



Destination Success



Annual Report 2011

The decisions and events that direct any company's success can only be judged by their results. Ours are evidence that we've charted our course accurately in the journey towards higher achievements and greater goals.

At Asian Alliance Insurance our business is to manage other people's risk. We have been delivering the best in customized insurance solutions to many clients from diverse backgrounds for over eleven years and this is the experience that makes us so good at what we do...delivering protection.

Today while we continue to match fine insurance solutions with outstanding balance sheet results, we mark a new milestone in our corporate evolution as we enter the Sofilogic Holdings Group to empower our company further. Merging our strengths with this fast-growing conglomerate now gives us an unmatched competitive edge, taking us to new levels of power and reach.



## Destination Success

The way forward is very clear.  
Excellence remains our trademark.  
Greater success our destination.

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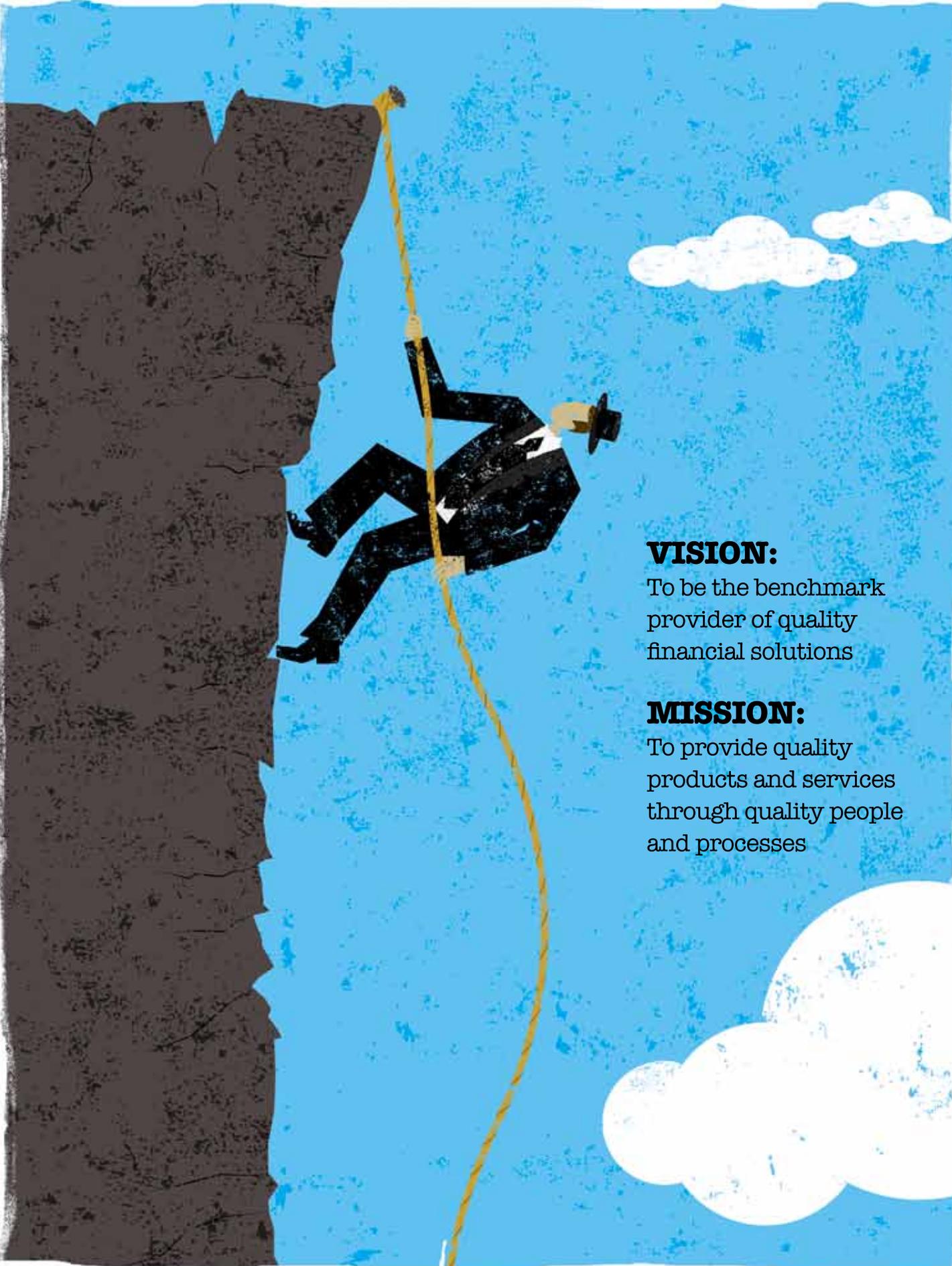
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**VISION:**

To be the benchmark provider of quality financial solutions

**MISSION:**

To provide quality products and services through quality people and processes



KNOWING HOW TO USE  
**THE RIGHT TOOLS**  
FOR THE RIGHT TASK

**Rs 2.2bn**  
GROSS WRITTEN PREMIUM  
+32%

**Rs 1.7bn**  
NET EARNED PREMIUM  
+27%

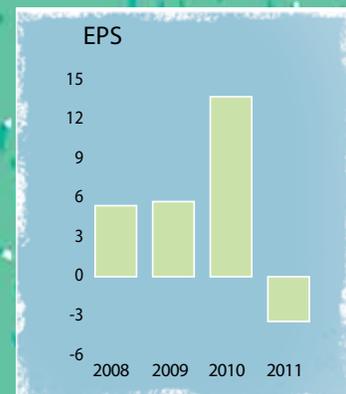
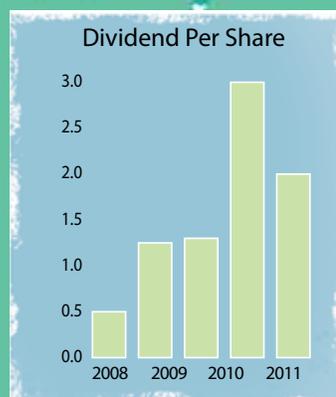
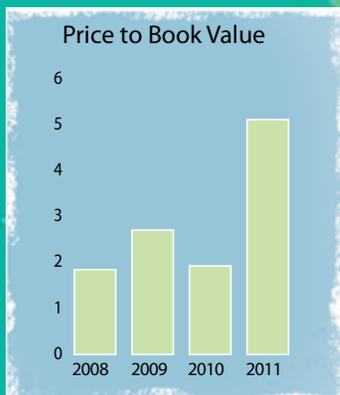
**Rs 533mn**  
UNDERWRITING RESULT  
+60%

**Rs 4.0bn**  
INVESTMENT  
+7%



## GETTING THE JOB DONE

Although we have been through some transformations, our vision and goals remain the same. Our strategy and aspirations remain unchanged. We want to be the best insurance solutions provider in Sri Lanka, to set the benchmark in what we do. Knowing what works in our environment and what makes customers loyal is our strength. We know we are using the right tools for the right task, and we are getting the job done.



## CHAIRMAN'S MESSAGE



**Ashok Pathirage**

Dear Stakeholder,

I am elated to place before you the first Annual Report of Asian Alliance Insurance PLC as a key subsidiary of the Softlogic Group of Companies.

### **Stable Macro Environment**

For the second consecutive year, Sri Lanka achieved a GDP growth of over 8% with an estimated growth of 8.3% in 2011. The year on year inflation decreased to 4.9% in December when compared to 6.2% at the beginning of the year. The unemployment rate as at year-end has been one of the lowest, at 4.3%. The significance of these indicators is that our economy is seeing growth driven by an emerging middle class that is demonstrating increased disposable incomes and higher savings ability. The need for non essential items such as car ownership, retirement planning, funding of children's higher education and so on

are becoming a priority. These developments bode well for the insurance industry going ahead.

