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 wide range of corporate governance issues and list those items that are specifically reserved for decision by the Board. Some of the matters requiring Board approval include:</p> <ul style="list-style-type: none"> • Company strategy and business plans; • Acquisitions, disposals and other transactions outside delegated limits; • Financial reporting and controls; • Capital structure; • Dividend policy; • The constitution of Board committees; and • Key business policies, including the remuneration policy.
<p>Frequency of Board meetings</p>	<p>The board meeting is held once in two months to review financial reporting and to consider other matters such as strategic and operational plans, capital expenditure and annual budgets.</p>
<p>Board responsibilities</p>	<p>Board of Directors is collectively responsible for formulation, implementation and monitoring of business strategies of AAI. In order to do so, the board to appoint Sub-Committees to assist in fulfilling its stewardship function by reviewing systems of internal control, internal and external audit, risk management and financial reporting to shareholders.</p> <p>The main responsibilities of the Board include:</p> <ul style="list-style-type: none"> - Setting, reviewing, advising, approving and monitoring operational and Corporate strategies - Providing guidance to CEO and senior management and ensuring they possess the skills, experience and knowledge to implement the strategies. - Setting strategic targets and implementation plans and evaluate its effectiveness via periodic board meetings with the management - Ensuring the effectiveness of internal controls and risk management via review of internal audit reports and compliance reports - Appointing CEO and succession planning of senior management - Board discharges its duties through various of 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 and that company's values and standards are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations via the effective functions of the Audit Committee - Ensuring the integrity of information, internal controls, risk management and financial statements

Corporate Governance Principle	AAI's Compliance
Independent Non Executive Directors	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.
CEO	CEO is responsible for the day-to-day operations of AAI and accountable to the Board of Directors.
Chairman	Chairman is responsible for leading the Board and for its effectiveness. Which means taking responsibility for the Board composition, appraisal and development ensuring that the Board focuses on its key tasks and supports the CEO to manage day-to-day operations of the company. The Chairman is also the ultimate point of contact for shareholders.
Provision of relevant, quality and timely information	Board papers, agenda and board minutes (previous) to be tabled one week prior to board meeting.
Dedication of adequate time and effort to matters of the Board and the company	The board members dedicate adequate time for the affairs of the company by attending Board meetings, Board subcommittee meetings and by making decisions via circular resolutions. In addition the Board members have meetings and discussions with the management as and when required.
Independent Professional Advice	The Board is empowered to seek independent professional advice from external parties whilst performing their duties for their effective directorship functions, at the Company's expense.
Balance of the Board - Executive and Non Executive Directors	Six of eight directors on the Board hold office in a Non -Executive capacity.
Disclosure of new directors details	New directors details are disclosed to the relevant authorities (Insurance Board of Sri Lanka, Colombo Stock Exchange and Registrar of Companies) at the time of appointment. The existing as well as new directors to the Board are disclosed in the Directors' Report of the Annual Report on Pages 62 to 65.
Reelection of Directors at regular intervals	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 new director be re-elected by the shareholders.
Company Secretary	PR Secretarial Services (Pvt) Ltd is the corporate secretaries for AAI.
Transaction with directors	As per the disclosure requirement of Company's Act, No. 7 of 2007 of section 192, the Board of Directors has to disclose all transactions that they have with AAI.
Directors Remuneration	
Remuneration Committee	Remuneration committee was not in place as there was no Executive Director in the first six months of the year. However, with the appointment of an Executive Director, Mr. L. De S. Wijeyeratne co-opted Mr. James Mather to the Committee to decide on the Executive Directors remuneration.
Disclosure of remuneration	The total Directors' Remuneration is disclosed on page 65 of this Annual Report.
Relations with shareholders	Board keeps informed of the developments of AAI to its shareholders via stock exchange, press release and dialogue with shareholders.
Annual General Meeting (AGM)	Board uses the AGM to communicate with shareholders and encourage their participation. The Board members and company representatives, external auditors are available to answer queries by shareholders.
Notice for calling AGM	As per section 167 of Companies Act, No. 7 of 2007, annual report together with notice of meeting, proxy form and other related documents (if any) are circulated to shareholders at least 15 working days prior to the date of the AGM.

Corporate governance

Corporate Governance Principle	AAI's Compliance
Accountability and Audit	
Statutory and Regulatory Reporting	<p>The interim financial statements and Annual Report are published according to Sri Lanka Accounting Standards (SLAS) and circulated to shareholders and Colombo Stock Exchange within the stipulated time period.</p> <p>As per Regulation of Insurance Industry Act, No. 43 of 2000 regulatory reports are filed with the IBSL within the due dates.</p> <p>As per section 8 of the Colombo Stock Exchange listing rules all the price sensitive information is disseminated to Colombo Stock Exchange on time.</p> <p>All the statutory reporting to Registrar of Companies is complied as per the provisions of Companies Act, No. 7 of 2007.</p>
Directors' Report	The Directors' Report is set out on pages 62 to 65 of this Annual report.
Directors' responsibilities to financial reporting	The statement of Directors' responsibility to financial reporting is set out on page 66 of this Annual report.
Auditors' Report	The Board of Directors maintains formal, transparent and appropriate arrangements with auditors of AAI. The Statement of Auditors' Report is set out on pages 71 of this Annual report.
CEO & CFO's responsibilities to financial reporting	The statement of CEO & CFO's responsibilities to financial reporting is set out on page 67 of this Annual report.
Management discussion	The Management discussion of financial performance is set out on page 26 of this Annual report.
Disclosure requirements	AAI complies with disclosure requirements relating to Sri Lanka Accounting Standards, Colombo Stock Exchange, Insurance Board of Sri Lanka and Companies Act.
Serious Loss of Capital	As per section 220 of the Companies Act, No. 7 of 2007 if the net assets of the Company are less than half of its stated capital, the Board shall call for an EGM (such a situation has not arisen)
Declaration of going concern by Directors	This information is set out in the Directors' Report on page 63 of this Annual report.
Audit Committee	<p>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 68 of this Annual report.</p> <p>During the year five meetings were scheduled and held. The Chief Executive Officer, the General Manager - Finance (CFO), Life, Non life, Sales & Marketing, the Internal Auditors Ernst & Young Advisory Services (Pvt) Ltd and the Compliance Officer attended Audit Committee meetings by invitation.</p>
Audit Committee report	The Report of Audit Committee is set out on Page 68 of this Annual Report.
Board review of effectiveness of the internal control	The Audit Committee regularly monitors the effectiveness of internal controls, but the entire board is collectively responsible for sound establishment of internal control. Assurance of this is achieved via meetings between the internal audit and management representatives with the Audit Committee.
Risk Management	AAI has designed a risk management system to identify, assess and manage its existing and potential risks (Risk Management of AAI is set out on page 53 of this Annual report)

Corporate Governance Principle	AAI's Compliance
Internal Control and Risk Assessment	<p>AAI's internal audit function has been outsourced to an independent auditor Ernst & Young Advisory Services (Pvt) Ltd which is permanently stationed at AAI and it reports the audit findings with management responses to the Audit Committee.</p> <p>The Audit Committee contributes to the effectiveness of the internal audit function by :</p> <ul style="list-style-type: none"> • 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 • Reviewing major financial exposures and review the process to monitor, control and reporting such exposures
External Audit and Audit Committee	<p>The audit committee contributes for the assessment of the independence and performance of External Auditors by:</p> <ul style="list-style-type: none"> • Approving the scope of their audit • Reviewing the scope, plan, and audit procedures • Reviewing the annual and interim financial audits • Reviewing any material differences or disputes with management encountered during the course of the audit • Reviewing the management letter's content and management responses to those content • Recommending to the Board the terms of engagement and remuneration of external auditors • Ensuring the objectivity and independent of external auditors • Carrying out an independent evaluation of external auditors performance.
Executive Committee	<p>This Committee is accountable to the Board of Directors and it comprises Director/CEO who chairs it and the General Managers namely Non-Life, Life, Finance and Sales & Marketing.</p> <p>This Committee is responsible to assess the operational and strategic performance, and be the main decision making body for the operations of AAI, make appropriate recommendations to the Board, on policy, and implement such policies at operational level.</p>
IT governance	<p>Effectiveness of internal controls and IT security policy of AAI is regularly monitored by Audit Committee, as the IT is the critical function of AAI. IT risk is considered as an important risk in the risk profile of AAI and more resources are allocated to mitigate the IT risk via our Business Continuity Plan.</p>
Performance governance	<p>AAI's performance governance has a framework to monitor the performance on a monthly basis by the Board on key areas such as financial and non-financial areas including capital adequacy, solvency and liquidity.</p> <p>Further, in order to assist the Board on monitoring the performance governance AAI has formed various sub committees under the leadership of Director/CEO.</p>
Ethical Practice	<p>AAI has adopted a Code of Conduct of Ethics and professional conduct and this is communicated to all the staff via Company's "Staff Hand book".</p>

Corporate governance

Corporate Governance Principle	AAI's Compliance
Regulatory 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, 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 AAI and apply relevant methodologies to manage the compliance risks.
Compliance Functions of AAI	<p>The main functions should include:</p> <ul style="list-style-type: none"> • Over seeing the AAI's total compliance function with regard to regulatory requirements particularly Regulation of Insurance Industry Act No. 43 of 2000(RIIA) and other guidelines, directions, circulars and determinations issued by Insurance Board of Sri Lanka and relevant government Gazette notifications in relation to Insurance Industry. • Over seeing 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 regulations and requirements. • Ensuring the solvency levels (life and general divisions) on a regular basis • Review the effectiveness of Compliance controls via monthly compliance checklist, periodic review of AAI's procedure manuals and compliance programs and quarterly compliance report to Audit Committee. • Review the independence and performance of the AAI's external auditors compliance report. • Review the independence and performance of the AAI's internal auditors compliance report • Checking the compliance with all the statutory payments and report it to Board of Directors • To make recommendations to the Audit Committee in relation to effectiveness of compliance systems. • To ensure that AAI's risk management systems are effective and efficient to identify, assess and manage the compliance risks (regulatory risk) • Reviewing the effectiveness of compliance of Investment as per the IBSL guidelines. • Managing the money laundering activities via regular reporting to Central Bank and anti money laundering programs.
Compliance Risk Assessment	Compliance risk assessment is designed based on compliance risks in terms of their risk impact and likelihood of occurrence on AAI.
Compliance Audit	The purpose of the compliance audit is to check the effectiveness of compliance controls and report the audit findings to Audit Committee with appropriate recommendations.
Solvency test	<p>According to section 26(1) of the Regulations of Insurance Industry Act (RIIA), No. 43 of 2000, AAI has maintained in respect of each class of insurance business, a solvency margin as determined by the IBSL throughout the year (2009).</p> <p>Statement of solvency Life and Non-Life is set out on page 28 and 31 of this Annual report.</p>

Corporate Governance Principle	AAI's Compliance
<p>Prevention of Money Laundering activities</p>	<p>To prevent and detect money laundering activities AAI has designed an Anti Money Laundering Program which is a compilation of 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 and best practices on anti money laundering activities.</p> <p>Essential features of our Anti Money Laundering Program are as follows:</p> <ul style="list-style-type: none"> • Clearly defined criteria for identification of different type of customers (KYC - Know Your Customer) • Clearly defined criteria for identifying suspicious transaction • Considering the vulnerability of products to money laundering activities • 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) in respect of transactions over Rs. 1,000,000 (in cash or cheque) 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.
<p>Data base in respect of Insurance Agent</p>	<p>AAI maintains a separate web page for its agents' information with direct access facility to IBSL for checking the agents' compliance with IBSL requirements.</p> <p>Further, our agents' meet the required qualifications as per section 78(4) of RIIA and we pay the commission to our agents and brokers as per section 88 of RIIA.</p>
<p>Insurance Brokers</p>	<p>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</p>
<p>Complying with advertising provisions</p>	<p>As per section 99(1) of the Regulation of Insurance Industry Act (RIIA), advertisements issued by insurers shall not contain any information or material that is false, incorrect or is likely to mislead the public.</p> <p>Further, as per Directive No.1 issued under section 99(1) of the Regulation of Insurance Industry Act, a certificate signed by the CEO is sent to the IBSL confirming that the advertisement is in conformity with the section 99(1) of the Regulation of Insurance Industry Act.</p> <p>Further, we follow the code of conduct implemented by IASL (Insurance Association of Sri Lanka) in relation to advertisement.</p>

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.

Director/CEO						
Salvage Committee	Capital Expenditure Committee	IT steering Committee	Supplies Committee	Actuarial Committee	Advertising Review Committee	
	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 AAI 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, valuation of life fund, expense allocation and regulatory requirements	Implementing advertising strategies in line with business strategies to protect the professional image of AAI.
Members	GM - Non Life and Finance, DGM - Non Life and Management Accountant	CEO, GM - Life, Non Life, Finance and Sales and Marketing.	CEO, GM - Life, Non Life, Finance and Sales and Marketing, Assistant General Manager - IT	GM - Finance, Non Life and Sales & Marketing, Assistant General Managers of Legal & HR& Administration, Marketing & Management Accountant	CEO, Consultant Actuary, GM - Life, Finance and Sales & Marketing, Manager - Life (Actuarial) and Senior Assistant Manager (Actuarial)	GM- Sales & Marketing, Non Life, Life and Finance, AGM - Marketing
Frequency of meeting planned & held	As and when need arises	As and when need arises	Quarterly	Quarterly	Monthly	Quarterly
Number of meeting cancelled	Nil	Nil	Nil	Nil	Nil	Nil

Risk management

“Systematic process of application of management policies, procedures and practices to the task of identifying, assessing and managing the impacts and likelihood of occurrence of risks via proactive, coordinated and continuous audit process across AAI”

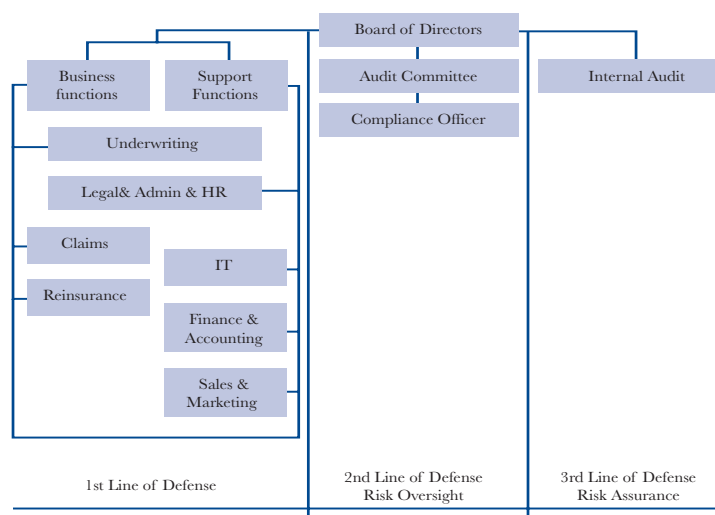
Objectives of Risk Management are as follows:

- Identifying the risks at the appropriate time via relevant risk identification methods
 - Establishment of effective internal control systems to mitigate all types of risks
 - Create awareness on risk management among staff and educate them on risk management processes
 - Communicate risk assessment and risk response to persons concerned
 - Obtaining quality, sufficient and accurate information in a timely manner for risk management
 - Ensure the existence of expertise in understanding technical and complex information
 - Establish risk appetite
 - To enable Asian Alliance Insurance PLC to be successful in achieving its financial and non-financial objectives
 - Continuous improvement in the ability to respond and mitigate risks AAI is facing
 - Maintains AAI's reputation
 - To assess the scale of risks in terms of likelihood and impact
 - To help AAI to be socially responsible and be seen as a good corporate citizen
 - To apply appropriate risk response strategy for each category of risk
- Promotion of strong risk management culture
 - Integration of risk considerations and capital needs into management and decision-making processes
 - The Board formulates business objectives and allocates capital resources, with the objective of balancing return on investment and risk
 - Report of key risk indicators alongside key performance indicators (eg monthly class wise claim ratio analysis is a good indicator for underwriting and claim management risks)
 - Adapted budget to reflect all possible risks
 - Priorities the risks in the order of importance
 - Develop contingency plans and link it with risk management to identify the root causes of major risks
 - Integrate risk scenario analysis into our flexible budget
 - Including mitigating cost in our flexible budget
 - Incorporating the upside (opportunities) and downside (threats) risks of investment

AAI promotes a truly professional culture in managing all risks. AAI has standard procedures for managing its risks. Regular reviews are conducted on a continuous basis for continuous improvement to make sure that these standards are complied with. In this way, we ensure that quality of our business is consistently high and that we respond swiftly to changes and new developments that enable AAI to deliver needs oriented products for our existing and potential clients.