### **Greater Regulation of Industry**

In 2011, the Insurance Board of Sri Lanka (IBSL), the regulatory body for insurance, tightened the regulatory framework for insurance companies in Sri Lanka by increasing the minimum capital requirement for new entrants to Rs. 500 Mn. The regulator also mandated the separation of general and life insurance businesses by the year 2015 and the public listing of insurance companies by 2016.

**YOUR COMPANY CROSSED THE RS. 2BN MARK IN GROSS WRITTEN PREMIUMS (GWP) IN 2011 AND HAS BEEN ABLE TO ACHIEVE COMMENDABLE GROWTH RATES OF 27% AND 46% IN LIFE AND GENERAL GWP RESPECTIVELY. THE COMPANY INVESTMENTS STAND AT RS. 4 BN AS AT THE END OF 2011, ADDING HEFT TO THE COMPANY'S FINANCIAL POSITION.**

Though an increase in the minimum capital requirement was introduced for all new entrants, it is expected that this will also be raised for the existing companies. Your Company is geared to meet this requirement as and when it comes into force.

I am proud to announce that your company has already met the necessary requirements for being listed on the Colombo Stock Exchange. We are also ready to meet the requirement of separating the life and non-life segments into separate businesses and await further indication from the regulators in this regard.

**Company Performance**

Your Company crossed the Rs. 2Bn mark in Gross Written Premiums (GWP) in 2011 and has been able

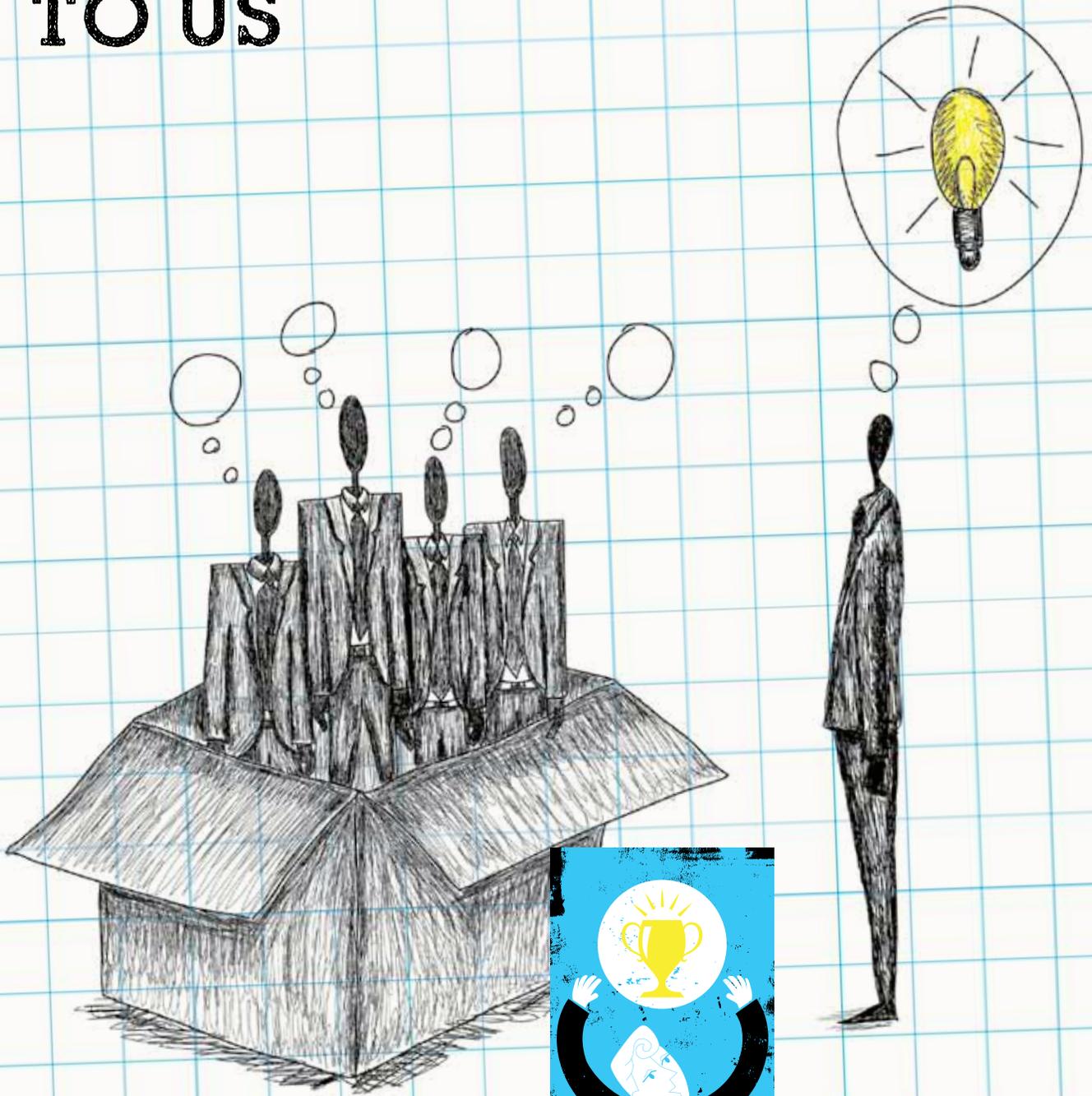


**THIS IS WHAT EVERYONE WANTS...**

to achieve commendable growth rates of 27% and 46% in Life and General GWP respectively. The company investments stand at Rs. 4 Bn as at the end of 2011, adding heft to the company's financial position

However, performance of the company for the year has been below expectations though your company has performed remarkably well operationally with both the life and the non-life segments reaping profits before investment income. In a strategic move, your Company restructured its investment portfolio by replacing the underperforming shares with predominantly blue chip investments, especially in regards to the Shareholders fund. Corrective action taken by the Investment Committee by selling some of its underperforming investments in the

# THINKING OUT OF THE BOX... JUST COMES NATURALLY TO US



GOOD IDEAS TURNED INTO GREAT PRODUCTS

bear market for a loss of Rs. 248Mn, should bode well for your company in the future.

Your company has also partnered with other group companies to provide you with a full range of insurance services when purchasing a product or service. The Asiri Group of Hospitals, Ford and Daihatsu Motors and Sofilogic Finance, with its leasing and hire purchase businesses, are key group companies allied closely with your Company. One program already introduced is the “Asiri Alliance Medical” insurance scheme in collaboration with the Asiri Group of Hospitals. The network of these strategic group companies offers our customers the facility of accessing all their insurance needs with one company – Asian Alliance Insurance.

### Recognitions

Asian Alliance was the proud recipient of many awards and accolades in 2011. Your company was one of four Sri Lankan companies selected for “Best under a US \$ Billion” for the year 2011 by Forbes Asia. Your company was also adjudged a winner in the “Best Social Marketing Campaign 2011” category at the Global Awards for

Brand Excellence in recognition of its contribution towards CSR projects. In addition, the company was bestowed with a Merit award in the Insurance Sector for its 2010 Annual Report at the “Best Published Accounts (BPA) Awards 2010” organized by the South Asian Federation of Accountants (SAFA).

### Outlook

According to surveys conducted recently, insurance penetration in Sri Lanka remains low when compared to other countries in the region, a factor that is attributable to the low per capita income of the country. However, the upward surge being witnessed in per capita income of Sri Lankans reflects the strong assurance that the insurance industry as a whole will gain from the economic growth expected in the country. Furthermore, investment linked insurance policies, though not popular amongst Sri Lankans, have seen a positive shift and are expected to become popular over time. Given these conditions and the synergies of belonging to a diversified group of companies, better results can be expected from your company in the coming years.

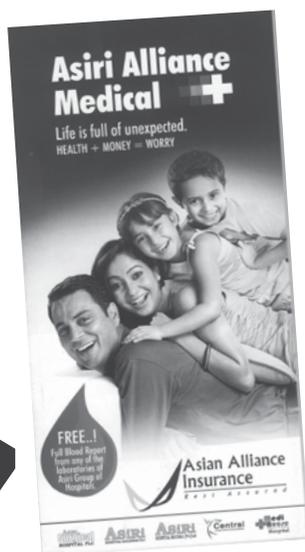
The journey thus far since your Company became a subsidiary of the Sofilogic Group has been smooth due to the diligence and dedication of the staff who are committed to delivering excellence and driving growth for the company; the senior management, that has guided the company to achieve its current growth; the previous ownership, for their support during the transition period; the Board of Directors, for guidance and for fulfilling their advisory role; and other stakeholders, who have patiently extended their support amidst the changes in the company over the year under review. I thank you all and seek your continued support in taking the company to greater heights within the insurance industry in Sri Lanka.

(Sgd.)

**Ashok Pathirage**

Chairman

21 February 2012



**ONE PROGRAM ALREADY INTRODUCED IS THE ASIRI ALLIANCE MEDICAL INSURANCE SCHEME IN COLLABORATION WITH THE ASIRI GROUP OF HOSPITALS...**

## CHIEF EXECUTIVE OFFICER'S REVIEW



*Taking a closer  
look at how we  
have sustained  
success...*

*After a little more than a decade of striking out on our own strength, we can finally leverage on brilliant group synergies to catapult us to much higher levels of growth than was possible in the past. Our results in the last half of 2011 are already reflecting the positive consequences of the synergies that this transaction has brought.*

In the face of the progressive changes that took place in the company over the last 12 months, I am pleased to report a remarkable operational performance during the year in review. Indeed, 2011 will forever be etched as a watershed year in the history of the company, with the acquisition of the company by the reputed Sofilogic Group, which holds diverse business interests in strategic growth sectors and is a leading and respected corporate entity in the country.

The palpable excitement of the acquisition was spurred by the implications of the strong synergy that the transaction would create. The new parent group's strong presence in healthcare, retail, finance, motor, leisure and other growth sectors will open new windows of opportunity to the company. Ever since the takeover, we have been gearing up for take-off. Destination Success!

After a little more than a decade of striking out on our own strength, we can finally leverage on brilliant group synergies to catapult us to much higher levels of growth than was possible in the past. Our results in the last half of 2011 are already reflecting the positive consequences of the synergies that this transaction has brought.

### **Financial Performance**

The company exceeded expectations in Non Life business for the first time in its history despite a fiercely competitive climate.



*Ramesh G. Jasinghe*

Combined Non Life and Life insurance premiums increased by 32%, from Rs. 1.67 billion in 2010 to Rs. 2.21 billion in 2011. The company reported a 46% growth in Non life insurance premium during the year under review, increasing from Rs. 431 million in 2010 to Rs. 628 million in 2011. Non Life insurance contributed 28% towards total GWP while Life insurance contributed 72%.

Life premium growth of 27% was driven by the growth of New Business and the high premium persistency rates. The company recorded an Underwriting result of Rs. 533 million, representing a 60% growth over the previous year and by adopting cautious underwriting and operational practices in both Life and Non Life businesses.

However due to the direct impact on the investment income of the Shareholders funds, the improved Underwriting results were eroded and the company ended up with a net loss before tax of Rs. (124) million. The loss has been arrived at after providing adequate reserves for both Life and Non Life divisions in addition to allocation of a Rs. 90 million revisionary bonus to the Life policy holders.

#### **Road to Success**

This significant financial performance was achieved despite the winds of change sweeping through the organization

since the takeover in the month of September. The year 2011 was marked by a conscious effort to drive operational excellence, which in turn was responsible for enhancing our reinsurance capacity. Prudent measures such as cost control, aggressive sales and marketing efforts, customizing products, optimization of resources and superior customer relationship management put us squarely on the road to operational success.

During the year, we worked closely with our reinsurance partners, Munich RE, General Insurance Corporation (GIC) India, and our Reinsurance Broker Messrs. Interlink, that brought about valuable inputs in areas such as product development, faster turnaround process time in claims, technical underwriting and training programmes. Merging their recommendations with our in house capabilities and leveraging on our Information Technology has enabled successful implementation and serves to strengthen our track record of above industry average efficiency.

Our Life business continued on its upward trend, with average premiums increasing to Rs. 63,356 which was benchmarked in the industry as the highest premium for Life insurance amongst all insurance companies. The strict disciplinary code followed by our Life sales distribution, along with technically sound underwriting skills has helped the company consolidate its underwriting profits through the year. We have an ongoing programme to improve the quality of underwriting and we keep fine-tuning our instituted distribution processes to maintain continuity of superior service to prospective as well to our own policy holders.

# CHIEF EXECUTIVE OFFICER'S REVIEW

The acquisition of your company by the Sofilogic Group marks a turning point in our history, as the diversified conglomerate and its presence in healthcare, retail, finance, IT and leisure will serve to bring about depth and breadth to our portfolio of insurance products to potential policy holders in the months and years ahead. It is a perfect fit for both entities and your company is upbeat about the prospects for leveraging on joint synergies to propel the company to the foremost positions of the industry within a very short space of time. The group's presence in the health care, finance and retail sectors will aptly augment our product portfolio in both Life and Non Life segments.

Our professional staff and their proficiency has proved to be adaptable and resilient to change. The Sofilogic ownership and transition has been seamless. Mutual respect and training programmes have been conducted to ensure that the employees are upskilled and made aware of how they can optimize on opportunities arising out of this new synergy. Your company has built strong brand equity and a unique positioning in the industry and we are honoured that the Sofilogic Group considered the company valuable enough to pay a premium price. It is a prudent investment as our recently conducted embedded valuation proves. The valuation was carried out and attested by an independent actuarial firm.

The company has been working closely with both the Insurance Association of Sri Lanka and Insurance Board of Sri Lanka both as an industry and a company to prepare for the upcoming changes in 2015, when the Life and Non Life division will have to become two separate legal entities. The move to a principle-based capital system from the present rule-based system will call for significant changes to which the company is geared to implement these regulatory changes smoothly.

## **People Focused**

The company's employees and their performance is the best barometer of success and we place emphasis on attracting and retaining skilled people. Our expansion plans are now powered by some of the best and brightest insurance professionals in our team in both technical and sales expertise. Your company is considered a preferred employer and is being recognized as a company in which employees can innovate and where innovation is given free reign. The creative freedom and pleasant environment make the company a sought after employer in the industry.

Further, the implementation of the ERP E-Business Oracle solution reflects the IT expertise housed in the company. The IT solution enables us to integrate our front end systems to take analytical and prudent decisions in both Life and Non Life businesses. The relevant, upto-date and real time MIS will empower us in a myriad ways.

## **Strategic Growth**

We introduced new life products during the year but our core focus on protection remains unchanged. Our life insurance product remains unique because it offers living benefits. Through the year, we struck a fine balance between adding value to shareholders and customers.

By end of 31st December 2011, we had minimized losses accrued due to erratic capital market movements and we are confident of bouncing back with renewed investment strategies under the guidance of the new shareholder. We are currently in the process of designing new products in line with the joint synergies and will take a broad based positioning in the months ahead. The company will invest in a wider geographical and product spread, thereby maximising the emerging opportunities from the new alliance.

The company works very closely with the regulator and the insurance ombudsman to ensure smooth compliance and conflict resolution. It is heartening to see the sub committee of the Central Bank of Sri Lanka focused on ensuring financial stability while improving financial standards. The new climate will perhaps alter compliance requirements further.

## **Positive Outlook**

Looking ahead, we would be glad to see the government grant rights to local companies for mega infrastructure projects so that insurance companies too can benefit from the massive infrastructure development taking place in the country.

In our view, micro insurance will play a greater role in the years ahead due to the absence of a safety net. The government's vision to increase the per capita income to US\$ 4,000 by 2016 requires these stepping stones to be in place. We are very excited about the growth potential for Health Insurance, which will no doubt leverage upon, given our synergistic advantage.

Business competition is expected to be fierce in view of three new entrants into the insurance industry in 2011. More licenses for companies are expected to be granted in 2012, thereby raising the pitch of competition in the industry. The new insurance entities entering the fray will lend an interesting flavour to the market.