AAI takes a holistic view of risk management and intrinsically incorporate it into performance management in the following manner to provide quality decision-making via our risk management framework:

AAI's Risk Management Governance Structure is as follows:



Risk management

Internal Audit & Risk Management

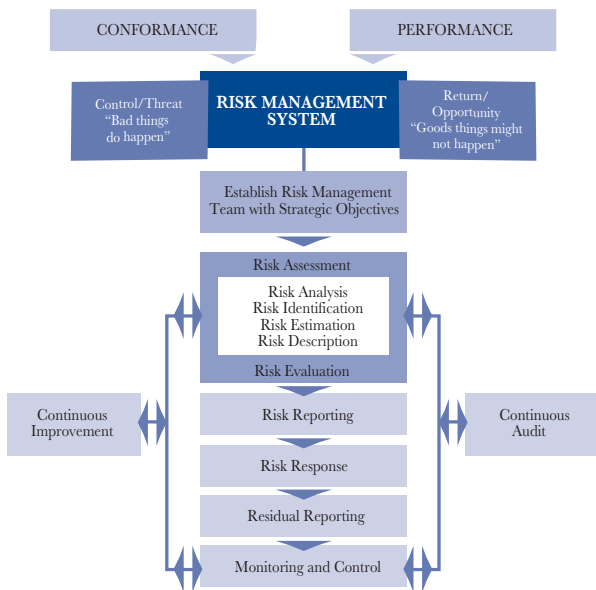
The internal audit function provides the Audit Committee with independent and objective assurance over the appropriateness, effectiveness, and sustainability of the Company's system of internal controls in place to mitigate significant risks.

The Internal Audit plan is based on a robust and structured planning process using a risk based methodology that allows the Compliance Officer to submit a quarterly report to be reviewed by the Audit Committee and do the necessary changes to the Company's risk profile.

The key internal control issues reported by the Internal Audit with Management responses to Audit Committee is monitored on a quarterly basis until the risk exposure has been properly mitigated.

The reports on financial malpractices are presented to Audit Committee including incidence of fraud, and anti money laundering procedures on a quarterly basis.

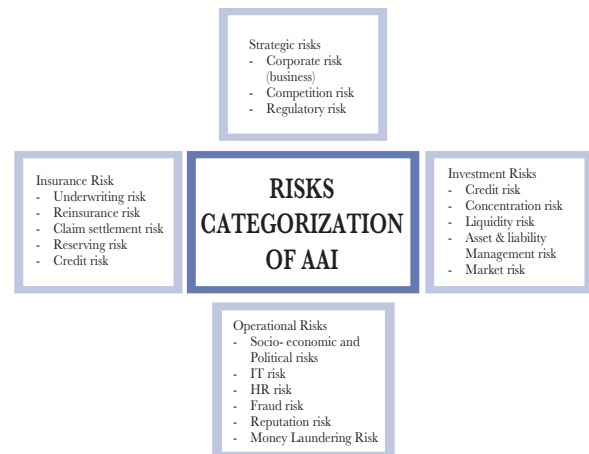
Risk Management Activities can be presented by way of a diagram as given below:



- AAI system includes relevant information on how risks are identified, prioritized and managed on a day-to-day basis. AAI identifies and takes responsibilities for all the existing and potential risks that the Company exposes via effective assignment of risk ownership among the management team members.

- Our conformance dimension of risk management is concerned with controlling the downside risks that may threaten the strategic objectives of the Company. Risk management in relation to performance is about taking advantages of opportunities to increase overall return for the Company.
- In other words, risk is not always a bad thing- it has an upside. Nonetheless, our risk management seeks to control the threats and ensure achievement of the opportunities. On the other hand, risk management in relation to conformance is focused on effective implementation of internal control systems so that performance targets can be achieved. In this way, performance monitoring and risk management are fully integrated.
- The core elements of our risk management are risk assessment, risk reporting, risk response, residual risk reporting, continuous monitoring and control via continuous audit. These elements come together to form the control systems which indicate the risks to AAI.

The main risk categorization of AAI:



AAI has categorized its total risks into four main risks (strategic, insurance, investment and operational) for its effective Risk Management Process on an on going basis.

AAI tries to close the gap between its risk profile and risk appetite via appropriate risk response strategies (risk treatment).

Our risks and corresponding risk response strategies are as follows:

Type of risks	Risk response strategies						
Strategic risks							
<p>Corporate Risk Failed to achieve the financial targets due to lack of focus on market condition, customer requirements and PEST (Political, Economic, Social and Technology) factors.</p>	<ul style="list-style-type: none"> Regular meetings of directors with the management to review the financial performance Doing market research to identify type of customer and their needs and develop innovative customer need oriented products Continuous scanning of environment (internal and external) and construct various scenario plannings. 						
<p>Competition Risk Losing market share due to failure to properly consider the changes in market conditions, competitors' actions and customer needs</p>	<ul style="list-style-type: none"> Understand the competitors objectives, strategies and actions by doing competitors analysis in an ethical way (on a regular basis) Introducing differentiated products with unique service via effective branding strategy with the special emphasis on true professionalism in all our business activities. 						
<p>Regulatory Risks It refers to not complying with regulatory (IBSL) requirements and statutory requirements scenarios and adopt strategies which are likely to support the most favourable scenario</p>	<ul style="list-style-type: none"> Strictly complying with the code of ethics of AAI in carrying out business activities Based on AAI's compliance program all the regulatory requirements (IBSL) are assigned to designated staff members in order to comply with the Circular # 18(total compliance) issued by the IBSL The compliance officer submits his audit findings by way of quarterly report to audit committee and the latter takes corrective actions via management AAI has obtained the same rating of BB+ as that of previous year (2008) from the Lanka Rating Agency Ltd on a stand alone basis on the soundness of the insurance operation (claim paying ability of Life and Non Life divisions) for 2009 as well Monthly compliance check list to check whether work has been completed within the due dates Preparing compliance hand book and incorporating the changes in laws using different versions of compliance hand book Checking the compliance of statutory payments 						
Insurance Risks							
<p>Underwriting Risk It refers to premium will not be sufficient to cover the future claim cost.</p>	<ul style="list-style-type: none"> Clearly defined underwriting procedure manual (Life & Non Life) that considers the reinsurance risk, claim reserving risk and money laundering risk. Providing appropriate training (in house and overseas) to underwriting staff to leverage their skills, knowledge and capabilities in underwriting. The Manual of Financial Authority (MOFA) limits the authority level applicable to each underwriting staff in relation to underwriting risk In the case of life insurance, all the new products are subject to an Actuary consultant verification Regular review of reinsurance support where underwriting risk exceeds the risk retention limit. 						
<p>Reinsurance Risk It refers to the inability of reinsurers to meet their contractual commitments due to insufficient financial strength and risks beyond the company's net retention capacity</p>	<ul style="list-style-type: none"> Reinsurance arrangements with companies who have high credit rating, financially sound and well known in the reinsurance industry. <p>Our reinsurers and their respective ratings are as follows: For Life Insurance Business</p> <table border="1"> <thead> <tr> <th>Name of Reinsurer</th> <th>Credit rating</th> <th>Rating agency</th> </tr> </thead> <tbody> <tr> <td>Munich Re</td> <td>AA-(very strong)</td> <td>Fitch</td> </tr> </tbody> </table>	Name of Reinsurer	Credit rating	Rating agency	Munich Re	AA-(very strong)	Fitch
Name of Reinsurer	Credit rating	Rating agency					
Munich Re	AA-(very strong)	Fitch					

Risk management

Type of risks

Risk response strategies

For General Insurance business

Name of Reinsurer	Credit rating	Rating agency
General Insurance Corporation India	A	A. M. Best
BEST Re-Malaysia	A	A. M. Best
Africa Re-Mauritius	A	A. M. Best
Asia Re	B++	A. M. Best
Lloyd Syndicate - Amlin	A	S & P
Lloyd Syndicate- Pembroke	A	S & P

- The Board with the help of management reviews our reinsurance ratings to ensure adequate reinsurance support
- Complying with regulatory provision in relation to reinsurance under section 31 of Regulation of Insurance Industry Act, No. 43 of 2000. Further, 20% of our reinsurance (Non Life) is with National Insurance Trust Fund Board as per the requirement in the National Insurance Trust Fund Act, No. 28 of 2006
- Examine underwriting result of acceptance periodically and reflect the result in our reinsurance procedure
- Monitor reinsurance market trends closely and respond to the changes of the market without delay
- AAI avoids over-concentration of risk by establishing retention limits for each product and diversifying balance reinsurance risk through high credit rating reinsurers

Claim settlement Risk

It refers to fraud (bogus claim), loss adjustments, litigation etc, when settling claims and not providing adequate reserves to meet future liabilities arising from claims in the general and life insurance and the maturities in the life insurance business

- Clearly defined claims settlement procedure which includes underwriting risk, reinsurance risk and money laundering risk
- Services of third parties (loss adjusters and assessors) for general insurance and medical specialist for life insurance are sought if necessary with thorough internal claim examination.
- Providing continuous training for claims management staff to enhance their skills and knowledge in claim settlement
- Any claim in the nature of fraudulent may be subject to rejection and or litigation, if necessary

Reserving Risk

This refers to inadequate provisioning of reserves for intimated claims and Incurred But Not Reported (IBNR) claims

- Providing appropriate reserves at the time of intimation subject to subsequent verification
- Clearly defined claim reserving procedure with frequent review
- Clearly defined criterion for initial reserve at the time of the intimation of claim and further reserve adjustment when the claim is finalized
- IBNR (Incurred But Not Reported) provision is made as per the suggestion of independent Consultant Actuary one a bi annual basis
- Life fund is subject to on a bi-annual review by an independent Consultant Actuary and other quarters are reviewed by our in -house Assistant Actuary. Further, provisioning of reserves to meet the claims liability is reviewed by the Actuary on a regular basis
- Providing continuous training for claims reserving staff to enhance their skills and knowledge in the claim reserving procedure.

Credit Risk

It refers to inability of debtors in settling the due within the credit period (specially in general insurance)

- Complying with the IBSL requirement of 60 days Premium Payment Warranty period
- Regular meetings with sales team and relevant personnel in order to discuss the outstanding debtors' balance for appropriate action before it exceeds the Premium Payment Warranty period
- Clearly defined credit policy for the collection of due from reinsurers and implementation of the same
- Clearly defined provisioning policy for outstanding premium receivable
- Clearly defined procedure for legal action for long outstanding debtors
- In the case of life insurance, credit risk is low as the premium is accounted on a cash basis and normally payment is made before the liability is assumed

Type of risks	Risk response strategies
Investment Risks	
<p>Credit Risk on investment This refers to counter party risk i.e capital and interest may not be paid by institutions on time</p>	<ul style="list-style-type: none"> Investments are made in less risk entities as per the guidance given by the Investment Committee At the investment committee meetings investment report provided by the fund manager is reviewed and suggestion will be made to improve the investment objectives and strategies AAI's major portion of investment are in the form of government securities and other investments with institutions which have high credit rating and or are guaranteed banks which have high credit rating (complying with IBSL requirement in relation to investment)
<p>Concentration Risk It refers to lack of diversification of investment</p>	<ul style="list-style-type: none"> Investment Committee reviews the asset allocation of investment portfolio of Life and General division on a regular basis Investment portfolio of life and general are diversified based on the factors such as regulatory requirements, macro and micro economic environment and liquidity position of the company with the recommendation of the Investment Committee
<p>Liquidity Risk It refers to insufficient availability of cash to make payment for claimants and reinsurers and delay in converting investment into cash</p>	<ul style="list-style-type: none"> Complying with IBSL requirements in relation to investment itself provides better diversification of investment strategy Major portion of investment is in the form of government securities (liquid investment) and in the highly liquid listed shares to meet liquidity needs Daily cash flow analysis to ensure the availability of liquid funds of Life and General divisions
<p>Asset and liability management Risk It arises due to mismatch of duration of the maturity profile of assets and liabilities</p>	<ul style="list-style-type: none"> AAI has an investment policy of maintaining optimum levels of investment in long term instruments as percentage against life fund and minimum levels of investment in the long term instruments as a percentage against the general insurance technical reserve while observing the market interest rates, inflation and environmental factors. Duration of the investments portfolio are based on the type of insurance business i.e. in the case of life insurance business most of the investments are in line with the maturity period of life insurance business and in the case of general insurance business most of the investment are in the form of short term investment
<p>Market Risk Due to direct hit of economic factors the prices of invested assets falling</p>	<ul style="list-style-type: none"> Monitoring market movements carefully to capitalize on opportunities Investment in instruments on a selective basis having considered the micro and macro economic environment and guide lines given by the Investment Committee This risk is reduced by investing in government securities, corporate debt and listed shares.
Operational Risks	
<p>Socio-economic and political Risk Due to economic downturn in local and global environment and political instability</p>	<ul style="list-style-type: none"> Socio- economic and political risks are incorporated into financial planning of the Company and monitored on a regular basis Regular SWOT analysis considering the AAI's business strategies, internal and external environment
<p>IT Risk It refers to loss of data from the system due to defective operation, illicit use and lack of IT control systems and break down of system due to viruses, disaster etc</p>	<ul style="list-style-type: none"> AAI has comprehensive IT Security policy and Disaster Recovery Plan and regular awareness program on the same and strictly complying with the same Our Information technology system itself has proper internal controls to mitigate IT related risks Regular back up facility for confidential data and stored it both on-site and off-site of AAI Internal and external auditors carry out IT System based audits on a regular basis and at the year end.

Risk management

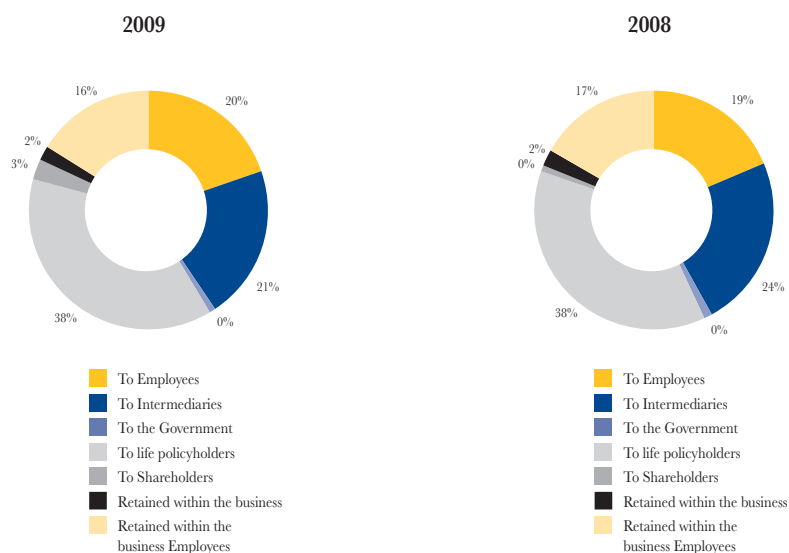
Type of risks	Risk response strategies
<p>HR Risk Main human resources risks are lack of skilled and qualified personnel, de-motivation and loss of staff</p>	<ul style="list-style-type: none"> • Providing continuous training (local and overseas) and relevant knowledge development and encouraging learning culture via effective knowledge management • Continuous staff development by providing financial assistance for education and other support • All confirmations, increments, salary revisions, promotion of senior management and succession planning for senior staff based on their contribution, experience and qualification.
<p>Fraud Risk This is due to weakness in the internal control systems</p>	<ul style="list-style-type: none"> • Effective internal control system (Fraud management system) to prevent fraud • Monthly internal audit report highlights the internal control weakness and suggestions to audit committee and subsequently audit committee monitors the implementation of those suggestions • All employees are screened at the time of recruitment and clear disciplinary procedure for fraud may be committed by any staff • AAI has an effective systems of internal controls which regularly monitored by the Audit Committee, Internal auditors and the Compliance Officer
<p>Reputation Risk Risk of negative publicity on company's goodwill</p>	<ul style="list-style-type: none"> • AAI has a policy of complying with regulatory and other statutory requirements • AAI evaluates its operation from the perspective of all stakeholders and taking appropriate actions if there are any shortcomings • AAI fully complies with section 99(1) of the Regulation of Insurance Industry Act, No. 43 of 2000 and relevant direction of IBSL in relation to advertisements in the media
<p>Money Laundering Risk The action of disguising the source of assets in order to avoid detection of the illegal activity from which they were derived</p>	<p>AAI has designed an Anti Money Laundering Program which includes the following key features:</p> <ul style="list-style-type: none"> • Procedure for identification of different type of customers (KYC - Know Your Customer) • Procedure for identifying suspicious transactions • Analyzing the vulnerability of products to money laundering activities • Designing mitigating strategies for money laundering activities • Record keeping procedure for verification and subsequent reference. • Mandatory reporting to FIU (Financial Intelligence Unit) in respect of transactions over Rs. 1,000,000 (in cash or cheque) in relation to premium, claims and refunds • Tracking process to follow up and monitoring of any suspected money launderer. • An automated notifying system to FIU of relevant details in a professional manner.

Value addition

	2009		2008	
	Rs.'000	%	Rs.'000	%
Net Earned Premium	1,156,051		1,055,063	
Investment and Other Income	398,806		233,112	
Reinsurance Commission Income	66,884		72,588	
	1,621,741		1,360,763	
Net Claims & Benefits	(363,081)		(232,636)	
Cost of External Services	(327,801)		(310,100)	
Value Addition	930,859		818,027	

Distribution of Value Added

To Employees	Salaries & Other Benefits	186,533	20%	156,046	19%
To Intermediaries	Insurance Commission	190,987	21%	194,852	24%
To the Government	Taxes	4,388	-	3,460	-
To life policyholders	Increase in Life Insurance Fund	356,427	38%	315,577	38%
To Shareholders	Dividends	31,298	3%	-	-
Retained within the business	Depreciation	16,448	2%	12,688	2%
Retained within the business	Revenue Reserves	144,778	16%	135,404	17%
		930,859	100%	818,027	100%



Financial
Analysis
& you

“ Company's compliance framework provides reasonable assurance that all relevant laws, rules, regulations, codes of ethics and standards of conducts have been followed. ”

Directors' report

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 2009 and the Auditors' Report thereon.

Review of Performance for the year ended 31st December 2009

The operations of the Company for the year ended 31st December 2009 are reviewed in the Chairman's Report.

Company Activities and structure

The principal activity of the Company is Insurance. The Company commenced Non Life Insurance business on 1st December 1999 & Life Insurance business on 1st April 2000.

The major shareholder of the Company is Asia Capital PLC which has a direct holding of 19.3% and indirect holding of 22.55% which amounts to 41.85% in total as at 31 December 2009.

Financial Statements

The Financial Statements of the Company are given on pages 72 to 99.

Auditor's Report

The Auditors' Report on the Financial Statements is given on page 71.

Accounting Policies

The Accounting Policies adopted in preparation of Financial Statements are given on pages 79 to 85. There were no material changes in the Accounting Policies during the year.

Gross Written Premium

The Company has underwritten a total amount of Rs.1,505,780,016 during the year (2008 - Rs.1,429,848,455) which is made up of Non Life Insurance amounting to Rs. 496,748,987 (2008-Rs. 459,771,009) and Life Insurance amounting to Rs. 1,009,031,029. (2008 - Rs. 970,077,446).

Financial Results

	2009 Rs.'000	2008 Rs.'000
Profit Before Taxation	147,107	131,146
Taxation	(2,329)	4,258
Profit After Taxation	144,778	135,404
Dividends Paid	(31,298)	-
Profit/(Loss) Brought Forward	154,060	18,656
Accumulated Profit at the end of the year	267,540	154,060

Dividends

The Directors have proposed a final dividend of Rs. 1.30 per share for the year ended 31 December 2009.

Property, Plant and Equipment

An analysis of the Property, Plant and Equipment of the Company is disclosed in Note No. 4 to the Financial Statements on page 89.

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 2009 was Rs. 250,000,000 comprising 25,000,000 fully paid ordinary shares.

Donations

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

Capital Commitments

The Capital Expenditure Commitments approved by the Board for the purchase of a Financial System as at 31 December 2009 is Rs. 24,827,000.

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.

The Directors have arranged external actuaries to value the life fund and the general claims incurred but not reported and the gratuity liability.

The basis adopted for provisioning is disclosed in Accounting Policy No 2.5.1 & 2.5.2 on page 82 and 83 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 Retained Earnings. The details and movements of reserves are disclosed in Note No. 16 to the Financial Statements on Page 94 and in the Statement of Changes in Equity on Page 74 to the Financial Statements.

Provision for Taxation

The provision for taxation is computed at the rates as disclosed in Note No. 24.1 on page 96 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 66.

Contingent Liabilities

There were no material contingent liabilities outstanding as at 31st December 2009.

Post Balance Sheet Events

No circumstances have arisen since the balance sheet date, which require adjustments or disclosure in the Financial Statements, except for the dividend proposed, disclosed in Note No. 29 to the Financial Statements on page 99.

Corporate Governance and Internal Controls

The Board of Directors have acknowledged the responsibility to ensure good governance in conducting the Business activities of the Company.

Company's compliance with rules on corporate governance are given in corporate governance report on page 45.

Having reviewed the effectiveness of the internal control systems the Directors assure that the Company has taken necessary precautions to safeguard the interest of its stakeholders.

Going Concern

After considering the financial position as at the balance sheet 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 2009 was 330 (2008 - 375)

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

The company has taken all steps to ensure the equitable treatment to all 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.

Directors during the Year/Changes

J. H. Paul Ratnayake - Chairman
(Appointed Chairman with effect from 15 July 2009)

H. L. L. Manohan Nanayakkara - Deputy Chairman
(Appointed Deputy Chairman on 15 July 2009)

Prof. Lakshman R. Watawala
Asanga C. Seneviratne
K. D. Dhammika Perera
W. D. Nimal H. Perera
Ramal G. Jasinghe
(Appointed Director on 15 July 2009)

S. Harsha Amerasekera
(Resigned with effect from 15 May 2009)
Lalit N De S Wijeyeratne

Note

Mr. Lalit N. De S. Wijeyeratne has since resigned as a Director with effect from 15 February 2010.

Mr. Ranjith J. Wickramasinghe has been appointed to the Board of Directors with effect from 15 February 2010.

Mr. R. Chanaka D. De Silva has been appointed to the Board of Directors with effect from 15 February 2010.

Rotation of Directors

Prof. Lakshman R. Watawala retires by rotation in accordance with Article 98 of the Articles of Association of the Company and being eligible, offers himself for re-election.

Mr. H. L. L. Manohan Nanayakkara retires by rotation in accordance with Article 103 of the Articles of Association of the Company and being eligible, offers himself for re-election.

Mr. Ranjith J. Wickramasinghe retires by rotation in accordance with Article 103 of the Articles of Association of the Company and being eligible, offers himself for re-election.

Mr. R. Chanaka D. De Silva retires by rotation in accordance with Article 103 of the Articles of Association of the Company and being eligible, offers himself for re-election.

Independent Directors

During the year Mr. W. D. Nimal H. Perera and Mr. Lalit N. De S. Wijeyeratne were deemed to be independent directors.

Note

On 15 February 2010, Mr. R. Chanaka D. De Silva and Mr. Ranjith J. Wickramasinghe have been appointed as independent directors.

Mr. R. Chanaka D. De Silva was a former Director of the Company and a former Chairman of the Sri Lanka Insurance Corporation and has considerable experience in the insurance field.

Mr. Ranjith J. Wickramasinghe was a former Chairman of the Sri Lanka Ports Authority and the Ceylon Shipping Corporation Ltd and a Fellow member of the Chartered Institute of Management Accountants and the Association of Chartered Certified Accountants.

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. 27 on page 98 to the Financial Statements.

Directors' report

Name of Director	Position	Company	Relationship
H. L. L. Manohan Nanayakkara J. H. Paul Ratnayeke Asanga C. Senevirathna	Chairman Director Director	Asia Capital PLC	Asia Capital PLC holds 19.3% direct and 22.55% indirect of shares of Asian Alliance Insurance PLC
J. H. Paul Ratnayeke H. L. L. Manohan Nanayakkara Asanga C. Senevirathna	Chairman Director Director	Asia Fort Sri Lanka Direct Investment Fund Ltd	Asia Fort Sri Lanka Direct Investment Fund Ltd holds 22.44% of shares of Asian Alliance Insurance PLC
H. L. L. Manohan Nanayakkara J. H. Paul Ratnayeke	Chairman Director	Asia Asset Finance Ltd	Group Company of Asia Capital PLC
J. H. Paul Ratnayeke H. L. L. Manohan Nanayakkara	Chairman Director	Asia Securities (Pvt) Ltd	Group Company of Asia Capital PLC
H. L. L. Manohan Nanayakkara Asanga C. Senevirathna	Director Director	Asia Siyaka Commodities (Pvt) Ltd	Group Company of Asia Capital PLC
H. L. L. Manohan Nanayakkara	Director	Investor Access Asia (Pvt) Ltd	Group Company of Asia Capital PLC
Prof. Lakshman R. Watawala J. H. Paul Ratnayeke	Director Director	Richard Pieris & Company PLC	Richard Pieris & Company PLC holds 15% of shares of Asian Alliance Insurance PLC
J. H. Paul Ratnayeke	Director	Richard Pieirs Distributors Ltd	Richard Pieris Distributors Ltd holds 10% of shares of Asian Alliance Insurance PLC
K. D. Dhammika Perera	Chairman	Vallibel Investments (Pvt)Ltd	Vallibel Investments (Pvt) Ltd holds 15% of shares of Asian Alliance Insurance PLC
K. D. Dhammika Perera	Chairman	Vallibel Leisure (Pvt) Ltd	Vallibel Leisure (Pvt)Ltd holds 1.58% of shares of Asian Alliance Insurance PLC
K. D. Dhammika Perera W. D. Nimal H. Perera	Chairman Director	Vallibel Power Erathna PLC	Director Related Entity
K. D. Dhammika Perera	Chairman	Vallibel Finance Ltd	Director Related Entity
K. D. Dhammika Perera W. D. Nimal H. Perera	Deputy Chairman Managing Director	Royal Ceramics Lanka PLC	Director Related Entity
K. D. Dhammika Perera W. D. Nimal H. Perera Lalit N. De S. Wijeyeratne	Deputy Chairman Director Director	LB Finance PLC	Director Related Entity
K. D. Dhammika Perera W. D. Nimal H. Perera	Shareholder Deputy Chairman	Pan Asia Banking Corporation PLC	Director Related Entity
Prof. Lakshman R. Watawala	Director	Lanka IOC PLC	Director Related Entity
K. D. Dhammika Perera	Chairman Director Director	Vallibel Lanka (Pvt) Ltd Sampath Bank PLC Hayleys PLC	Director Related Entity Director Related Entity Director Related Entity
J. H. Paul. Ratnayeke	Senior Partner	Paul Rathnayeke Associates	Director Related Entity
J. H. Paul Ratnayeke	Chairman	P. R.Secretarial Services (Pvt) Ltd	Director Related Entity

Directors' Interest in Shares

Name of The Director	As at 31 December 2009	As at 31 December 2008
Mr. J. H. Paul Ratnayeke	10,000	10,000
Mr. H. L. L. Manohan Nanayakkara	Nil	Nil
Mr. Lalit N. De S. Wijeyeratne	Nil	Nil
Prof. Lakshman R. Watawala	Nil	Nil
Mr. Asanga C. Senevirathna	1	1
Mr. K. D. Dhammika Perera	737,100	737,100
Mr.W. D. Nimal H. Perera	Nil	2,900
Mr. Ramal G. Jasinghe	Nil	Nil

Use of Company Information by Directors

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

Directors Fees & Remuneration

The amount of the Directors fees & Remuneration paid during the year is Rs. 6,860,833.

Shareholders

The number of registered shareholders of the Company as at 31st December 2009 was 381.

The distribution and analysis of shareholdings were as follows:

Resident	As at 31st December 2009				As at 31st December 2008		
	Number of Shares	No. of Shareholders	No. of Shares	% of Total	No. of Shareholders	No. of Shares	% of Total
1	- 1000	292	75,133	0.34	318	85,013	0.34
1001	- 5000	51	121,850	0.54	72	187,500	0.75
5001	- 10000	15	120,250	0.54	17	140,200	0.56
10001	- 50000	6	162,000	0.72	7	148,320	0.59
50001	- 100000	2	136,500	0.61	1	76,500	0.30
100001	- 500000	2	679,600	3.02	2	785,500	3.15
500001	- 1000000	2	1,362,100	6.06	2	1,362,100	5.46
1000001 & Over		6	19,814,467	88.17	7	22,172,967	88.85
Total		376	22,471,900	100.00	426	24,958,100	100.00

Resident / Non Resident

Resident / Non Resident	As at 31 December 2009			As at 31 December 2008		
	No. of Shareholders	No. of Shares	% of Total	No. of Shareholders	No. of Shares	% of Total
Resident	376	22,471,900	89.89	426	24,958,100	99.83
Non Resident	5	2,528,100	10.11	8	41,900	0.17
Total	381	25,000,000	100.00	434	25,000,000	100.00

Individual/Institution

Individual/Institution	As at 31 December 2009			As at 31 December 2008		
	No. of Shareholders	No. of Shares	% of Total	No. of Shareholders	No. of Shares	% of Total
Individual	347	3,658,874	14.64	397	1,321,674	5.28
Institutional	34	21,341,126	85.36	37	23,678,326	94.72
Total	381	25,000,000	100.00	434	25,000,000	100.00

Auditors

The Financial Statements for the year ended 31st December 2009 have been audited by Messrs. KPMG Ford, Rhodes, Thornton & Company (Chartered Accountants), who offer themselves for re-appointment.

A resolution relating to their re-appointment and authorising 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. 22 on Page 96 to the Financial Statements.

The Auditors of the Company, Messrs KPMG Ford, Rhodes, Thornton & Company do not have any relationship with the Company other than that of Auditors.

Annual Report

The Board of Directors approved the Company Financial Statements together with the reviews which forms part of the Annual Report on 15th February 2010. 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 Level 26, East Tower, World Trade Centre, Echelon Square, Colombo 01 on 22 March 2010 at 9.30 a.m. The notice of Annual General Meeting is given on page no 107.

P. R. Secretarial Services (Pvt) Ltd
Company Secretaries

On behalf of the Board.

J. H. Paul Ratnayeke
Chairman

Colombo
15 February 2010

Ramal G. Jasinghe
Director/CEO

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 71.

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 72 to 99, the Company has used appropriate accounting policies, consistently applied and supported by reasonable judgements 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 (SLAS) 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, and also the formats and disclosures are in accordance with the Statement of Recommended Practice for Insurance Contracts (SORP), adopted by the Institute of Chartered Accountants of Sri Lanka.

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 Balance Sheet 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.



J. H. Paul Ratnayeke
Chairman



Ramal G. Jasinghe
Director/CEO

Colombo
15 February 2010

CEO & CFO's responsibility statement

The Financial Statements are prepared in compliance with the Sri Lanka Accounting Standards (SLAS) 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. The formats and disclosures where applicable, are also in accordance with the Statement of Recommended Practice for Insurance Contracts (SORP), adopted by the Institute of Chartered Accountants of Sri Lanka. 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 Ford, Rhodes, Thornton & Co. 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.



Ramal G. Jasinghe
Director/CEO



Saliya Wickramasinghe
Chief Financial Officer

Colombo
15 February 2010

Audit committee report

Composition

The Audit Committee comprise Messrs Lalit N. De S. Wijeyeratne (Chairman), and W. D. Nimal H. Perera, both Non Executive Independent Directors of the Company. The Chairman is a fellow member of the Institute of Chartered Accountants of Sri Lanka with over twenty five years experience in finance.

Objectives

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

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, 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 Quarterly 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 (SLAS)
- Expanded the scope of the Internal Audit consultants role to ensure greater focus on internal controls and risk management .
- Considered the internal and external audit reports and identified the control weaknesses and accounting issues highlighted and directed management to take appropriate and relevant follow up actions.
- Reviewed the Compliance Report prepared by the Compliance Officer to ensure compliance with Directions of the Insurance Board and other regulatory and statutory requirements.
- Engaged the services of a firm of external consultants to carry out a comprehensive review of the company's IT systems, policies and controls.

Internal Audit

The Internal audit function is outsourced to Ernst and Young Advisory Services (Pvt) Ltd. The scope of work covers the Head Office functions and all its branch activities, and includes the

review of the adequacy 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. 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 Ford, Rhodes, Thornton and Company 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 and approach of the audit for 2009 prior to the commencement of the audit .

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

The Audit Committee has recommended to the Board of Directors that Messrs KPMG Ford, Rhodes, Thornton and Company be reappointed as Auditors for the financial year ending 31December 2010 subject to the approval of the shareholders at the annual general meeting. The committee has also made its recommendation to the Board in regards to the remuneration of 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 monthly basis.

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.