Your Company had established the mid and long-term vision to “be the benchmark provider of quality financial solutions” over a decade ago and our new synergies with the new parent company will accelerate our journey towards achieving this vision successfully. Buoyed by the strong synergy and financial backing of the parent company, we aim to implement this vision aggressively in our five-year plan which will culminate in the year 2016.

#### **Acknowledgements**

It is with sadness that the Asian Alliance Family bids farewell to a giant in the insurance Industry. Mr. Siri Jayasinghe served your company with great passion, integrity and dedication from its inception and it is indeed a loss which will not be erased with the passing of time, both by your company as well as the industry. 54 years of unbroken service to any industry as indeed a hard act to follow!

My deep appreciation goes out to the Chairman and Board of Directors for their sagacity and wise counsel. Their support and guidance has been invaluable to the company. I would like to thank Asia Capital PLC and Richard Peiris group our founders, and the Board of Directors for providing the right support and encouragement during the transition period leading up to the acquisition. I wish to

thank the staff and senior management, namely Saliya Wickramasinghe (GM – Finance), Chula Hettiarachchi (GM – Sales and Marketing), Udeni Kiridena (GM – Non Life), Asaf Khan (GM – Sales and Operations), Victor Colombage (DGM – Non Life), Hashra Weerawardena (DGM – HR, Legal and Administration), Leclaratne Piyasena (DGM – Training and Knowledge Management), Annesly Arsakulasuriya (AGM– Corporate Business), Amal Dharmapriya (AGM – Information and Communication Technology), Nadi Dharmasiri (AGM – Marketing) and Piyal Gunawardena (AGM – National Distribution and Business Development Non Life) for absorbing the demands of the Board in their stride and changing concepts, systems and approaches as needed during the year, which in turn has resulted in significant increases in operational efficiencies and turnover. Further, the company’s employees and I bid a warm welcome to our new holding company, Softlogic, with whom our destinies are now intertwined. The Asian Alliance team is enthused by the prospects for growth this synergy brings and is geared to meet challenges in the days ahead just as they did during 2011. I commend the spirit of cooperation and application of the team through the year. Together we are all heading toward one goal – Destination Success.

(Sgd.)

**Ramal G. Jasinghe**

Director /Chief Executive Officer

21 February 2012



## **BOARD OF DIRECTORS**

*Seated (left to right)*

Paul Ratnayeke, Deputy Chairman  
Mohan Ray Abeywardene, Director  
Ranil P. Pathirana, Director  
Ashok Pathirage, Chairman

*Standing (left to right)*

Suraj N. Fernando, Director  
Ramal G. Jasinghe, Director  
Sujeewa Rajapakse, Director  
T.M.Ifikar Ahamed, Director







## **BOARD OF DIRECTORS**

Ashok Pathirage, Chairman  
Paul Ratnayeke - Deputy Chairman  
Ramal G. Jasinghe, Director  
Suraj N. Fernando, Director  
T.M. Ifthikar Ahamed, Director  
Sujeewa Rajapakse, Director  
Ranil P. Pathirana, Director  
Mohan Ray Abeywardene - Director



### **Mr. Ashok Pathirage, Chairman**

Mr. Ashok Pathirage, Co-founder of Softlogic in 1991, served the Softlogic Group as the Managing Director from the inception. Later he was appointed as the Chairman of the Group in 2000 and is also the Chairman & Managing Director of the Asiri Group of Hospitals. He also serves as the Chairman of Softlogic Capital Limited and Softlogic Finance PLC.

Mr. Pathirage is the Deputy Chairman of the National Development Bank PLC.

He started his career at a leading Blue Chip Company in Sri Lanka and possesses over 25 years of experience at Senior Managerial capacities in the Information Technology industry and in the corporate sector.

### **Mr. Paul Ratnayeke, Deputy Chairman**

Mr. Paul Ratnayeke is a leading commercial lawyer and the Senior Partner and founder of Paul Ratnayeke Associates which focuses largely on corporate and commercial, aviation and shipping. He graduated with honours from the University of Ceylon (Colombo). Mr. Ratnayeke is also a Solicitor of the Supreme Court of England & 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 eight are public quoted companies. At Paul Ratnayeke Associates, he specializes in corporate and commercial areas of law including mergers and acquisitions, aviations, insurance & maritime law.

### **Mr. Ramal G. Jasinghe, Director/Chief Executive Officer**

With experience exceeding 25 years in the field of Marketing, which includes over 15 years in the Insurance sector, Mr. Jasinghe started off his career in the manufacturing industry and thereafter in industrial marketing. He holds a MBA from the University of Sri Jayewardenepura and is a Chartered Marketer; Fellow of The Chartered Institute of Marketing, UK and the Academy of Marketing Sciences, USA.

Mr. Jasinghe has had the opportunity to participate in executive training programmes at two globally recognized top management institutes, namely, The Executive Programme conducted by Stanford University - California and The Top Management Programme on Strategic Management at the Indian Institute of Management, Ahmadabad.

Mr. Jasinghe served in the Council of the National Chamber of Exporters and the National Chamber of Commerce. He has also served on the Board of the Strike, Riot & Civil Commotion and Terrorism Fund & headed the Market Interest Group for the Financial Services Sector launched by the Chartered Institute of Marketing Sri Lanka Region under the aegis of its parent organization in UK. Mr. Jasinghe has been an active member of the Sri Lanka Institute of Marketing, serving on their Executive Committee for many terms and has served as a judge at the SLIM awards. He was one of the Architects of the National Business Excellence Awards conducted by the National Chamber of Commerce. Mr. Ramal Jasinghe presently serves as the President of the Insurance Association of Sri Lanka (IASL).

**Mr. Suraj N. Fernando, Director**

Joined the Soflogig Group in 2009 as an Executive Director, Mr. Fernando heads the Group's Special Projects. His many years of experience as a Managing Director and CEO at a number of diverse companies assists the Group discover new eras in business. Mr. Suraj Fernando is a Fellow of the Chartered Institute of Management Accountants, UK (CIMA), the Chartered Association of Certified Accountants, UK (ACCA) and The Chartered Institute of Marketing, UK (CIM). He has served as the President of CIMA and the Chairman of the Ceylon Chamber of Commerce – Import Section.

**Mr. Iftikar Ahamed, Director**

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

**Mr. Sujeewa Rajapakse, Director**

A Fellow of the Institute of Chartered Accountants of Sri Lanka and the Society of Certified Management Accountants of Sri Lanka, Mr. Sujeewa Rajapakse is the Managing Partner of BDO Partners (Formerly known

as BDO Burah Hathy), a Firm of Chartered Accountants. He holds a MBA from the Postgraduate Institute of Management, University of Sri Jayewardenepura.

Mr. Rajapakse is the Vice President of the Institute of Chartered Accountants of Sri Lanka and a Board Member of the South Asian Federation of Accountants (SAFA). He is also a Technical Advisor to the Confederation of Asia Pacific Accountants (CAPA). Mr. Sujeewa Rajapakse represents the Monetary Policy Consultative Committee of Central Bank of Sri Lanka as a member and is a Board member of NDB Bank.

Mr. Rajapakse was also the Treasurer of Sri Lanka Cricket and Cricket World Cup 2011. He is an old boy of Richmond College, Galle.

**Mr. Ranil P. Pathirana, Director**

Mr. Pathirana is a Fellow of the Chartered Institute of Management Accountants, UK (FCMA) and holds a B.Commerce (Special) Degree from the University of Sri Jayewardenepura. He serves as the Group Finance Director of Hidramani Group of Companies since year 2000. Mr. Ranil Pathirana is a Non Executive Director of Softlogig Finance and Hayleys PLC. Possessing over 20 years of experience in the corporate sector, Mr. Pathirana served as the Assistant Vice President of Vanik Incorporation from 1996 – 2000 and the CEO of Vanik Bangladesh Securities (leading stock broker in Bangladesh at present). He is also the CEO of Vanik Corporate Services and Vanik Asset Management in Sri Lanka.