Lalit N. De S. Wijeyeratne
Chairman, Audit Committee

Colombo
15 February 2010

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, 2009

We have carried out an actuarial valuation of the Long Term Insurance Business as at 31 December, 2009. 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 31 December, 2009, for all liabilities in respect of the Long Term Insurance Fund, taking into account all current and contingent liabilities as at that date.
3. The Long Term Insurance Fund as included in the audited accounts as at 31 December, 2009, exceeded the required actuarial reserves as at 31 December, 2009 by Rs. 518.050 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. 65,481 million, including the solvency margin for the new reversionary bonus allotted as at 31 December 2009

M POOPALANATHAN
ACTUARY

15 February 2010

Report of the actuary - non life

PARTNERS :

D. K. PANDIT

B.Sc., LL.B., A.I.A. (London), F.I.A.I. (00131)

APPROVED VALUER

REGD. NO. : CAT/X-3 OF 1988

AKSHAY PANDIT

B.Sc., A.I.A.I. (00300)

M. G. DIWAN

M.Sc., F.I.A. (London), F.I.I.I., F.I.A.I. (00053)

N. K. PARIKH

M.Com., LL.B., A.I.A. (London), F.I.A.I. (00132)

P. I. MAJMUDAR

B.Com., F.I.A. (London), F.C.I.I., F.I.I.I., F.I.A.I. (00109)



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A'bad : (91-79) 2646 0734

Website : www.ka-pandit.com

M/S. K. A. PANDIT
CONSULTANTS & ACTUARIES
(ISO 9001:2008 CERTIFIED)

CERTIFICATE

As Consulting Actuaries to the Asian Alliance Insurance PLC, Colombo-02, Sri Lanka, we are required to estimate and certify the IBNR and IBNER Claims Reserves and AURR (Additional Unexpired Risk Reserve) of the Company's General Insurance Division as on 31st December, 2009.

(I) IBNR and IBNER Claims Reserves include the following:

The Company submitted the data, as required, which were analysed productwise. The distinguishing features of the Company's business, procedures and practices were noted; also the considerations impacting the calculations of IBNR/IBNER Claims Reserves were taken into account whilst applying appropriate methods to arrive at a scientific estimate of the IBNR/IBNER Claims Reserves required.

We certify, on the above basis, that the IBNR and IBNER Claims Reserves as on 31-12-2009 to be provided by the Asian Alliance Insurance PLC in respect of its non-life business are estimated as Rs.13,475,000 equal to 4.31% of the Net Earned Premium of Rs.312,551,976 as on 31-12-2009. They seem adequate and may be provided accordingly.

(II) Provision of AURR for the year ended 31-12-2009

1. The Company is required to provide UPR in respect of the insurance contracts that are still current at the close of the accounting year. This provision is variously known as URR (Unexpired Risk Reserve) when it is less than or equal to UPR or Additional URR when it is expected to exceed UPR.

2. For the year ended 31-12-2009, we take a view that AURR (as defined above) is not exactly necessary to be provided for the reasons adduced herein below:

The Company is in the growth mode, expanding at the rate of 21% compounded. Expansion is accompanied with strain. World over, for the insurance companies the gestation period is 7- 10 years. The insurance is a cyclical business and hence a long-term view has to be taken of the results. The company has to be viewed as a "going concern" only and accordingly it has to be allowed a smooth passage where the fortunes of the policyholders are not threatened. Also there is a margin of 3% of the NEP in the IBNR/IBNER provision recommended, which can be diverted and considered towards other reserves.

Thus on the basis of figures as also general reasoning and taking a holistic view, no AURR is recommended for the year ended 31-12-2009.

(N. K. PARIKH)
(PARTNER)
Mumbai, India,

3 February, 2010.

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Independent auditors' report



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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 balance sheet as at December 31, 2009, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes set out on pages 72 to 99 of this 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 principles 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, 2009 and the financial statements give a true and fair view of the Company's state of affairs as at December 31, 2009 and its profit and 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. Further, pursuant to Regulation of Insurance Industry Act, No. 43 of 2000 proper accounting records have been maintained as required by the related rules.

Chartered Accountants

15 February 2010
Colombo, Sri Lanka.

Balance sheet

As at 31st December	Note	Company	
		2009 Rs.'000	2008 Rs.'000
Assets			
Investments	3	2,314,576	1,787,010
Property, Plant & Equipment	4	65,564	54,136
Policy Loans & Other Loans	5	31,453	13,915
Reinsurance Receivable		41,041	45,940
Premium Receivable	6	74,517	105,926
Other Assets	7	152,872	103,291
Cash & Bank Balances	8	52,140	30,507
Total Assets		2,732,163	2,140,725
Liabilities & Shareholders' Equity			
Liabilities			
Insurance Provision Life	9	1,560,395	1,203,968
Insurance Provision Non-Life	10	275,602	246,139
Reinsurance Creditors	11	87,192	55,654
Other Liabilities	12	248,007	206,877
Amounts Due to Related Companies	13	12,362	2,976
Provision for Retirement Benefits	14	14,653	10,871
Bank Overdraft		16,412	10,180
Total Liabilities		2,214,623	1,736,665
Shareholders' Equity			
Stated Capital	15	250,000	250,000
Revenue Reserves	16	267,540	154,060
Total Shareholders' Equity		517,540	404,060
Total Liabilities & Shareholders' Equity		2,732,163	2,140,725

The above Balance Sheet is to be read in conjunction with the Notes to the Financial Statements on Pages 79 to 99.

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



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:



J. H. Paul Ratnayake
Chairman



Ramal G. Jasinghe
Director/CEO

Colombo
15 February 2010

Statement of income

For the year ended 31st December	Note	Company		Change %
		2009 Rs.'000	2008 Rs.'000	
Revenue	17.2	1,621,741	1,360,763	19
Gross Written Premium		1,505,780	1,429,848	5
Reinsurance Premium		(345,833)	(318,298)	9
Net Written Premium		1,159,947	1,111,550	4
Net Change in Reserve for Unearned Premium	10.1	(3,896)	(56,487)	(93)
Net Earned Premium	17	1,156,051	1,055,063	10
Benefits, Losses and Expenses				
Increase in Insurance Provision -Life	9.1	(356,427)	(315,577)	13
Net Insurance Claims & Benefits	18	(363,081)	(232,636)	56
Net Acquisition Cost	19	(157,460)	(145,292)	8
Underwriting Result		279,083	361,558	(23)
Other Revenue				
Income from Investment	20.1	391,695	229,769	70
Other Income	20.2	7,111	3,343	113
Expenses				
Operating & Administration Expenses	21	(523,168)	(458,821)	14
Profit From Operations	22	154,721	135,849	14
Financial Expenses	23	(7,614)	(4,703)	62
Profit Before Taxation		147,107	131,146	12
Income Tax (Expense)/Reversal	24	(2,329)	4,258	(155)
Net Profit for the Year		144,778	135,404	7
Earnings Per Share	25	5.79	5.42	
Dividends Per Share	26	1.30	1.25	

The above Statement of Income is to be read in conjunction with the Notes to the Financial Statements on pages 79 to 99.

Statement of changes in equity

	Stated Capital Rs.'000	Accumulated Profit/(Loss) Rs.'000	Total Rs.'000
Balance as at 1 January 2008	250,000	18,656	268,656
Net Profit for the Year		135,404	135,404
Balance as at 31st December 2008	250,000	154,060	404,060
Net Profit for the Year	-	144,778	144,778
Dividend Paid	-	(31,298)	(31,298)
Balance as at 31st December 2009	250,000	267,540	517,540

The above Statement of Changes in Equity is to be read in conjunction with the Notes to the Financial Statements on pages 79 to 99.

Cash flow statement

For the year ended 31st December	Non-Life Insurance		Life Insurance		Company	
	2009	2008	2009	2008	2009	2008
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
CASH FLOWS FROM OPERATING ACTIVITIES						
Premium Received from Customers	587,768	502,704	1,016,931	976,884	1,604,699	1,479,588
Reinsurance Premium Paid	(121,184)	(130,581)	(120,341)	(151,398)	(241,525)	(281,979)
Claims Paid	(306,134)	(531,588)	(124,062)	(90,452)	(430,196)	(622,040)
Reinsurance Receipt in respect of Claims	37,384	258,469	53,859	47,171	91,243	305,640
Cash paid to and on behalf of employees	(79,682)	(68,698)	(81,502)	(63,606)	(161,184)	(132,304)
Salvage income	7,259	8,165	-	-	7,259	8,165
Fund Transfer to Non Life division	195,000	160,000	(195,000)	(160,000)	-	-
Reimbursement of Overhead Expenditure from life	45,205	39,811	(45,205)	(39,811)	-	-
Operating Cash Payments	(254,495)	(205,662)	(373,649)	(421,593)	(628,144)	(627,255)
Cash Inflow from Operating Activities (Note A)	111,121	32,620	131,031	97,195	242,152	129,815
Tax paid	(4,388)	(3,460)	-	-	(4,388)	(3,460)
Interest Paid	(3,333)	(1,828)	(28)	(390)	(3,361)	(2,218)
Net Cash flows from Operating Activities	103,400	27,332	131,003	96,805	234,403	124,137
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of Investments	(413,821)	(499,985)	(2,942,778)	(454,187)	(3,356,599)	(954,172)
Sale of Investments	267,661	426,302	2,633,491	178,394	2,901,152	604,696
Interest & Dividend income received	76,732	56,827	215,535	193,082	292,267	249,909
Purchase of Property, Plant & Equipment	(5,999)	(9,483)	(22,833)	(19,336)	(28,832)	(28,819)
Proceeds on Sale of Property, Plant & Equipment	4,308	2,863	-	-	4,308	2,863
Net Cash flows from Investing Activities	(71,119)	(23,476)	(116,585)	(102,047)	(187,704)	(125,523)
Net Cash Flow before Financing	32,281	3,856	14,418	(5,242)	46,699	(1,386)
CASH FLOWS FROM FINANCING ACTIVITIES						
Dividend Paid	(31,298)	-	-	-	(31,298)	-
Net Cash from/(used in) Financing Activities	(31,298)	-	-	-	(31,298)	-
Net Increase/(Decrease) in Cash and Cash Equivalents (Note B)	983	3,856	14,418	(5,242)	15,401	(1,386)

Cash flow statement

For the Year Ended 31st December	Non-Life Insurance		Life Insurance		Company	
	2009	2008	2009	2008	2009	2008
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
A. Reconciliation of Operating Profit with Cash Flows from Operating Activities						
Profit/(Loss) before Taxation	147,107	131,146	-	-	147,107	131,146
Increase in Insurance Provision - Life	-	-	356,427	315,577	356,427	315,577
Depreciation Charges	5,291	3,102	11,157	9,586	16,448	12,688
Provision for Retirement Benefits	3,199	1,445	1,809	914	5,008	2,359
Retirement Benefit Paid	(1,121)	(368)	(105)	(333)	(1,226)	(701)
Interest Paid	3,333	1,828	28	390	3,361	2,218
Interest & Dividend Income	(79,927)	(58,206)	(239,467)	(205,096)	(319,394)	(263,302)
Realised Capital (Gain)/Loss	444	(1,784)	(16,461)	(1,674)	(16,017)	(3,458)
Unrealised Capital (Gain)/Loss	(4,440)	2,719	(51,844)	34,272	(56,284)	36,991
Profit on Sale of Fixed Assets	(3,356)	(1,943)	-	-	(3,356)	(1,943)
(Increase)/Decrease in Debtors and Other Assets	(5,907)	208,679	(30,547)	(41,858)	(36,454)	166,821
Increase/(Decrease) in Non-Life Insurance Prov.	29,463	(167,563)	-	-	29,463	(167,563)
Increase/(Decrease) in Creditors & Accruals	17,035	(86,435)	100,034	(14,583)	117,069	(101,018)
Cash Inflow from Operating Activities	111,121	32,620	131,031	97,195	242,152	129,815
B. Increase in Cash and Cash Equivalents						
Cash in Hand & at Bank.	11,296	4,081	40,844	26,426	52,140	30,507
Bank Overdraft	(16,412)	(10,180)	-	-	(16,412)	(10,180)
Net cash & cash equivalents for the current year	(5,116)	(6,099)	40,844	26,426	35,728	20,327
Net cash & cash equivalents for the previous year	(6,099)	(9,955)	26,426	31,668	20,327	21,713
Increase/(Decrease) in Cash and Cash Equivalents	983	3,856	14,418	(5,242)	15,401	(1,386)

The above Cash Flow Statement is to be read in conjunction with the Notes to the Financial Statements on pages 79 to 99.

Statement of income - segment review

For the Year Ended 31st December	Non-Life Insurance		Life Insurance		Company		
	2009	2008	2009	2008	2009	2008	
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	
Gross Written Premium	496,749	459,771	1,009,031	970,077	1,505,780	1,429,848	
Reinsurance Premium	(180,301)	(159,670)	(165,532)	(158,628)	(345,833)	(318,298)	
Net Written Premium	316,448	300,101	843,499	811,449	1,159,947	1,111,550	
Net Change in reserves for Unearned Premium	10.1	(3,896)	(56,487)	-	-	(3,896)	(56,487)
Net Earned Premium	17	312,552	243,614	843,499	811,449	1,156,051	1,055,063
Non-Life Insurance losses & loss adjustment expenses	18	275,552	183,734	-	-	275,552	183,734
Life insurance benefits	18	-	-	87,529	48,902	87,529	48,902
Increase in Insurance Provision - Life	9.1	-	-	356,427	315,577	356,427	315,577
Net Acquisition Cost	19	(8,076)	(10,327)	165,536	155,619	157,460	145,292
Total Benefits & Losses		267,476	173,407	609,492	520,098	876,968	693,505
Underwriting Results		45,076	70,207	234,007	291,351	279,083	361,558
Income From Investment	20.1	83,923	57,271	307,772	172,498	391,695	229,769
Other Income	20.2	3,356	1,943	3,755	1,400	7,111	3,343
Operating & Administration Expenses	21	(177,633)	(157,908)	(345,535)	(300,913)	(523,168)	(458,821)
Profit/(Loss) From Operations	22	(45,278)	(28,487)	199,999	164,336	154,721	135,849
Financial Expenses	23	(2,615)	(367)	(4,999)	(4,336)	(7,614)	(4,703)
Profit/(Loss) Before Taxation		(47,893)	(28,854)	195,000	160,000	147,107	131,146
Income Tax (Expense)/Reversal	24	(2,329)	4,258	-	-	(2,329)	4,258
Net Profit/(Loss) for the Year		(50,222)	(24,596)	195,000	160,000	144,778	135,404

Balance Sheet - segment review

As at 31st December	Non-Life Insurance		Life Insurance		Company		
	2009	2008	2009	2008	2009	2008	
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	
Assets							
Investments	3	681,964	531,807	1,632,612	1,255,203	2,314,576	1,787,010
Property, Plant & Equipment	4	17,790	18,038	47,774	36,098	65,564	54,136
Policy Loans & Other Loans	5	841	1,342	30,612	12,573	31,453	13,915
Reinsurance Receivable		41,041	43,209	-	2,731	41,041	45,940
Premium Receivable	6	74,517	105,926	-	-	74,517	105,926
Other Assets	7	75,733	30,493	109,803	70,631	152,872	103,291
Cash & Bank Balances	8	11,296	4,081	40,844	26,426	52,140	30,507
Total Assets		903,182	734,896	1,861,645	1,403,662	2,732,163	2,140,725
Liabilities & Shareholders' Equity							
Liabilities							
Insurance Provision Life	9	-	-	1,560,395	1,203,968	1,560,395	1,203,968
Insurance Provision Non-Life	10	275,602	246,139	-	-	275,602	246,139
Reinsurance Creditors	11	33,985	21,834	53,207	33,820	87,192	55,654
Other Liabilities	12	44,099	42,911	236,572	161,799	248,007	206,877
Amounts Due to Related Companies	13	6,670	2,976	5,692	-	12,362	2,976
Provision for Retirement Benefits	14	8,874	6,796	5,779	4,075	14,653	10,871
Bank Overdraft		16,412	10,180	-	-	16,412	10,180
Total Liabilities		385,642	330,836	1,861,645	1,403,662	2,214,623	1,736,665
Shareholders' Equity							
Stated Capital	15	250,000	250,000	-	-	250,000	250,000
Revenue Reserves	16	267,540	154,060	-	-	267,540	154,060
Total Shareholders' Equity		517,540	404,060	-	-	517,540	404,060
Total Liabilities & Shareholders' Equity		903,182	734,896	1,861,645	1,403,662	2,732,163	2,140,725

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, Millennium House, 46/58, Nawam Mawatha, Colombo 02.

The Company is engaged in the principal business of Insurance.

The Financial Statements of Asian Alliance Insurance PLC for the year ended 31 December 2009 were authorised for issue in accordance with a resolution of the Board of Directors on 15 February 2010.

2. Summary of Significant Accounting Policies

2.1. Basis of Preparation

2.1.1. Statement of Compliance

The Financial Statements have been prepared and approved by the Directors in accordance with Sri Lanka Accounting Standards (SLAS), and the requirements of the Companies Act, No. 07 of 2007, the Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995, and the Regulation of Insurance Industry Act, No. 43 of 2000. The formats and disclosures where applicable are also in accordance with the Statement of Recommended Practice for Insurance Contracts (SORP), adopted by the Institute of Chartered Accountants of Sri Lanka.

2.1.2 Responsibility for Financial Statement

The Board of Directors is responsible for the preparation and presentation of the Financial Statements.

2.1.3. Basis of Measurement

The Financial Statements are presented in Sri Lankan rupees and rounded to the nearest thousand and prepared on the historical cost convention, except for the investments in equity shares which are recorded at Market Value.

The Non Life Balance Sheet represents the assets, liabilities and equity of the shareholders. The life insurance Balance Sheet represents assets and liabilities of the life insurance fund.

The Statement of Income reflects the underwriting results, investment & other income of the Non-Life insurance business as well as the life insurance business.

The Accounting Policies have been applied consistently by the company.

2.1.4. Use of Estimates & Judgements

The preparation of Financial Statements in conformity with Sri Lanka Accounting Standards (SLAS) require management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by Management in the application of Sri Lanka Accounting Standards (SLAS) that have significant effect on the Financial Statements and estimates, are mentioned below.

Critical Accounting Estimate/Judgement	Disclosure Reference	
	Note	Page
Insurance Provision - Life Unearned premium	9	91
Deferred Acquisition Cost	10.1	91
Provision for Gross Outstanding Claims	10.2	91
Provision for IBNR/IBNER	10.3	91
Provision for Retirement Benefits	10.4	91
Deferred Taxation - Utilisation of Losses	14	93
	24.3	97

2.1.5. Comparative Information

The accounting policies have been consistently applied by the Company.

Comparative figures have been re-classified wherever necessary to conform to the current year's presentation.

The changes made to comparative classification is disclosed in Note No. 30 to the Financial Statements on page 99.

2.1.6. Segment Reporting

Segmental information is based on industry segments reflecting the Company's management structure. A Segment is a distinguishable component of the Company engaged in providing services subject to the risks and rewards that are different to those of the segment.

Notes to the financial statements

The segment reporting format is based on the Company's core business that is Non -Life & Life insurance.

Disclosure by geographical region is not provided for, as the Company's activities are located in Sri Lanka and the economic environment in which the Company operates is not subject to risk and return that are significantly different on a geographical basis.

2.1.7. Foreign Currency Transactions

All foreign exchange transactions are converted to Sri Lankan 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 recognised accordingly.

Monetary assets and liabilities denominated in foreign currencies are translated to Sri Lankan 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 Income.

2.1.8 Taxation

a) Current Taxes

The provision for income tax is based on the elements of income and expenditure as reported in the Financial Statements and computed in accordance with the provisions of the Inland Revenue Act No 10 of 2006 and subsequent amendments thereon.

b) Deferred Taxation

Deferred taxation is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax base of assets and liabilities, which is the amount attributed to those assets and liabilities for tax purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted by the reporting date.

Deferred tax assets, including those related to temporary tax effects of income tax losses and credits available to be carried forward, are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. 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 realised.

The carrying amount of deferred tax asset is reviewed at each balance sheet date and reduced by the extent that it is no longer probable that sufficient

taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Unrecognized Deferred Tax Assets is disclosed in Note No. 24.3 to the Financial Statement on page 97.

2.1.9 Borrowing Costs

Borrowing costs are recognised as an expense in the period in which they are incurred. Borrowing costs comprise of bank charges and interest payable on Bank Overdrafts.

2.1.10 Cash Flow Statement

The Cash Flow Statement has been prepared using the direct method. For cash flow purpose, cash and cash equivalents are presented net of bank overdrafts.

2.2 Valuation of Assets and their Measurement Bases

2.2.1. Investments

a) Investment in Trading Equity Shares

Investment made in equity shares with the intention of disposing in the near future is valued at market value. The market value is determined on an aggregate portfolio basis.

Unrealised gains and losses on investments carried at market value i.e. reduction to market value and reversals of such reductions required to reflect the investments at market value, are credited or charged to the Statement of Income.

b) Investment in Government securities

Investment in treasury bills and treasury bonds are stated at cost and interest is accrued over the maturity period.

c) Investment in Debt Instruments and Bank Deposits

Investment in Debt Instruments and Bank Deposits are stated at cost and interest is accrued over the maturity period

The cost of an investment is the cost of acquisition inclusive of brokerage fees, and bank fees.

The carrying amount of long-term investments is reduced to recognise a decline other than temporary in the value of investments, determined on an individual investment basis.

d) Securities Purchased Under Resale Agreements (Reverse Repurchase Transactions)

These are loans collateralised by the purchase of Treasury Bills from the counter party to whom the loans are granted. The sale by the counterparty is subject to a commitment by the Company to sell back the underlying debt securities to the borrower at a predetermined price. These loans are stated in the Balance Sheet at cost.

2.2.2 Property Plant and Equipment

a) Cost

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

The cost of Property, Plant & Equipment is the cost of acquisition or construction together with any expenses incurred in bringing the asset to its working condition for its intended use.

Purchased software which is integral to the computer equipments or the self generated type of software is capitalised under this category.

b) Restoration Costs

The cost of replacing part of an item of Property, Plant & Equipment is recognised 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 & Equipment is charged to the Statement of Income as and when incurred.

c) Depreciation

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

Office Equipment	5 Years
Computer Hardware	5 Years
Computer Software	5 Years
Furniture & Fittings	10 Years
Fixtures & Fittings	5 Years
Motor Vehicle	4 Years

Depreciation is provided on Property, Plant & Equipment; from the following month of purchase to the month of disposal.

d) 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 recognised in the Statement of Income

e) De-recognition

An item of Property, Plant and Equipment is de-recognised 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 Income in the year the asset is de-recognised.

When replacement costs are recognised in the carrying amount of an item of Property, Plant & Equipment, the remaining carrying amount of the replaced part is derecognised.

2.2.3. Leases

a) Operating Leases

Leases where the lessor effectively retains substantially all the risks and rewards of ownership over the leased term are classified as operating leases.

Lease payments (excluding costs for services such as insurance and maintenance) paid under operating leases are recognised as an expense in the Statement of Income on a straight-line basis over the lease term.

2.2.4. Trade & Other Receivables

a) Premium Receivable

Collectibility of premium and other debtors are reviewed on an ongoing basis. Debts, which are known to be uncollectible, are written off. A provision for doubtful debts is raised for any long outstanding receivables in terms of a policy agreed by the Board of Directors.

b) Reinsurance Receivable

Reinsurance assets include the balances due from both insurance and reinsurance companies for paid and unpaid losses and loss adjustment expenses. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance is recorded gross in the Balance Sheet unless a right to offset exists.

c) Other Receivables

Other receivables and dues from Related Parties are recognised at cost .

2.2.5 Inventories

Inventory consists mainly of stationery, printed material and complimentary items.

Inventories are stated at cost after making due allowances for obsolete and slow moving items. Cost is determined on a weighted average basis.

2. 2.6. Cash & Cash Equivalents

Cash and cash equivalents are defined as cash in hand and at banks.

2.2.7 Impairment of Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exist, the asset's recoverable amount is estimated. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses are recognised in the Statement of Income

Notes to the financial statements

2.3. Liabilities and Provisions

2.3.1 Provisions

Provisions are recognized when the company has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

2.3.2 Reinsurance Payables

Reinsurance liability consists of reinsurance premium due to reinsurers in respect of the Reinsurance contracts that are entered into by the Company.

2.3.3 Retirement Benefit Obligations

a) Defined Benefit Plan- Gratuity

Provision has been made for retirement gratuities from the first year of service for all employees in conformity with SLAS 16. However under the Payment of Gratuities Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service. The Provision is not externally funded.

The Gratuity Liability is actuarially valued as required by the Sri Lanka Accounting Standard 16-Employee Benefits

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

Employees are eligible for Employees' Provident Fund Contributions and Employees' Trust Fund Contributions in line with the respective statutes and regulations. The Company contributes 12 % and 3% of gross emoluments of employees to Employees' Provident Fund and Employees' Trust Fund respectively.

2.3.4 Commitments and Contingencies

Commitments and contingencies as at the balance sheet date is disclosed in Note No. 28 to the Financial Statements on page 99.

2.3.5 Events occurring after the Balance Sheet Date

All material post balance sheet events have been considered and where appropriate adjustments or disclosures have been made in Note No. 29 the Financial Statements on Page 99.

2.4 Stated Capital

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

2.5 Statement of Income

2.5.1 Non - Life (General) Insurance Business

a) Gross Written Premium

Gross Written Premium is generally recognised as written upon inception of the policy. Upon inception of the contract, premiums are recorded as written and are earned primarily on a pro-rata basis over the

term of the related policy coverage. However, for those contracts for which the period of risk differs significantly from the contract period, premiums are earned over the period of risk in proportion to the amount of insurance protection provided. Earned premiums are calculated on the 365 basis except for marine business, which is computed on a 60-40 basis.

b) Reinsurance premium

Reinsurance premium expense is recognised in the same accounting period as the gross written premium to which it relates or in accordance with the pattern of reinsurance services received.

c) Unearned Premium

The unearned premium reserve represents the portion of the gross written premium and reinsurance premium written in the current year but relating to the unexpired period of coverage.

Unearned premiums are calculated on the 365 basis except for marine business, which is computed on a 60-40 basis in accordance with the rules made by the Insurance Board of Sri Lanka.

d) Unexpired Risks

Provision is made where appropriate for the estimated amount required over and above unearned premium to meet future claims and related expenses on the business in force as at 31st December.

e) Claims

Claims expense and a liability for outstanding claims are recognised in respect of direct and inwards reinsurance business. The liability covers claims reported but not yet paid, IBNR (Incurred But Not Reported) claims, IBNER (Incurred But Not Enough Reported) 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 (Incurred But Not Enough Reported) is actuarially valued to ensure a more realistic estimation of the future liability based on past experience and trends.

Actuarial valuations are performed on an annual basis. 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 adjustments 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.

f) Deferred Acquisition Costs

Deferred Acquisition costs represents commissions and reinsurance commission, which are deferred and amortised over the period in which the related written premiums are earned. This is computed on the 365 basis.

2.5.2. Life (long term) insurance business

a) Gross Written Premium

Premiums from traditional long term insurance contracts, including participating contracts and annuity policies with life contingencies, are recognised as revenue when cash is received from the policyholder. Benefits and expenses are provided against such revenue to recognise profits over the estimated life of the policies.

The single premium contracts premiums are recognised as income when cash is received.

b) Reinsurance contracts

Outward reinsurance premiums are recognised when payable. Reinsurance recoveries are credited to match the relevant gross claims.

c) Claims

Death claims are recorded on the basis of notifications received. Surrenders, maturities and annuity payments are recorded when due. Claims payable includes direct costs of settlement. The interim payments and surrenders are accounted only at the time of settlement.

The actuarial valuation takes into account all liabilities and is based on assumptions recommended by the Consultant Actuary.

d) Insurance Provision Life

Long duration contract liabilities included in the Long Term Insurance Fund, result primarily from traditional participating and non-participating Long Term Insurance products. Short duration contract liabilities are primarily group term, accident and health insurance products. The actuarial reserve/insurance provision has been established based upon the following.

- Interest rates which vary by product, as required by regulations issued by the Insurance Board of Sri Lanka.
- Mortality rates based on published mortality tables adjusted for actual experience, as required by Regulations issued by the Insurance Board of Sri Lanka.
- Surrender rates based upon actual experience.

The amount of policy holder bonus to be paid is determined annually by the Company, on the advice of the Actuary. The bonus includes life policy holders' share of distributable surplus as certified by the Actuary, that are required to be allocated by the insurance contract or by insurance regulations.

2.5.3 Investment Income Recognition

a) Interest

Interest Income is recognised as the interest accrued based on the agreed rates, unless collectibility is in doubt.

b) Dividends

Dividend Income is recognised when the shareholders' right to receive the payment is established.

c) Others

Other income is recognised on an accrual basis. Net Gains and losses of a revenue nature on the disposal of property, plant & equipment and other non current assets including investments have been accounted for in the Statement of Income, having deducted from proceeds on disposal, the carrying amount of the assets and related selling expenses.

2.5.4 Expenditure Recognition

a) Expenses are recognised in the Statement of 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 & equipment in a state of efficiency has been charged to Statement of Income in arriving at the profit for the year.

b) For the purpose of presentation of the Statement of 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.

2.6 Financial Risk Management

Overview

The Company has exposure to the following risks from its use of financial instruments like investments and receivables:

- credit risk
- liquidity risk
- market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. Risk Management Committee, is responsible for developing and monitoring the Company's risk management policies.

The Company's risk management policies are established to identify and analyse the risks faced by the Company to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

The Company's Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures. The Audit Committee is assisted in its oversight role by Internal Audit who undertakes both regular and ad hoc reviews of risk management

Notes to the financial statements

controls and procedures, the results of which are reported to the Audit Committee.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment securities.

Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer and the intermediaries.

Company has established a credit policy under which each new customer is analysed individually for creditworthiness before the Company standard payment terms and conditions are offered. The Company review includes external ratings, when available, and in some cases even references. Credit limits are established for each customer, and intermediary who represents the maximum open amount without requiring approval from the Credit Control Unit.

Investments

The Company limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have a credit rating of at least BBB (lk) from Fitch rating and RAM Rating. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company reputation.

Company uses the actuarially certified product pricing and zero based budgeting, which assists it in monitoring cash flow requirements and optimising its cash return on investments. Typically the Company ensures that it has sufficient cash on demand to meet expected claims, reinsurance premiums and operational expenses on due dates. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Company maintains the following lines of credit:

Rs.15 million overdraft facility from Sampath Bank that is unsecured. Interest would be payable at the rate of AWPR +3% subject to a maximum of 17% p.a.

Rs 10 million overdraft facility from Pan Asia Bank that is unsecured. Interest would be payable at the rate of 18.5% p.a.

Market risk

Market risk is the risk that changes in market prices, such as interest rates and equity prices will affect the Company income or the value of its holdings. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

In order to manage the market risk the Company has adopted to the following:

- Company to follow the investment guidelines stipulated by the Regulator
- Company has adopted a stop-loss policy when any equity investment drop more than 10% and action will be taken by the Investment Committee.

2.7 New Accounting standards issued but not effective as at Balance Sheet date

The Institute of Chartered Accountants of Sri Lanka (ICASL) has issued the two new standards given below, which become effective for annual periods beginning on or after 1 January 2011. Accordingly these Standards have not been applied in preparing these financial statements as they are not effective for the year ended 31 December 2009.

- Sri Lanka Accounting Standard 44 - Financial Instruments: Presentation (SLAS 44)
- Sri Lanka Accounting Standard 45 - Financial Instruments: Recognition and Measurement (SLAS 45)

These Standards require application of fair value measurement techniques for financial instruments.

Sri Lanka Accounting Standard 44 - Financial Instruments: Presentation provides for the following,

- Guidance regarding the classification of financial instruments as equity or debt, and for the accounting for compound instruments with characteristics of both equity and debt instruments based on the substance of the contractual arrangement.
- Criteria are specified for the netting of financial assets and financial liabilities. Netting requires a legal right of set off as well as the intention to offset the assets and liabilities or settle simultaneously.

Sri Lanka Accounting Standard 45 - Financial Instruments: Recognition and Measurement provides the principles for recognizing and measuring financial assets and financial liabilities.

Insurance Contracts

However, the scope of the Standard excludes its application to rights and obligations arising under an insurance contract, except for derivatives embedded in an insurance contract. The ICASL has not adopted a Standard for Insurance Contracts and therefore The Statement of Recommended Practice on Insurance Contracts is significantly used, except for matters summarised below.

The requirements of the new Standards are summarized below;

a) **Recognition**

All financial assets and financial liabilities should be recognised in the Balance Sheet. Previously certain instruments, in particular derivatives, were held by enterprises without being reflected in the Balance Sheet.

b) **Measurement**

Financial assets

For the purpose of measuring a financial asset SLAS 45 requires the financial asset to be classified into the following four categories ; Fair value through profit & loss (trading), Originated loans and receivables (at amortised cost using effective interest method), Available-for-sale (at Fair value) and Held to maturity (at amortised cost). The categorisation determines whether and where the re-measurement is recognised in the financial statements.

Derivative financial instruments and hedging

Derivatives are always categorised as trading and therefore measured at fair value with changes recorded in the income statement, unless the enterprise can establish that an effective hedging relationship exists.

SLAS 45 also applies to a derivative that is embedded in an insurance contract, if the derivative is not itself a contract within the scope of IFRS 4, which Standard has not yet been adopted by the ICASL.

There are three types of hedging relationships under SLAS 45. These are the fair value hedge, the cash flow hedge and the hedge of a net investment in a foreign operation.

Financial liabilities

All Financial liabilities are measured at amortised cost except certain financial liabilities which are at fair value.

The Company is currently in the process of evaluating the potential effect of these Standards. However, the impact of the above requirements has not been quantified as at the Balance Sheet date.