**Mr. Mohan Ray Abeywardena, Director**

Mr. Abeywardena holds a MBA from the University of Wales and a Post Graduate Diploma in Marketing from The CIM, UK. He serves as the Group Managing Director/CEO of Acuity Partners (Pvt) Ltd.; a joint venture investment banking firm equally owned by the DFCC Bank and Hatton National Bank PLC. Mr. Ray Abeywardena served as the Managing Director of DFCC Stockbrokers (Pvt) Ltd. (now Acuity Stockbrokers (Pvt) Ltd.) in 2008, when the firm was ranked the number one Stock Broker in Sri Lanka.

Possessing over 25 years of work experience in the capital markets in Sri Lanka, Mr. Abeywardena have established a strong and loyal client base both locally and internationally. He is also the Deputy Chairman of Acuity Stockbrokers (Pvt) Ltd. and holds Directorships at Acuity Securities Ltd. and Guardian Acuity Asset Management.



## **THE EXECUTIVE COMMITTEE**

*Seated (left to right)*

Chula Hettiarachchi,  
General Manager, Sales &  
Marketing

Saliya Wickremasinghe,  
General Manager, Finance

*Standing (left to right)*

Asaf Khan,  
General Manager, Sales &  
Operations

Ramal G. Jasinghe,  
Chief Executive Officer

Udeni Kiridena,  
General Manager, Non Life







## THE EXECUTIVE COMMITTEE

Ramal G. Jasinghe,  
Chief Executive Officer  
Saliya Wickremasinghe,  
General Manager, Finance  
Udeni Kiridena,  
General Manager, Non Life  
Chula Hettiarachchi,  
General Manager, Sales & Marketing  
Asaf Khan,  
General Manager, Sales &  
Operations



### **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. 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 over 30 years including exposure in local blue chip companies as well as 5 years in a multi national company in Australia.

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 is a product of Trinity College, Kandy and has excelled in sports, especially, in boxing and has been awarded the coveted "Boxing Lion". He is the immediate past president of the Amateur Boxing Association of Sri Lanka and is 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. 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 distribution operations in an astute and professional manner.

**Mr. Asaf Khan**, General Manager, Sales & Operations

Mr. Asaf Khan commenced his career in the insurance arm of Carson Cumberbatch & Co. Ltd as a school leaver. Experiencing rapid progression in his career, Mr. Khan headed both the Life and Non Life Divisions of the company.

Consequent to the privatization of the Insurance Industry, Mr. Asaf Khan headed the Carsons branch of Union Assurance PLC (UAL) and following the merger of the insurance operations was absorbed as Regional Manager - Colombo of UAL. He later progressed to the position of Assistant General Manager - Operations and subsequently led the Customer Relationship Management Division of UAL as General Manager.

Mr. Khan possesses over 40 years of experience in the insurance industry. He has served as the Treasurer, Secretary and Vice President of the Sri Lanka Insurance Institute.



## THE MANAGEMENT TEAM

*(left to right)*

Piyal Gunawardena, Assistant General Manager, National Distribution and Business Development, Non Life  
Harshra Weerawardene, Deputy General Manager, HR, Training & Administration  
Amal Dharmapriya, Assistant General Manager, Information & Communication Technology  
Nadi Dharmasiri, Assistant General Manager, Marketing  
Suranga Waduge, Assistant General Manager, Life  
Leelaratne Piyasena, Deputy General Manager, Training & Knowledge Management  
Victor Colambage, Deputy General Manager, Non Life  
Annesley Arsekularatne, Assistant General Manager, Corporate Business







## THE MANAGEMENT TEAM

Victor Colambage,  
Deputy General Manager, Non Life  
Leelaratne Piyasena,  
Deputy General Manager, Training  
& Knowledge Management  
Harshra Weerawardene, Deputy  
General Manager, HR, Training &  
Administration  
Annesley Arsekularatne,  
Assistant General Manager,  
Corporate Business  
Amal Dharmapriya, Assistant  
General Manager, Information &  
Communication Technology  
Nadi Dharmasiri, Assistant General  
Manager, Marketing  
Piyal Gunawardena, Assistant  
General Manager, National  
Distribution and Business  
Development, Non Life  
Suranga Waduge, Assistant General  
Manager, Life



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

**Mr. 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 28 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.

**Mr. Hashra Weerawardena**, Deputy General Manager, HR, Legal and  
Administration

BA (Col), MBA (Col), MCIM, Attorney-at-law, Dip CII (U.K)  
He bears a career of 18 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.

**Mr. 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 20 years, and is considered a veteran insurance salesman with an  
unblemished record of success. Client testimonies of his service levels have  
proved to be impeccable, which is a strength to the Company’s distribution  
efforts.

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

He has a BSc in Applied Sciences from the University of Sri Jayewardenepura. His career in the insurance industry spans a period of 7 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.

**Ms. 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. She is also a full member of The CIM UK (MCIM). Her career in marketing and branding spans a period of 21 years of which 7 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.

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

Piyal Gunawardena counts for over 15 years experience in the Insurance Sector and prior to that in the FMCG sector. He has wide exposure in the areas of Sales & Distribution, Business Development, Setting up agency distribution channels and Sales Training & Development. He has also spearheaded key international and local projects related to business development and business transformation.

Piyal is an MBA of the Postgraduate Institute of Management, University of Sri Jayewardenepura and has a BA Special Degree (Hons) from the University of Colombo. He is a certified moderator for Agency Management Training Course (AMTC) and Producer Development Series (PDS). He has gained many professional qualifications, including the prestigious

title of Chartered Insurance Agency Manager (CIAM) and Professional Financial Advisor (PFA) from LIMRA – USA. Piyal has also received wide international training exposure from various prestigious organizations.

**Mr. Suranga Waduge**, Assistant General Manager, Life

Mr. Suranga Waduge holds an MSc in Mathematics and Statistics from the University of Missouri Kansas City, USA and a BSc (Hons) in Business, Financial and Computational Mathematics from the University of Colombo.