Notes to the financial statements

For the Year Ended 31st December	Non-Life Insurance		Life Insurance		Company	
	2009	2008	2009	2008	2009	2008
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
3 Investments						
Sri Lanka Government Securities (3.1)	483,499	503,450	1,160,839	958,599	1,644,338	1,462,049
Investment in Quoted Shares (3.2)	84,604	6,975	141,132	61,059	225,736	68,034
Investment in Debentures (3.3)	-	3,360	90,448	52,841	90,448	56,201
Term Deposit	59,894	18,022	240,193	14,220	300,087	32,242
Commercial Papers (3.4)	53,967	-	-	168,484	53,967	168,484
	681,964	531,807	1,632,612	1,255,203	2,314,576	1,787,010
3.1 Sri Lanka Government Securities						
Treasury Bonds	196,078	93,412	767,527	439,044	963,605	532,456
Repos	12,424	34,741	161,495	189,872	173,919	224,613
Treasury Bills	274,997	375,297	231,817	329,683	506,814	704,980
	483,499	503,450	1,160,839	958,599	1,644,338	1,462,049
			2009			2008
			No. of Shares	Market Value Rs.'000	No. of Shares	Market Value Rs.'000
3.2 Investment in Quoted Shares						
Non - Life						
Banks, Finance & Insurance						
Commercial Bank PLC			35,100	6,651	-	-
Commercial Bank PLC (Non Voting)			6,000	748	-	-
DFCC Bank PLC			66,000	11,022	-	-
Hatton National Bank PLC			61,000	10,385	-	-
Hatton National Bank PLC (Non Voting)			93,600	9,805	-	-
National Development Bank PLC			23,500	4,842	-	-
Nations Trust Bank PLC			54,700	2,010	-	-
Nations Trust Bank PLC Warrants 2010			221,800	1,829	-	-
Seylan Bank PLC			136,700	5,059	-	-
Seylan Bank PLC (Non Voting)			627,300	10,037	-	-
Lanka Orix Leasing Company			28,500	3,904	-	-
Power & Energy						
Lanka IOC PLC			20,000	345	20,000	310
Vallibel Power Erathna PLC			-	-	2,019,600	6,665
Hemas Power PLC			41,500	809	-	-
Chemicals & Pharmaceuticals						
Chemical Industries (Colombo) PLC			6,500	409	-	-
Chemical Industries (Colombo) PLC (Non Voting)			90,700	3,559	-	-
Diversified						
Hayleys PLC			11,000	1,889	-	-
Manufacturing						
ACL Cables PLC			32,000	2,457	-	-
Beverage, Food and Tobacco						
Distilleries Company of Sri Lanka			60,300	6,347	-	-
Construction & Engineering						
Colombo Dock Yard PLC			10,200	2,497	-	-
Total			-	84,604	-	6,975

	2009		2008	
	No. of Shares	Market Value Rs.'000	No. of Shares	Market Value Rs.'000
3.2 Investment in Quoted Shares				
Life				
Banks, Finance & Insurance				
Nations Trust Bank PLC	-	-	100,700	2,165
Hatton National Bank PLC (Non Voting)	303,400	31,781	45,500	1,456
Commercial Bank PLC	25,000	4,737	45,200	3,028
Sampath Bank PLC	546,100	20,205	62,400	4,243
Seylan Bank PLC (Non Voting)	297,100	4,753	606,800	3,641
DFCC Bank PLC	99,000	16,533	-	-
Central Finance Company PLC	10,300	3,270	-	-
Lanka Orix Leasing PLC	20,000	2,740	-	-
Power & Energy				
Vallibel Power Erathna PLC	-	-	4,482,300	14,792
Hemas Power PLC	46,800	912	-	-
Chemicals & Pharmaceuticals				
Chemmanex PLC	-	-	38,400	1,536
Chemical Industries (Colombo) PLC	-	-	119,500	3,406
Chemical Industries (Colombo) PLC (Non Voting)	-	-	30,300	598
Diversified				
Hayleys PLC	-	-	200	17
John Keells Holdings PLC	108,300	18,574	-	-
Manufacturing				
Royal Ceramics Lanka PLC	-	-	158,200	4,390
ACL Cables PLC	82,800	6,355	-	-
Dipped Products	7,500	646	-	-
Lanka Tiles PLC	101,000	6,717	-	-
Beverage, Food and Tobacco				
Distilleries Company of Sri Lanka PLC	39,500	4,157	-	-
Telecommunications				
Sri Lanka Telecom PLC	193,400	8,897	641,500	19,887
Health Care				
Asiri Hospitals PLC	50,000	512	-	-
Hotels & Travels				
Asian Hotels & Properties PLC	70,000	6,615	-	-
Amaya Leisure PLC	12,900	765	-	-
Galadari Hotels Lanka PLC	94,200	1,413	-	-
Confifi Hotel Holdings PLC	10,000	1,550	-	-
Plantations				
Malwatte Valley Plantations PLC	-	-	100,000	1,900
Total	-	141,132	-	61,059

Notes to the financial statements

	2009			2008		
	Face Value Rs.'000	Carrying Value Rs.'000	Market Value Rs.'000	Face Value Rs.'000	Carrying Value Rs.'000	Market Value Rs.'000
3.3 Investment in Debentures						
Non Life						
Quoted						
Senkadagala Finance Ltd - 14%	-	-	-	3,360	3,360	3,360
Life						
Quoted						
Sampath Bank PLC - Floating	25,000	25,000	25,000	25,000	25,000	25,000
Senkadagala Finance Ltd - 14%	-	-	-	12,800	12,841	12,795
Nations Trust Bank PLC - 20.53%	40,000	40,000	40,000			
Singer Sri Lanka PLC - 19.75%	9,000	10,448	9,000			
LB Finance PLC - 24%	15,000	15,000	14,956	15,000	15,000	15,000
	89,000	90,448	88,956	52,800	52,841	52,795

	Non-Life Insurance		Life Insurance		Company	
	2009 Rs.'000	2008 Rs.'000	2009 Rs.'000	2008 Rs.'000	2009 Rs.'000	2008 Rs.'000
3.4 Investment in Commercial Papers						
Ceyleasing Financial Services Ltd - 23%	-	-	-	40,000	-	40,000
Merchant Bank PLC - 15.5%	20,925	-	-	23,484	20,925	23,484
Commercial Leasing Co. Ltd - 22.75%	-	-	-	40,000	-	40,000
Lanka Orix Leasing Co. Ltd - 16.5%	10,505	-	-	40,000	10,505	40,000
Sampath Leasing & Factoring Ltd - 23.17%	-	-	-	25,000	-	25,000
Peoples Leasing Co. Ltd - 23%	22,537	-	-	-	22,537	-
	53,967	-	-	168,484	53,967	168,484

4 Property, Plant & Equipment

	Non-Life Insurance		Life Insurance		Company	
	2009	2008	2009	2008	2009	2008
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Net Book Value	17,790	18,038	47,774	36,098	65,564	54,136
	17,790	18,038	47,774	36,098	65,564	54,136

	Computer Hardware	Computer Software	Office Equipment	Furniture & Fittings	Fixtures & Fittings	Motor Vehicles	
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000

4.1 Non-Life Insurance

Cost

Balance as at 1st January 2009	16,450	8,877	4,703	6,997	7,191	4,110	48,328
Additions during the Year	1,871	1,398	1,425	180	152	973	5,999
Disposals/Transfers	-	-	(14)	-	-	(972)	(986)
Balance as at 31st December 2009	18,321	10,275	6,114	7,177	7,343	4,111	53,341

Depreciation

Balance as at 1st January 2009	10,026	8,139	3,089	3,202	5,789	45	30,290
Depreciation Charge for the Year	1,818	574	805	681	354	1,059	5,291
Disposals/Transfers	-	-	(3)	-	-	(27)	(30)
Balance as at 31st December 2009	11,844	8,713	3,891	3,883	6,143	1,077	35,551

Carrying Value

As at 31st December 2009	6,477	1,562	2,223	3,294	1,200	3,034	17,790
As at 31st December 2008	6,424	738	1,614	3,795	1,402	4,065	18,038

	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

4.2 Life Insurance

Cost

Balance as at 1st January 2009	13,472	23,824	20,818	17,910	21,192	-	97,216
Additions during the Year	2,431	-	5,358	5,190	9,854	-	22,833
Disposals/Transfers	-	-	-	-	-	-	-
Balance as at 31st December 2009	15,903	23,824	26,176	23,100	31,046	-	120,049

Depreciation

Balance as at 1st January 2009	9,115	23,816	10,426	6,921	10,840	-	61,118
Depreciation Charge for the Year	1,461	-	3,535	2,086	4,075	-	11,157
Disposals/Transfers	-	-	-	-	-	-	-
Balance as at 31st December 2009	10,576	23,816	13,961	9,007	14,915	-	72,275

Carrying Value

As at 31st December 2009	5,327	8	12,215	14,093	16,131	-	47,774
As at 31st December 2008	4,357	8	10,392	10,989	10,352	-	36,098

4.3 Property, Plant & Equipment includes fully depreciated assets having a gross carrying amount of Rs. 70,725,074 (2008- Rs.61,478,568)

Notes to the financial statements

		Non-Life Insurance		Life Insurance		Company		
		2009	2008	2009	2008	2009	2008	
		Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	
5	Policy Loans & Other Loans							
	Loans granted to employees	(5.1)	841	1,342	128	298	969	1,640
	Loans granted to policy holders	(5.2)	-	-	30,484	12,275	30,484	12,275
			841	1,342	30,612	12,573	31,453	13,915
5.1	Loans to Employees							
	Balance as at 01st January		1,342	321	298	20	1,640	341
	Loans granted during the Year		2,333	2,560	534	518	2,867	3,078
			3,675	2,881	832	538	4,507	3,419
	Repayment during the Year		(2,834)	(1,539)	(704)	(240)	(3,538)	(1,779)
	Balance as at 31st December		841	1,342	128	298	969	1,640
5.2	Loans to Life Policy Holders							
	Balance as at 01st January		-	-	12,275	6,314	12,275	6,314
	Loans granted during the Year		-	-	23,482	8,960	23,482	8,960
			-	-	35,757	15,274	35,757	15,274
	Repayment during the Year		-	-	(5,273)	(2,999)	(5,273)	(2,999)
	Balance as at 31st December		-	-	30,484	12,275	30,484	12,275
6	Premium Receivable							
	Premium Receivable		76,371	107,469			76,371	107,469
	Less: Provision for Bad Debts							
	Balance as at 01st January		1,543	3,359			1,543	3,359
	Provision/ (Reversal) during the year		1,354	(584)			1,354	(584)
	Bad Debts written off during the year		(1,043)	(1,232)			(1,043)	(1,232)
	Balance as at 31st December		1,854	1,543			1,854	1,543
	Net Premium Receivable		74,517	105,926			74,517	105,926
6.1	Premium Receivable - Related Party (6.2)							
	- Other		17,976	18,001			17,976	18,001
			56,541	87,925			56,541	87,925
			74,517	105,926			74,517	105,926
6.2	Premium Receivable from Related Parties							
		Relationship						
	Asia Securities (Pvt) Ltd	Affiliate Co.	-	32			-	32
	Asia Assets Finance Ltd	Affiliate Co.	-	379			-	379
	Richard Pieris & Co. PLC & Group	Shareholder Co.	17,976	17,590			17,976	17,590
			17,976	18,001			17,976	18,001
7	Other Assets							
	Inventories		3,873	3,320	-	-	3,873	3,320
	Interest Receivables		7,104	3,909	46,119	27,771	53,223	31,680
	Current A/C With Life		32,664	(2,167)	-	-	-	-
	Other Debtors & Receivables		30,454	19,200	63,684	42,860	94,138	62,060
	VAT Recoverable		1,638	6,231	-	-	1,638	6,231
			75,733	30,493	109,803	70,631	152,872	103,291
8	Cash & Bank Balances							
	Cash In Hand		304	169	1,266	1,106	1,570	1,275
	Cash at Bank		10,992	3,912	39,578	25,320	50,570	29,232
			11,296	4,081	40,844	26,426	52,140	30,507

9 Insurance Provision Life

The valuation of the long term insurance business, as at 31.12.2009, 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. 1,560 Mn includes the liability in respect of policy holder 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. 185.298 Mn has been created for the purpose of any future bonus and contingencies by the Actuary.

Actuary recommended to transfer Rs. 195 Mn. to Shareholders.

		2009	2008
Actuarial assumptions			
Interest Rate		6.5%	6.5%
Mortality Table used		A67/70	A67/70
		2009	2008
		Rs.'000	Rs.'000
9.1 Movement in Insurance provision - Life			
Balance as at 01st January		1,203,968	888,391
Increase in Life fund (gross)		356,427	315,577
Balance as at 31st December		1,560,395	1,203,968
10 Insurance Provision - Non-Life			
Reserve for Net Unearned Premium	(10.1)	175,120	171,224
Reserve for Net Deferred Acquisition Cost	(10.2)	(10,062)	5,819
Reserve for Gross Outstanding Claims	(10.3)	97,069	58,767
Reserve for IBNR & IBNER	(10.4)	13,475	10,329
		275,602	246,139
10.1 Reserve for net unearned premium			
Balance as at 1st January		171,224	114,737
Transfers during the year		3,896	56,487
Balance as at 31st December		175,120	171,224
10.2 Reserve for net deferred acquisition cost			
Balance as at 1st January		5,819	10,542
Transfers during the year		(15,881)	(4,723)
Balance as at 31st December		(10,062)	5,819
10.3 Reserve for gross outstanding claims			
Balance as at 1st January		58,767	278,051
Transfers during the year		341,870	237,461
Claims approved during the year		(303,568)	(456,745)
Balance as at 31st December		97,069	58,767
10.4 Reserve for IBNR & IBNER			
Balance as at 1st January		10,329	9,177
Transfers during the year		3,146	1,152
Balance as at 31st December		13,475	10,329
10.5 Reconciliation between Insurance Provision and Technical Reserve			
Non Life Insurance Provision		275,602	246,139
Reinsurance Receivable on Claims Outstanding		(28,734)	(18,446)
Technical Reserve		246,868	227,693

The above Non Life Insurance Technical Reserve Rs. 246,867,702 as at 31.12.09 includes the claims incurred but not reported (IBNR) and claims incurred but not enough reported (IBNER) reserves, that have been certified by independent consultants actuaries M/S K. A. Pandit of Mumbai, India. According to the actuary certificate dated 3 February 2010 the IBNR & IBNER reserve as at 31 December 2009 is Rs. 13,475,000 which is equal to 4.31% of Net Earned Premium of Rs. 312,551,976 as at 31st December 2009.

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 Balance Sheet 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	
	2009	2008	2009	2008	2009	2008
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
11 Reinsurance Creditors						
Reinsurance Creditors	33,985	21,834	53,207	33,820	87,192	55,654
	33,985	21,834	53,207	33,820	87,192	55,654

	Non-Life Insurance		Life Insurance		Company	
	2009	2008	2009	2008	2009	2008
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
12 Other Liabilities						
Commission Payable	14,280	16,351	37,820	27,841	52,100	44,192
Claims Payable (12.1)	5,704	8,270	65,606	51,072	71,310	59,342
Current A/C with Non-Life	-	-	32,664	(2,167)	-	-
Premium Deposit & Other	-	-	42,647	34,746	42,647	34,746
VAT Payable	4,716	-	-	-	4,716	-
NBL Payable	993	-	-	-	993	-
Other Government Taxes	983	725	767	346	1,750	1,071
Accruals & Others	17,423	17,565	57,068	49,961	74,491	67,526
	44,099	42,911	236,572	161,799	248,007	206,877

12.1 Movement of Claims Payable

Balance as at 1st January	8,270	83,113	51,072	55,305	59,342	138,418
Claims Approved during the year	303,568	456,745	138,596	86,219	442,164	542,964
Claims Paid during the year	(306,134)	(531,588)	(124,062)	(90,452)	(430,196)	(622,040)
Balance as at 31st December	5,704	8,270	65,606	51,072	71,310	59,342

	Non-Life Insurance		Life Insurance		Company	
	2009	2008	2009	2008	2009	2008
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
13 Amounts Due to Related Companies						
Asia Securities (Pvt) Ltd	3,910	-	5,692	-	9,602	-
Asia Capital PLC	2,760	2,976	-	-	2,760	2,976
	6,670	2,976	5,692	-	12,362	2,976

	Non-Life Insurance		Life Insurance		Company	
	2009	2008	2009	2008	2009	2008
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
14 Provision for Retirement Benefits						
Balance as at 01st January	6,796	5,719	4,075	3,494	10,871	9,213
Provision made during the year	3,199	1,445	1,809	914	5,008	2,359
	9,995	7,164	5,884	4,408	15,879	11,572
Payments during the year	(1,121)	(368)	(105)	(333)	(1,226)	(701)
Balance as at 31st December	8,874	6,796	5,779	4,075	14,653	10,871

The Retirement Benefit Plan 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 Actuarial valuation of the defined benefit obligation was carried out by a qualified actuary, Mr. M. Poopalanathan of Actuarial & Management Consultants (Pvt) Ltd. The Projected Unit Credit method is used to determine the present value of the defined benefit obligation.

	2009	2008
	Rs.'000	Rs.'000
Movement in the present value of the defined benefit obligations		
Liability for Defined benefit obligations as at 1 January	10,871	9,213
Interest Cost	1,304	-
Current service cost	3,080	2,359
Benefits paid by the plan	(1,226)	(701)
Actuarial losses	624	-
Liability for Defined benefit obligations as at 31 December	14,653	10,871
Expenses recognised in profit or loss		
Current service cost	3,080	2,359
Interest Cost	1,304	-
Actuarial Losses	624	-
	5,008	2,359
The expense is recognised in the following line item in the Statement of Income:		
Staff expenses	5,008	2,359

Actuarial assumptions

Principal Actuarial assumptions as at the reporting date expressed as weighted averages, were

	2009	2008
Normal retirement age	55 years	55 years
Discount rate per annum	12%	12%
Salary increment rate per annum	10% with next increment due on 01 January 2010	Year 0 - 15% Year 1 to 3 - 12% Year 4 & thereafter - 10%
Withdrawal rate	3% upto 49 years of age and zero thereafter	-

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

Notes to the financial statements

		Company	
		2009	2008
		Rs.'000	Rs.'000
15	Stated Capital		
	25,000,000 fully paid ordinary shares	250,000	250,000

		Accumulated Profit/(Loss) Rs.'000
16	Revenue Reserves	
	Balance as at 1st January 2008	18,656
	Net Profit for the Year	135,404
	Balance as at 31st December 2008	154,060
	Net Profit for the Year	144,778
	Dividend paid	(31,298)
	Balance as at 31st December 2009	267,540

		Non-Life Insurance		Life Insurance		Company	
		2009	2008	2009	2008	2009	2008
		Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
17	Net Earned Premium						
	Gross Written Premium						
	Individual policies	-	-	995,871	953,346	995,871	953,346
	Corporate policies	-	-	6,495	9,515	6,495	9,515
	Single Premium	-	-	6,665	7,216	6,665	7,216
	Fire	105,367	94,632			105,367	94,632
	Marine	33,931	51,471			33,931	51,471
	Miscellaneous	117,708	77,656			117,708	77,656
	Motor	239,743	236,012			239,743	236,012
		496,749	459,771	1,009,031	970,077	1,505,780	1,429,848
	Reinsurance Premium	(180,301)	(159,670)	(165,532)	(158,628)	(345,833)	(318,298)
	Net Written Premium	316,448	300,101	843,499	811,449	1,159,947	1,111,550
	(Increase) / Decrease in Unearned Premium	(3,896)	(56,487)	-	-	(3,896)	(56,487)
	Net Earned Premium	312,552	243,614	843,499	811,449	1,156,051	1,055,063

		Life 2009 Rs.'000	Insurance 2008 Rs.'000
17.1	Annualised New Business Premium		
	Individual Policies	443,637	332,417

		2009 Rs.'000	2008 Rs.'000
17.2	Revenue		
	Gross Written Premium	1,505,780	1,429,848
	Reinsurance Premium	(345,833)	(318,298)
	Net Written Premium	1,159,947	1,111,550
	(Increase)/Decrease in Unearned Premium	(3,896)	(56,487)
	Net Earned Premium	1,156,051	1,055,063
	Reinsurance Commission Income	66,884	72,588
	Income from Investment	391,695	229,769
	Other Income	7,111	3,343
	Total Revenue	1,621,741	1,360,763

	2009 Rs.'000	2008 Rs.'000
17.2.1 Non-Life Insurance Revenue Account		
Gross Written Premium	496,749	459,771
Net Earned Premium	312,552	243,614
Net Benefit Payment	(275,552)	(183,734)
Net Acquisition cost Expenses	8,076	10,327
	(180,248)	(158,275)
Net Underwriting Result	(135,172)	(88,068)
Investment & Other Income	87,279	59,214
Net Profit / (Loss) for the Year	(47,893)	(28,854)

17.2.2 Life Insurance Revenue Account

Gross Written Premium	1,009,031	970,077
Net Earned Premium	843,499	811,449
Net Benefit Payment	(87,529)	(48,902)
Net Acquisition Cost	(165,536)	(155,619)
Expenses	(350,534)	(305,249)
Investment & Other Income	311,527	173,898
Surplus from Life Insurance before transfers	551,427	475,577
Transfer to Insurance Provision - Life	(356,427)	(315,577)
Transfer to Shareholders' Fund	195,000	160,000

	Non-Life Insurance		Life Insurance		Company	
	2009 Rs.'000	2008 Rs.'000	2009 Rs.'000	2008 Rs.'000	2009 Rs.'000	2008 Rs.'000
18 Net Insurance Claims & Benefits						
Non-Life insurance gross claim incurred	345,016	238,613	-	-	345,016	238,613
Life insurance claims Death, Disabilities & Hospitalisation	-	-	137,730	91,895	137,730	91,895
Policy Maturities	-	-	1,677	2,498	1,677	2,498
Reinsurance Recoveries	(62,984)	(43,679)	(51,878)	(45,491)	(114,862)	(89,170)
Salvage Value	(6,480)	(11,200)	-	-	(6,480)	(11,200)
	275,552	183,734	87,529	48,902	363,081	232,636
19 Net Acquisition Cost						
Net policy acquisition cost	7,805	(5,604)	161,031	151,550	168,836	145,946
Increase in Deferred Acquisition Expenses	(15,881)	(4,723)	-	-	(15,881)	(4,723)
Other insurance related cost	-	-	4,505	4,069	4,505	4,069
	(8,076)	(10,327)	165,536	155,619	157,460	145,292

	Non-Life Insurance		Life Insurance		Company	
	2009 Rs.'000	2008 Rs.'000	2009 Rs.'000	2008 Rs.'000	2009 Rs.'000	2008 Rs.'000
20 Investment Income & Other Income						
20.1 Investment Income						
Interest Income on government securities and other money market instruments	79,569	57,297	238,293	201,871	317,862	259,168
Dividend Income	358	909	1,174	3,225	1,532	4,134
Realised Capital Gain/(Loss)	(444)	1,784	16,461	1,674	16,017	3,458
Unrealised Capital Gain/(Loss)	4,440	(2,719)	51,844	(34,272)	56,284	(36,991)
	83,923	57,271	307,772	172,498	391,695	229,769
20.2 Other Income						
Profit on sale of fixed Assets	3,356	1,943	-	-	3,356	1,943
Interest on Policy Loans	-	-	3,755	1,400	3,755	1,400
	3,356	1,943	3,755	1,400	7,111	3,343

Notes to the financial statements

	Non-Life Insurance		Life Insurance		Company	
	2009	2008	2009	2008	2009	2008
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
21 Operating and Administration Expenses						
Staff Expenses (21.1)	82,023	69,976	104,510	86,070	186,533	156,046
Administration & Other Operating Expenses	87,523	70,560	168,097	133,960	255,620	204,520
Publicity & Business Promotion	8,087	17,372	72,928	80,883	81,015	98,255
	177,633	157,908	345,535	300,913	523,168	458,821
21.1 Staff Expenses						
Salaries & Wages	53,935	46,715	67,945	53,480	121,880	100,195
EPF & ETF	8,051	6,786	9,774	7,539	17,825	14,325
Provision for Retirement Benefits	3,199	1,445	1,809	914	5,008	2,359
Others	16,838	15,030	24,982	24,137	41,820	39,167
	82,023	69,976	104,510	86,070	186,533	156,046
21.2 Number of Employees						
As at the end of the Financial Year					330	375
22 Profit from Operations						
Profit from Operations for the year is stated after charging following Expenses						
Depreciation	5,291	3,102	11,157	9,586	16,448	12,688
Auditors' Remuneration - Audit	550	475	550	475	1,100	950
- Audit Related	25	-	25	-	50	-
Legal Fees	428	292	1,205	427	1,633	719
Management Fees	900	900	900	900	1,800	1,800
23 Financial Expenses						
Bank Interest	1,409	1,580	28	390	1,437	1,970
(Gain)/Loss on Exchange	(748)	(1,520)	-	-	(748)	(1,520)
Bank Charges	1,954	307	4,971	3,946	6,925	4,253
	2,615	367	4,999	4,336	7,614	4,703
24 Income Tax Expense						
Current Income Tax						
Current Tax Expense on Ordinary Activities for the Year		(24.1)			-	-
(Charge)/Reversal of Economic Service Charge		(24.4)			(2,329)	4,258
Deferred Income Tax						
Deferred Taxation (Charge)/Reversal		(24.3)			-	-
					(2,329)	4,258
24.1 Numerical Reconciliation Between Tax Charge and the product of Accounting Profit multiplied by the applicable tax rate						
	Non-Life Insurance		Life Insurance		Company	
	2009	2008	2009	2008	2009	2008
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Accounting Profit/(Loss)	(47,893)	(28,854)	195,000	160,000		
Aggregate Disallowed Items	21,153	23,252	51,640	88,909		
Aggregate Allowable Expenses	(5,606)	(3,979)	(504,236)	(487,615)		
Aggregate Exempt Income	(8,154)	(2,853)	-	-		
Taxable Profit/(Loss)	(40,500)	(12,434)	(257,596)	(238,706)	(298,096)	(251,140)
Tax Loss Brought Forward					(1,801,476)	(1,550,336)
Tax Loss Carried Forward					(2,099,572)	(1,801,476)
Statutory Tax Rate					35%	35%
Current Income Tax Expense					Nil	Nil

- 24.2 The Company is liable to income tax at 35% of its taxable profit. However no provision is made in view of the tax loss. The tax loss carried forward as at 31st December 2009 is Rs. 2,099,572,490 (2008 - Rs. 1,801,476,160)

	Company	
	2009	2008
	Rs.'000	Rs.'000
24.3 Deferred Tax Assets & Liabilities		
Unrecognised Deferred Tax Assets		
Deferred Tax Assets have not been recognised in respect of the following items		
Tax Loss Carried Forward	2,099,572	1,801,476
Provision for Retirement Benefits	14,653	10,871
Total Deductible Temporary Differences	2,114,225	1,812,347
Unrecognised Deferred Tax Assets	739,979	634,322

Unrecognised Deferred Tax Liabilities

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

	Company	
	2009	2008
	Rs.'000	Rs.'000
Property Plant & Equipment	21,350	15,816
Total Taxable Temporary Differences	21,350	15,816
Unrecognised Deferred Tax Liabilities	7,473	5,536

24.4 Economic Service Charges

Economic Service Charges (ESC) is accounted under taxes, which is recoverable from the annual tax payments.

An amount of Rs.16,025,316 is shown as ESC Recoverable.

ESC (Charged)/Reversal	(2,329)	4,258
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An amount of Rs. 2,329,024 is written off to the Statement of Income as unrecoverable taxes as per the tax legislations.

24.5 Notional Tax Credit

The Company is entitled to the following notional tax credit in case of a future tax liability.

Notional Tax Credit	81,530	54,211
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25 Earnings Per Share

Basic Earnings Per Share

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.

	Company	
	2009	2008
Profit Attributable to Ordinary Shareholders (Rs.'000)	144,778	135,404
No of Ordinary Shares	25,000	25,000
Earnings Per Share	5.79	5.42

26 Dividends Per Share

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

Final Dividend (Rs.'000)	32,500	31,250
No of Ordinary Shares	25,000	25,000
Dividends Per Share	1.30	1.25

Notes to the financial statements

27 Related Party Disclosures

27.1 Transactions with Group Companies and Director Related Entities

Company	Relationship	Nature of Transaction	2009 Rs.'000	2008 Rs.'000
Asia Capital PLC	Asia Capital PLC owns 19.3% of the Company's issued share capital	Insurance Placed Claims Incurred Management Fees	1,370 966 1,800	3,513 1,587 1,800
Asia Fort Sri Lanka Direct Investment Fund Ltd	Asia Fort Sri Lanka Direct Investment Fund Ltd owns 22.44% of the Company's issued share capital		No transactions	
Asia Assets Finance Ltd	Group Co. of Asia Capital PLC	Insurance Placed Claims Incurred Hire Charges on hire of Motor Vehicles, Computers & Equipments	716 422 -	- - 3,363
Asia Securities (Pvt) Ltd	Group Co. of Asia Capital PLC	Insurance Placed Claims Incurred Share Brokerage Charges incurred	175 19 6,620	- - 1,518
Asia Siyaka Commodities (Pvt) Ltd	Group Co. of Asia Capital PLC	Insurance Placed Claims Incurred	552 732	- -
Investor Access Asia (Pvt) Ltd	Group Co. of Asia Capital PLC	Insurance Placed Claims Incurred	557 89	- -
Richard Pieris & Co. PLC	Richard Pieris & Co. PLC owns 15% of the Company's issued share capital	Insurance Placed Claims Incurred	50,181 19,704	53,189 23,272
Richard Pieris Distributors Ltd	Richard Pieris Distributors Ltd owns 10% of the Company's issued share capital	Insurance Placed Claims Incurred	8,954 1,129	9,736 1,363
Arpico Interiors (Pvt) Ltd	Group Co. of Richard Pieris & Co. PLC	Fixed Assets Purchases	5,882	6,389
Vallibel Investments (Pvt) Ltd	Vallibel Investments (Pvt) Ltd owns 15% of the Company's issued share capital		No transactions	

27.1.1 The Amounts Due From and Amounts Due to above related parties are disclosed in Note No.6.2 and 13 respectively.

27.2 Transactions with Key Management Personnel

27.2.1 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.

	2009 Rs.'000	2008 Rs.'000
Short Term Benefits	24,586	21,530
Long Term Benefits	2,999	5,065
	27,585	26,595

27.2.2 Directors Fees and Remuneration 6,861 1,600

27.2.3 A number of key management personnel or the related parties hold 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	2009 Rs.'000	2008 Rs.'000
Vallibel Power Erathna PLC	Director Related Entity	Insurance Placed Investments made in equity shares Dividend Income	42 - -	40 21,457 2,250
Vallibel Lanka (Pvt) Ltd	Director Related Entity	Insurance Placed	-	2,622
Vallibel Finance Ltd	Director Related Entity	Commission Paid	305	152
Vallibel Leisure (Pvt) Ltd	Director Related Entity	No Transactions		

Company	Relationship	Nature of Transaction	2009 Rs.'000	2008 Rs.'000
Royal Ceramics Lanka PLC	Director Related Entity	Insurance Placed	791	700
		Claims Incurred	667	1,066
		Investments in equity shares	-	4,390
		Dividend Income	-	158
LB Finance PLC	Director Related Entity	Insurance Placed	119	223
		Claims Incurred	42	13
		Investments in Debentures	15,000	15,000
		Interest income on Debentures	3,597	1,055
		Commission Paid	3,213	1,385
Pan Asia Banking Corporation PLC	Director Related Entity	Insurance Placed	627	14,074
		Claims Incurred	2,323	5,152
		Investments in Term Deposits	59,080	22,785
		Investments in Fixed Deposits	9,393	
		Interest Income	8,401	3,014
		Current A/C balance as at year end	(1,869)	-
		Over Draft Facility	10,000	-
		Over Draft interest paid	411	-
Hayleys PLC	Director Related Entity	Investments in equity shares	-	17
Sampath Bank PLC	Director Related Entity	Insurance Placed	471	622
		Current A/C balance as at year end	28,532	10,935
		Investments in Fixed Deposits	-	9,733
		Investments in Term Deposits	10,076	-
		Interest Income	445	604
		Investments in equity shares	20,205	4,243
		Over Draft Facility obtained	15,000	15,000
		Over Draft interest paid	998	1,580
		Investments in Debentures	25,000	25,000
		Interest Income on Debentures	4,051	5,526
Lanka IOC PLC	Director Related Entity	Investments in equity shares	345	310
Paul Rathnayake Associates	Director Related Entity	Insurance Placed	405	447
		Claims Incurred	67	128
		Legal Fees Paid	431	454
P.R.Secretarial Services (Pvt) Ltd	Director Related Entity	Insurance Placed	10	11
		Secretarial Fees paid	377	186

28 Commitments & Contingencies

28.1 Capital Expenditure Commitments

The Company has purchase commitments for acquisition of a financial system as at 31 December as follows

Authorised by the Board, and contracted for	24,827	4,500
Authorised by the Board, and not contracted for	-	8,000
	24,827	12,500

28.2 Contingent Liabilities

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

29 Events after the Balance Sheet Date

There were no material events occurring after the Balance Sheet date which require adjustments or disclosures in the Financial Statements, except for the following.

The Directors have proposed a final dividend of Rs. 1.30 per share for the year ended 31st December 2009.