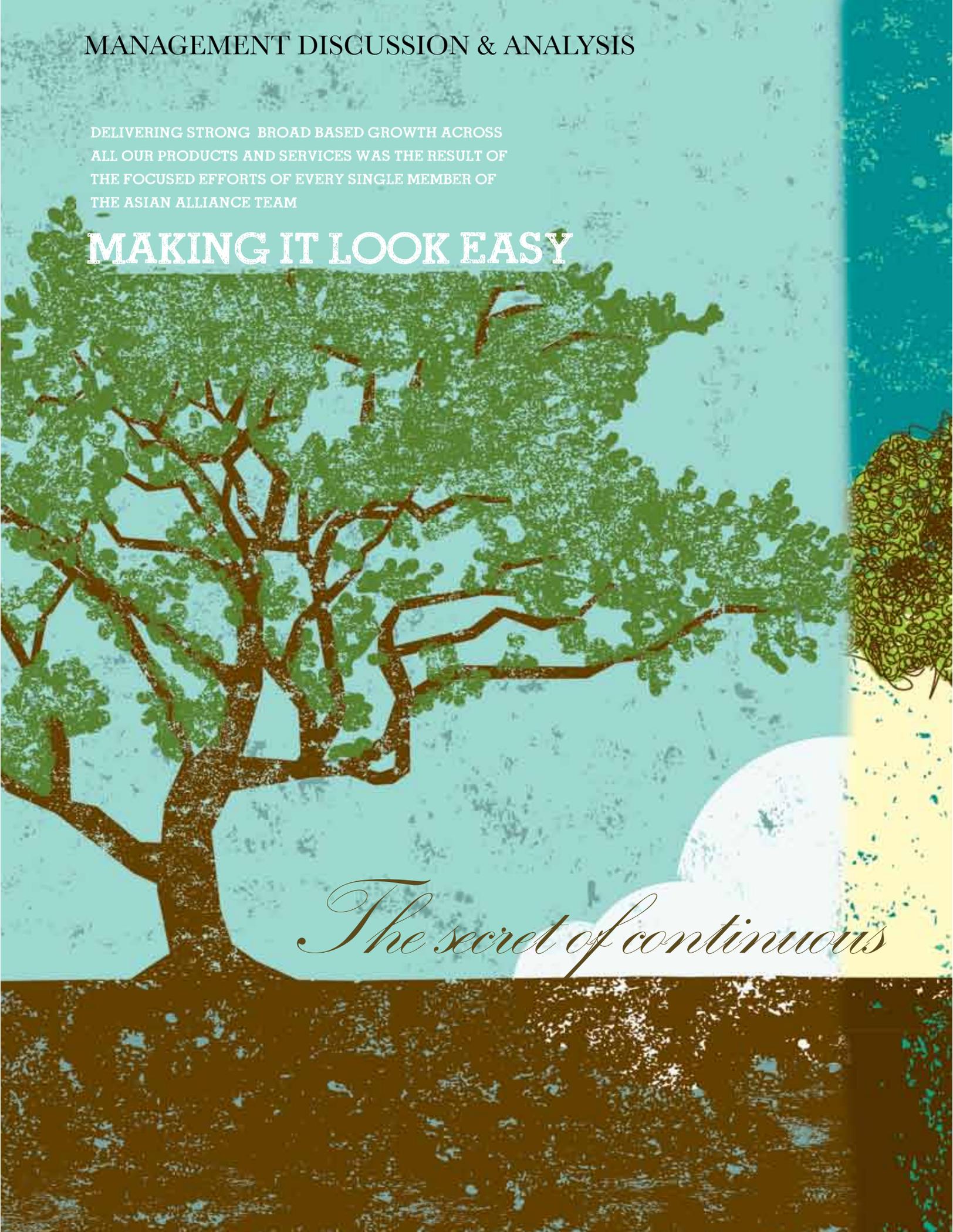
Mr. Waduge began his career at Asian Alliance Insurance as a Management Trainee in 2004 and left to USA in 2006 to read for his MSc. Having gained foreign exposure for 3 years he returned to Asian Alliance as the Manager Actuarial. During his 5 year career in Insurance, he has participated in many foreign and local training programs on Life Insurance and Reinsurance including FALIA (Japan).

At present, he is working towards becoming an Associate member of the Institute and Faculty of Actuaries (UK).

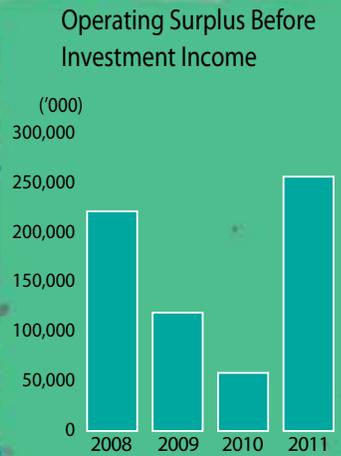
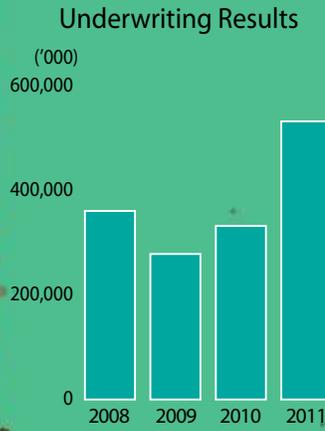
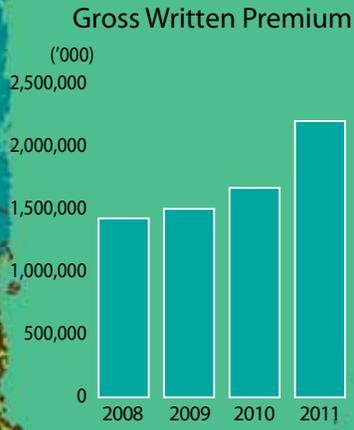
# MANAGEMENT DISCUSSION & ANALYSIS

DELIVERING STRONG BROAD BASED GROWTH ACROSS ALL OUR PRODUCTS AND SERVICES WAS THE RESULT OF THE FOCUSED EFFORTS OF EVERY SINGLE MEMBER OF THE ASIAN ALLIANCE TEAM

## MAKING IT LOOK EASY



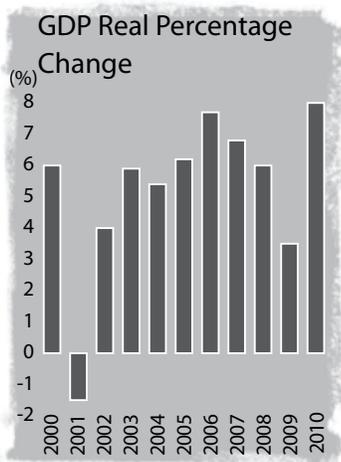
*The secret of continuous*



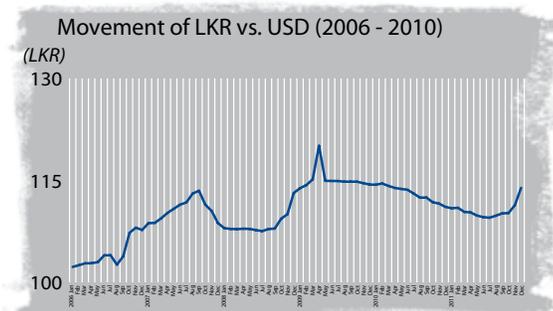
# Growth

ECONOMIC REVIEW

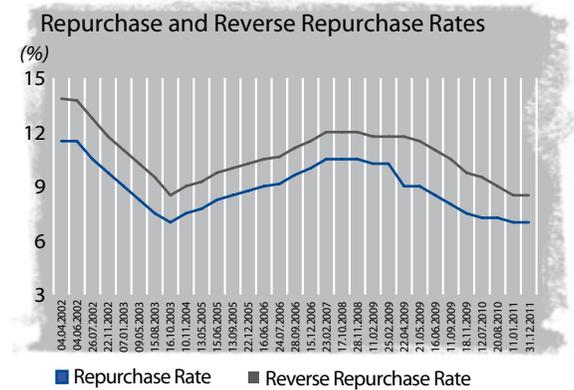
The economy grew at a healthy 8.3% in the first nine months of 2011, consolidating gains achieved during the previous year. The contributors to this robust GDP growth were diverse. The services sector grew at 8.7% for the first three quarters of 2011, with wholesale and retail trade, port operations, cargo and container handling, post and telecommunication, banking, insurance and real estate continuing to expand. Further, the industry sector recorded 10.5% growth during the first three quarters of 2011. On the back of this strong performance, unemployment rates declined to 4.3% in the first half of 2011.



Meanwhile, the external sector posted a 23% increase in earnings over the previous year with continuous growth in exports to the EU and the USA due to export diversification and value addition. Also, imports expanded by over 50% year on year in the first 10 months of 2011. The tourism sector demonstrated a sharp upward curve, reaching the 850,000 mark for inbound tourists during 2011. Workers' remittances continued to drive foreign reserves, estimated to be around US\$ 5.2 billion in 2011, up by 27% from the previous year, contributing 8.8% to the GDP.

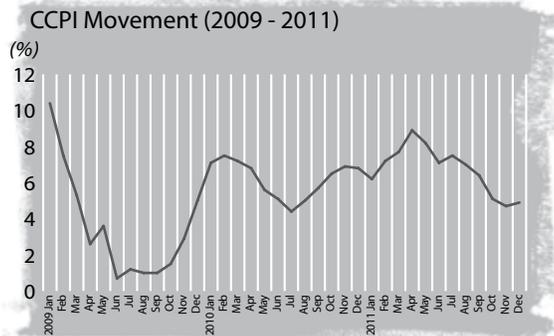


On the monetary front, Sri Lanka's fourth international sovereign bond in July 2011 was oversubscribed by 7.5 times and FDI exceeded US\$ 1,000 Mn for the first time in history. As a result, gross official reserves amounted to US\$ 6.0 Bn by end 2011 compared to US\$ 6.6 Bn by end 2010. The Central Bank absorbed and supplied foreign currency to avoid excessive volatility in the domestic foreign exchange market and to maintain stability. Policy interest rates in 2011 remained unchanged after one downward adjustment in January 2011. Market interest rates remained broadly stable, although a slight increase in rates witnessed towards end of 2011.