30 Comparative Information

To facilitate comparison, relevant balances pertaining to the previous year have been reclassified to conform to current classification and presentation

	As per Audited	Re-classified	Change	Changed as
Reinsurance receivables	63,242	45,940	17,302	Insurance Provision Non-Life
Cash & Bank Balance	20,327	30,507	(10,180)	Bank Overdraft

Ten year performance

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
	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 Income										
Gross Written Premium	496,749	459,771	383,590	417,679	353,281	310,401	271,097	287,074	244,758	164,442
Net Earned Premium	312,552	243,614	207,089	173,892	139,168	120,036	90,037	90,149	80,435	28,249
Net Insurance Claim & Benefits	(275,552)	(183,734)	(151,867)	(115,671)	(100,588)	(89,354)	(53,991)	(61,048)	(63,700)	(22,759)
Net Commission	(7,805)	5,604	30,621	25,132	34,940	23,382	29,599	25,611	12,511	8,945
Net Deferred Acquisition Cost	15,881	4,723	(1,827)	(4,387)	(2,375)	(3,649)	2,034	(4,231)	(6,331)	(6,879)
Underwriting Results	45,076	70,207	84,016	87,740	71,145	50,415	67,679	50,481	22,915	7,556
Investment & Other Income	87,279	59,214	33,630	21,473	23,864	15,261	16,324	12,790	18,256	11,693
Expenses	(180,248)	(158,275)	(118,453)	(107,104)	(86,728)	(64,809)	(75,122)	(80,666)	(85,568)	(54,930)
Operating Profit/(loss) for the Year	(47,893)	(28,854)	(807)	2,109	8,281	867	8,881	(17,395)	(44,397)	(35,681)
Life Insurance Statement of Income										
Gross Written Premium	1,009,031	970,077	890,793	747,934	577,695	421,681	274,440	162,143	45,902	6,942
Net Earned Premium	843,499	811,449	742,835	631,386	468,317	334,701	226,281	126,525	36,693	5,494
Net Insurance Claim & Benefits	(87,529)	(48,902)	(38,942)	(32,730)	(9,443)	(7,267)	(9,012)	(762)	(252)	(5)
Net Acquisition Cost	(165,536)	(155,619)	(164,653)	(139,939)	(129,155)	(112,062)	(92,701)	(53,540)	(23,121)	(126)
Underwriting Results	590,434	606,928	539,240	458,717	329,719	215,372	124,568	72,223	13,320	5,363
Investment & Other Income	311,527	173,898	122,487	54,674	22,667	10,415	6,604	4,197	3,100	197
Expenses attributable to policyholders	(350,534)	(305,249)	(233,125)	(182,334)	(156,957)	(149,181)	(114,370)	(100,814)	(35,941)	(4,582)
Operating Surplus before Transfer to Insurance Provision -Life	551,427	475,577	428,602	331,058	195,429	76,606	16,802	(24,394)	(19,521)	978
Transfer from/(to) Shareholder's Fund	(195,000)	(160,000)	(115,241)	(66,091)	(20,000)	-	2,806	42,566	34,346	4,442
Transfer to Life Fund	356,427	315,577	313,361	264,966	175,429	76,606	19,608	18,172	14,825	5,420
Company Statement of Income										
Gross Written Premium	1,505,780	1,429,848	1,274,383	1,165,613	930,976	732,082	545,537	449,217	290,660	171,384
Net Profit/(Loss) Before Taxation	147,107	131,146	114,434	68,200	28,281	866	6,075	(59,961)	(78,743)	(40,123)
Taxation	(2,329)	4,258	(1,138)	2,568	(2,568)	(2,331)	-	-	-	-
Net Profit/(Loss) After Taxation	144,778	135,404	113,296	70,768	25,713	(1,465)	6,075	(59,961)	(78,743)	(40,123)

Ten year balance sheet summary

Company	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Assets										
Investments	2,314,576	1,787,010	1,457,673	924,700	564,050	325,321	201,431	132,874	106,052	149,159
Property, Plant & Equipment	65,564	54,136	33,948	30,249	34,458	44,288	64,210	66,690	57,742	25,889
Policy Loans & Other Loans	31,453	13,915	6,655	1,884	1,317	5,142	18,736	30,979	22,732	6,393
Reinsurance Receivable	41,041	45,940	283,975	485,915	93,305	171,535	156,540	163,141	100,221	69,436
Premium Receivable from										
Policy Holders	74,517	105,926	78,078	96,267	58,555	65,344	49,615	53,453	68,164	42,516
Other Assets	152,872	103,291	57,251	52,627	36,119	21,294	20,454	39,136	55,377	15,722
Cash & Bank Balances	52,140	30,507	21,713	26,272	20,414	26,827	26,100	5,947	3,329	5,782
Total Assets	2,732,163	2,140,725	1,939,293	1,617,914	808,218	659,751	537,086	492,220	413,617	314,897
Liabilities & Shareholders' Equity										
Liabilities										
Insurance Provision - Life	1,560,395	1,203,968	888,391	575,030	310,064	134,635	58,026	38,417	20,245	5,420
Insurance Provision - Non Life	275,602	246,139	431,004	611,062	167,855	273,674	194,486	199,576	155,852	108,128
Reinsurance Creditors	87,192	55,654	91,923	59,620	82,275	61,325	86,137	62,940	64,287	33,303
Other Liabilities	248,007	206,877	248,222	194,112	129,751	80,026	50,994	95,122	82,069	26,472
Amount Due to Related Companies	12,362	2,976	1,884	2,451	13,932	21,207	23,469	1,518	409	102
Interest Bearing Borrowings	-	-	-	578	2,157	13,053	48,102	32,757	26,334	5,643
Provision for Retirement Benefits	14,653	10,871	9,213	7,201	5,092	4,452	3,029	1,768	984	296
Bank Overdraft	16,412	10,180	-	-	-	-	-	-	-	-
Total Liabilities	2,214,623	1,736,665	1,670,637	1,450,054	711,126	588,372	464,243	432,098	350,180	179,364
Shareholders' Equity										
Stated Capital	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	200,000	200,000
Reserve for Long Term Insurance Fund	-	-	-	-	-	7,354	7,354	5,479	-	-
Preliminary & Pre Operational Expenses	-	-	-	-	-	-	-	(6,646)	(13,292)	(19,939)
Revenue Reserves	267,540	154,060	18,656	(82,140)	(152,908)	(185,975)	(184,511)	(188,711)	(123,271)	(44,528)
Total Shareholders' Equity	517,540	404,060	268,656	167,860	97,092	71,379	72,843	60,122	63,437	135,533
Total Liabilities & Shareholders' Equity	2,732,163	2,140,725	1,939,293	1,617,914	808,218	659,751	537,086	492,220	413,617	314,897

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 from 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.

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.

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 ejection 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 General 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 - General 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 Provision - 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

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.

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).

Formula:

$$\frac{\text{Reinsurance commission (net of acquisition expenses) and Expenses excluding non-technical expenses}}{\text{Net earned premium}}$$

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)

Net Assets

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.

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.

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 .

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.

Glossary of insurance terms

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 general 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

Tsunami

Series of catastrophic ocean waves generated due to earthquake, volcanic eruption or landslides beneath the ocean.

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 accounts 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 few years and thereafter the policy "paid for itself" out of interest earnings.

Written premium - general 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.

Notice of meeting

NOTICE IS HEREBY GIVEN that the 11th Annual General Meeting of ASIAN ALLIANCE INSURANCE PLC will be held on 22nd of March 2010 at 9:30 a.m. at Level 26, East Tower, World Trade Centre, Echelon Square, Colombo 01.

AGENDA

1. To read the notice convening the meeting.
2. To receive and consider the Report of the Directors and the Statement of Audited Accounts for the year ended 31st December 2009 and the Report of the Auditors thereon.
3. To declare a final dividend as recommended by the Board of Directors.
4. To re-elect Prof. Lakshman R. Watawala who retires by rotation in terms of Article 98 of the Articles of Association of the Company as a Director of the Company.
5. To re-elect Mr. H. L. L. Manohan Nanayakkara who retires by rotation in terms of Article 103 of the Articles of Association of the Company as a Director of the Company.
6. To re-elect Mr. Ranjith J. Wickramasinghe who retires by rotation in terms of Article 103 of the Articles of Association of the Company as a Director of the Company.
7. To re-elect Mr. R. Chanaka D. De Silva who retires by rotation in terms of Article 103 of the Articles of Association of the Company as a Director of the Company.
8. To re-appoint Messrs KPMG Ford, Rhodes, Thornton & Co., Chartered Accountants as Auditors of the Company for the ensuing year and to authorise the Directors to determine their remuneration.
9. To transact any other business of which due notice has been given.

To consider and if thought fit the pass the following special resolution to amend the Articles of Association of the Company in the following manner;

- I) To delete the existing Article 163 and to replace with the following Article 163 to read as follows:

163. "Where notice is given by an advertisement, such advertisement, shall be published in Sinhala, Tamil and English national daily newspapers."

- II) To insert the following as Article 171 captioned 'COMPLIANCE WITH RULES' in the Articles of Association of the Company:

"COMPLIANCE WITH RULES

171. Notwithstanding anything to the contrary contained in the Articles of Association of the Company, so long as the Company is listed on the Colombo Stock Exchange, the Company shall comply with the Rules of the Colombo Stock Exchange and the Central Depository System, which shall be in force from time to time."

On behalf of the Board.



P. R. Secretarial Services (Private) Limited

Colombo
15 February 2010.

Note:

Any member of the Company who is entitled to attend and vote at the meeting may appoint a person to attend and vote instead of himself/ herself. The completed form of proxy should be deposited at the Registered Office - 7th Floor, Millennium House, 46/58, Nawam Mawatha, Colombo 02 not later than forty eight (48) hours before the time appointed for the holding of the meeting.

A form of proxy accompanies this notice.

Regional distribution network

Asian Alliance Insurance PLC

7th floor, Millennium House,
46/58, Nawam Mawatha,
Colombo 02.
Tel: 0112315555
Fax: 0112314400 - 1
E-mail: info@asianalliance.lk
Web: www.asianalliance.lk

Customer Care Contact Center

Tel: 011 2662662

Our 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 2240223
Fax: 038 2240224

Negombo

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, Kurunegala.
Tel: 037 2220017
Fax: 037 2220016

Kandy

514, Peradeniya Road, Kandy.
Tel: 081 2201990 - 1
Fax: 081 2201992

Matara

312, Galle Road, Nupe, Matara.
Tel: 041 2231301 - 3
Fax: 041 2231304

Kottawa

129/10, 1st Floor, High level Road,
Kottawa.
Tel: 011 2851449 / 011 2851811
Fax: 011 2851787

Galle

80, 1st Floor, Colombo Road,
Kaluwella, Galle.
Tel: 091 2226368 - 7
Fax: 091 2226369

Kegalle

218, 2nd Floor, Kandy Road, Kegalle.
Tel: 035 2230655 - 4
Fax: 035 2230656

Kiribathgoda

4, Sirimavo Bandaranayake Mawatha,
Mahara, Kadawatha.
Tel: 011 2926472 - 3
Fax: 011 2926479

Kaduwela

329, New Kandy Road, Kaduwela.
Tel: 011 2538151 - 2 / 011 2538155

Moratuwa

482, Galle Road, Rawatawatte,
Moratuwa.
Tel: 011 2641387
Fax: 011 2641635

Horana

153A, Anguruwatota 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 2350538
Fax: 081 2350891

Ja-Ela

266, Colombo Road, Weligampitiya,
Ja-Ela.
Tel: 011 2229351
Fax: 011 2229297

Kelaniya

575, Kandy Road,
Peliyagoda.
Tel: 011 2916612 - 3
Fax: 011 2916609

Castle Street

197, Castle Street,
Colombo 8.
Tel: 011 2699366
Fax: 011 2699363

Nugegoda

224, A1/1, Highlevel Road,
Nugegoda.
Tel: 011 2826776 - 7
Fax: 011 2826778

Jaffna

11/8, 1st Floor, Stanley Road,
Jaffna.
Tel: 021 2221161 - 2
Fax: 021 2221163

Strategic business locations

Training & Knowledge Management Centre - Kiribathgoda

4, Sirimavo Bandaranayake Mawatha,
Mahara, Kadawatha
011-2926531, 011-2926532

IT Development Centre - Moratuwa

482, 1st Floor Galle Road,
Rawathawatte, Moratuwa
011-2642520-1

Form of proxy

I/We (NIC No)
of being a

Member/Members of the above named Company, hereby appoint:

(1) (NIC No)
of failing him/her

(2) Mr. J. H. Paul Ratnayeke (Chairman of the Company) of Colombo or failing him, one of the Directors of the Company as * my/ our proxy * to speak/ and to vote on * my/ our behalf at the Eleventh Annual General Meeting of the Company to be held on 22nd March 2010 at 9:30 a.m. and at any adjournment thereof.

*I/We indicate my/our vote on the resolutions below as follows:

	For	Against
1.) To receive and consider the Report of the Directors and the Statement of Audited Accounts for the year ended 31st December 2009 and the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2.) To declare a final dividend as recommended by the Board of Directors.	<input type="checkbox"/>	<input type="checkbox"/>
3.) To re-elect Prof. Lakshman R. Watawala who retires by rotation in terms of Article 98 of the Articles of Association of the Company as a Director of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
4.) To re-elect Mr. H. L. L. Manohan Nanayakkara who retires by rotation in terms of Article 103 of the Articles of Association of the Company as a Director of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
5.) To re-elect Mr. Ranjith J. Wickramasinghe who retires by rotation in terms of Article 103 of the Articles of Association of the Company as a Director of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
6.) To re-elect Mr. R. Chanaka D. De Silva who retires by rotation in terms of Article 103 of the Articles of Association of the Company as a Director of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
7.) To re-appoint Messrs KPMG Ford, Rhodes, Thornton & Co., Chartered Accountants as Auditors of the Company for the ensuing year and to authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
8.) To pass a special resolution to amend the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>

Signed this.....day of.....2010.

.....
Signature of Shareholder

Note:

- (i) * Please delete the inappropriate words.
- (ii) Instructions as to completion appear on the reverse hereof.

INSTRUCTIONS FOR THE COMPLETION OF PROXY

1. To be valid, this form of Proxy must be deposited at the Registered Office of the Company - 7th Floor, Millennium House, 46/58, Navam Mawatha, Colombo 02 by 9.30 a.m. on the 20th of March 2010.
2. In perfecting the form of Proxy please ensure that all details are legible.
3. If you wish to appoint a person other than the Chairman (or failing him, one of the Directors) as your Proxy, please insert the relevant details at (1) overleaf and initial against this entry.
4. Please indicate with an "X" in the space provided how your Proxy is to vote on each resolution. If no indication is given, the Proxy in his discretion will vote, as he thinks fit.
5. In the case of a Company/Corporation, the Proxy must be under its Common Seal, which should be affixed and attested in the manner prescribed by its Articles of Association.
6. In the case of a Proxy signed by an Attorney, the Power of Attorney must be deposited at the Registered Office for registration, if such Power of Attorney has not already been registered with the Company.

Corporate information

Legal Form

A Public Limited Company incorporated in Sri Lanka on 21st April 1999 under the provisions of the Companies Act No. 17 of 1982.

Registered Office

7th Floor, Millenium House,
46/58, Nawam Mawatha,
Colombo 02

Consultant Actuaries

Actuarial & Management Consultants (Pvt) Ltd
1st Floor, 434, R. A. De Mel Mawatha,
Colombo 03

K. A. Pandit Consultants & Actuaries
2nd Floor, Churchgate House,
Veer Nariman Road,
Fort, Mumbai 400 001,
India

External Auditors

KPMG Ford, Rhodes, Thornton & Co.
(Chartered Accountants)
32 A, Sir Mohomad Macan Markar Mawatha,
Colombo 03

Internal Auditors

Ernst & Young Advisory Services (Pvt) Ltd
201, De Saram Place,
Colombo 10

Tax Consultants

Amarasekera & Co
(Chartered Accountants)
No. 12, Rotunda Gardens
Colombo 03

Lawyers

Paul Ratnayake Associates
Attorneys-at-Law
59, Gregory's Road,
Colombo 07

Bankers

Sampath Bank PLC
Hong Kong & Shanghai Banking Corporation PLC
Pan Asia Banking Corporation PLC
Commercial Bank PLC
Nations Trust Bank PLC

Secretaries

P. R. Secretarial Services (Pvt) Ltd
59, Gregory's Road,
Colombo 07

Directorates

Chairman

J. H. Paul Ratnayake

Deputy Chairman

H. L. L. Manohan Nanayakkara

Prof. Lakshman R. Watawala
Asanga C. Seneviratne
K. D. Dhammika Perera
W. D. Nimal H. Perera
Ramal G. Jasinghe
Ranjith J. Wickramasinghe
R. Chanaka D. De Silva

Chief Executive Officer

Ramal G. Jasinghe

Executive Committee

Ramal G. Jasinghe
Siri Jayasinghe
Chula Hettiarachchi
Saliya Wickramasinghe
Udeni Kiridena