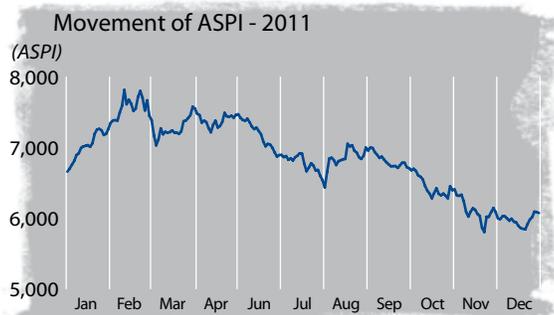
Meanwhile, excess liquidity in the money market gradually declined in 2011 to under Rs.10 Bn, from Rs. 124 Bn at end 2010. Growth in credit extended to the private sector by commercial banks was broad-based and sharp increases were observed in credit for consumer durables and on pawning

Inflation remained at single-digit levels through the period under review. The rate of year-on-year inflation, as measured by the Colombo Consumers' Price Index (CCPI), computed by the Department of Census and Statistics, decreased to 4.9% in December 2011 from 6.2% in January 2011. The annual average rate of inflation recorded as 6.7 per cent in December 2011 thus stabilising the inflation at the mid single digit level.



resource availability to the private sector further. Government revenue for 2012 is expected to increase to Rs.1,126 Bn of which 88.9% will be tax revenue and 9.4% will come from non-tax sources, a majority of tax revenue expected from taxes on goods and services. Also, the country continues to improve its position in key global rankings, such as the Global Competitiveness Index (up to 52nd from 62nd) and Doing Business Index (up to 89th from 98th), thereby strengthening its standing as a viable investment destination.

Trading on the Colombo Stock Exchange improved in the early months of 2011, while recording a decline in the latter half of the year. Funds raised through Initial Public Offerings (IPOs) and rights issues increased in 2011 as did the number of companies listed on the stock exchange. However market conditions remained volatile as at year-end.



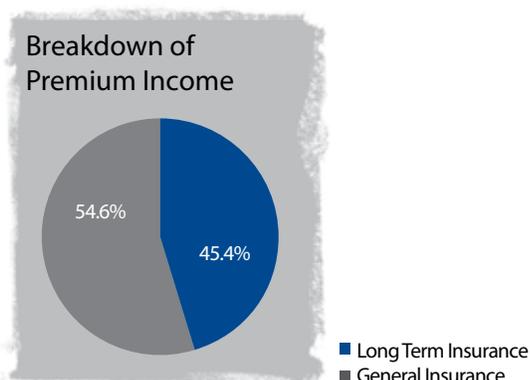
### Outlook for 2012

The significant structural changes that have taken place in the Sri Lankan economy over the last several years are expected to provide the momentum for the economy to grow by about 8% in 2012, even in the midst of the slowdown in global economic activity. Continued development efforts aimed at improving economic and social infrastructure are expected to augment the productive capacity of the country and thereby enable the realisation of the country's growth potential. The government is expected to bring down the fiscal deficit to 6.2 per cent of the GDP in 2012, thereby augmenting the

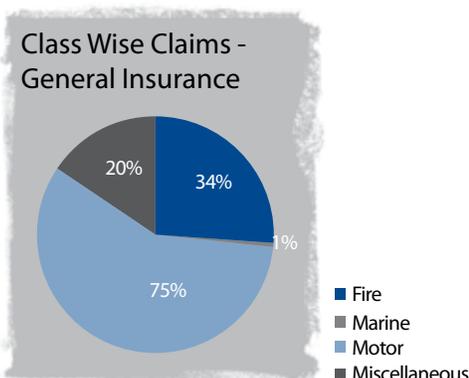
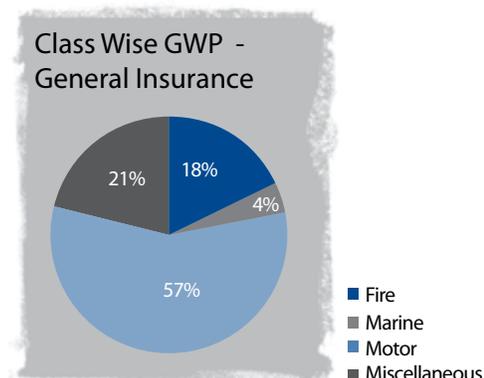
## INDUSTRY OVERVIEW

The insurance industry in Sri Lanka consists of 19 insurance companies currently in operation, of which 12 companies are composite insurers, while 5 companies engage exclusively in general insurance and 2 companies conduct only long-term insurance business. During 2011, 3 new insurance companies entered the market, bringing the total number of insurance companies to 22.

During the year under review, the regulatory framework of the insurance sector was strengthened with the enactment of amendments to the Regulation of Insurance Industry (RII) Act in January 2011. Reflecting improved macroeconomic performance, the financial sector showed continued growth in 2011.



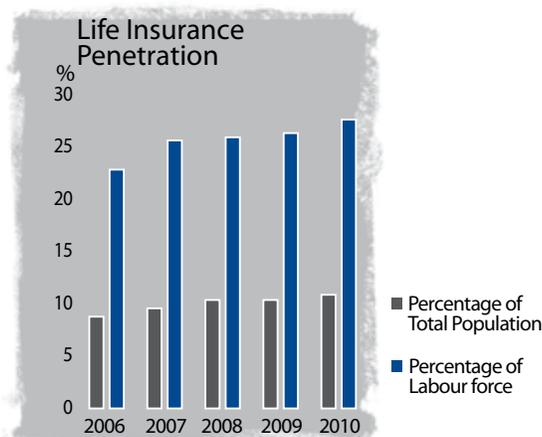
The insurance company sector recorded a higher growth in premium income in the improved business environment, while maintaining its soundness. The total gross written premiums (GWP) of insurance companies rose by 23% to Rs. 39 billion in the first half of 2011 compared with an increase of 11% in the first half of 2010. The GWP for long-term insurance increased by 30% to Rs. 17 billion, while the GWP for general insurance increased by 19% to Rs. 22 billion. Total investment income of insurance companies declined marginally by 0.3% to Rs. 12 billion during the first six months of 2011 as against an increase of 40% in the same period of 2010, on account of the decline in stock market prices and yields on government securities. Total income of the insurance company sector increased by 17% to Rs. 51 billion in the first half of 2011 compared with an increase of 18% in the corresponding period of the previous year. The combined operating ratio (claims ratio + management expense ratio) for both general and long-term insurance declined, reflecting increased underwriting profits in the first half of 2011.



The overall profit of insurance companies increased by 44% in the first six months of 2011, primarily on account of the higher growth in premium income despite the slightly lower earnings on investments. All insurance companies complied with the solvency margin requirement which is an indicator of soundness and claims paying capacity. The industry solvency margin ratio for long-term insurance increased, while the industry solvency margin ratio for general insurance marginally declined.

The prospects for the expansion of the insurance sector are significant given the current low penetration levels. Both the general and long-term insurance businesses are expected to expand with the growth of the economy and incomes. The appointment of institutions as agents of insurance companies and insurance broking companies permitted under the recent amendments to the insurance law, will improve access to insurance products. In

particular, there is great potential for the development of long-term insurance products, such as investment linked products, annuities and pension products. The regulatory and supervisory framework governing insurance companies is being upgraded and its scope widened to cover all entities in the insurance sector. The minimum capital requirements for each class of insurance business have been enhanced to Rs. 500 million to enable the expansion of business activity.



A major project is the strengthening of risk-based supervision in 2012 and the transformation from a rules-based supervisory model to a risk-based model by 2016. The main features of the act include empowering the Insurance Board of Sri Lanka to stipulate capital requirements for insurance companies and brokers; stipulation of fitness and propriety criteria for the Board of Directors of insurance companies, bringing the National Insurance Trust Fund under the purview of the insurance regulator; appointment of institutional agents; and the requirement that long-term and general insurance business should be segregated into separate companies, with existing composite insurance companies being given four years to comply with this requirement. Directions were also issued to amend the solvency margin rules, particularly with regard to the valuation of assets.

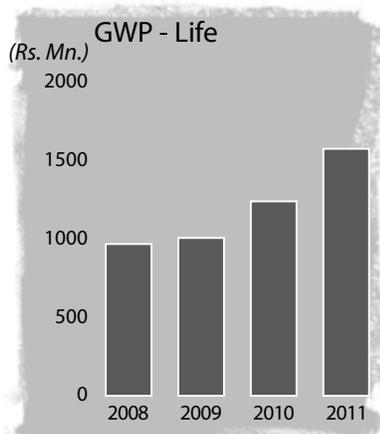
## OPERATIONAL REVIEW - LIFE

Highlights of Asian Alliance vis a vis Industry in FY 2011:

- Best client retention rate of 75%
- New business growth of 23%
- GWP growth of 27%
- Highest average client value of Rs. 63,365
- Average Advisor productivity Rs. 3 million premium per advisor
- Death Claims honour rate of 97%

### Protection First

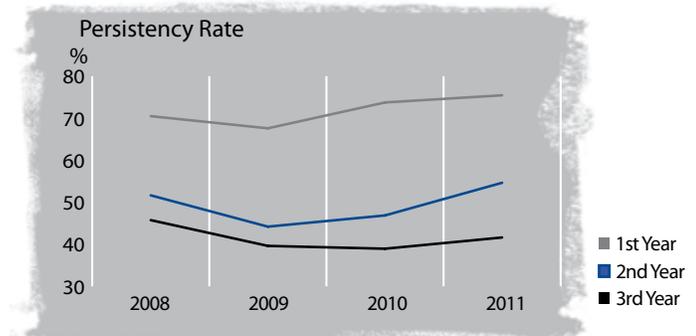
Your Company continued to differentiate its Life Insurance offering from the rest of the industry by persevering on its protection platform. It is important to understand that selling insurance policies solely on the basis of protection is an uphill task. Catering to a market where customers want to see immediate short term returns, makes our positioning a real challenge. However, the company has stayed true to its core values and appeals to the medium to long term gain and offers returns during a person's lifetime.



The company sincerely believes that its social responsibility to customers lies in ensuring secure financial protection for the families. By remaining focused on the protection platform we have strengthened our core competency of being insurers first rather than fund managers. The company identified and embraced this philosophy early on and it still remains the cornerstone of our success.

### High Policy Retention

Our selective approach has also led us to be extremely discerning about our customers as well. Prospective customers are identified after a structured process and these results are reflected in client value, enhanced customer satisfaction and higher rates of policy retention. The company boasts of the highest customer retention rate of 75% at present. Our aim is to bring this figure up to 90% over the next few years. Annual Average policy value at Asian Alliance was Rs. 63,365 through 2011, once again the highest in the industry.

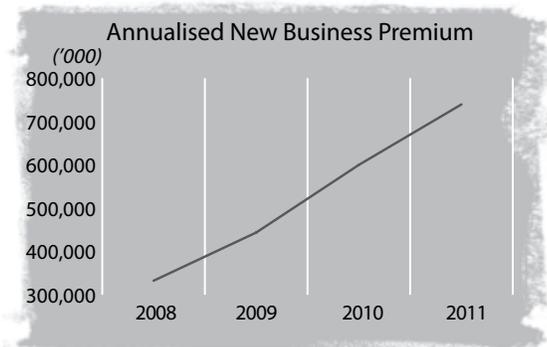


### Sharing Success

The company has done away with the perennial and much maligned insurance 'agents' concept, and introduced a duly trained and developed knowledgeable field force in its place to serve as 'insurance advisors' to the clients. They are also trained to function as "field underwriters" thus minimizing unnecessary delays in the underwriting process.

Through the period under review, we remained mindful of the fact that our sales operation in Life division has to benefit all our stakeholders, namely, employer, employee and customers.

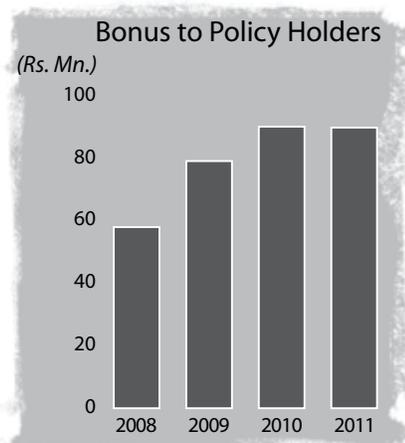
For example, our insurance advisors bring in profits and we share our success with them via financial incentives and so on. These two strategies of focusing on protection and ensuring fair-play and sharing success have held us in good stead. The period under review was marked by a steady inflow of new business and increased premium.



We continued to enhance our customer service unit and the policy conservation unit by giving them a cutting edge through training and technical support, equipping them with decision-making powers. All these factors have created an extremely enabling environment for us through the period under review, encouraging us to forecast 30% annual growth in Life insurance over the next five years.

### Reinsurance

Our performance during the year did not go unnoticed by our Reinsurer Munich RE. The purity of our underwriting standards was lauded by our reinsurers in the form of enhanced auto acceptance limits. The company was able to achieve the highest ever profit commission, in view of the high quality business, prudent underwriting and claims management. Further, we are now totally empowered to underwrite nearly all business and these plaudits will serve as key stepping stones for stronger growth.



We have so far been able to declare bonuses to meet the illustrated maturity values shown in the policy, which proves how efficiently we have set our targets at inception, and also reflecting the company's financial stability and strength.

### Three Pillars of Growth in Life Insurance

People, products and processes are the three pillars on which we have built up a enviable Life insurance business model.

**Product:** Our advisors align products as close to our core competency of protection as needed by the customer, customising for optimum customer satisfaction. Moreover, we accommodate Rs. 3 million on average per customer during his lifetime for risk, which is high when compared to the industry average.

**Process:** All our products are matched and synchronised with our well defined processes in a well choreographed sequence. This well structured system offers us a clear competitive edge in the industry. This successful business model has ensured growth in Life business, with the Life fund growing at a rate of 20% plus annually. It currently stands at Rs. 2.3 billion, up from Rs. 1.9 billion in 2010.

**People:** Our Training and Knowledge Management Centre is fully equipped and abreast of industry trends, and ensures our skilful employees gain the necessary competitive edge, focusing on process driven performance.

### Delivering Customer Satisfaction

We have been able to meet customer needs identified on the basis of research and development work, that are being undertaken as a continuous process by the Sales & Marketing Division in regard to Life Assurance. Accordingly, we have introduced a wide range of life assurance options, namely, a unique brand which provides the proposer with the facility of choosing a reduced premium paying period over the full term of policy depending on his individual needs and circumstances, but continues to enjoy all benefits entitled under the policy even after cessation of payment of premiums up to maturity - absolutely free of any further payment of premiums. Moreover, the company has developed software in-house to suit specific requirements and a planned programme is being drawn up to provide expeditious service to customers.

## **OPERATIONAL REVIEW - LIFE**

### **Future Outlook**

The road ahead is crystal clear for the Life division. We will continue to consolidate core competencies we have built up painstakingly. Having surpassed the industry averages of customer satisfaction, we hope to exceed Asian standards in customer retention in time and also set a benchmark for GWP growth over the next five years. We will also develop and roll out innovate protection-based products whilst keeping control of efficiencies coupled with higher productivity and enhanced business revenues.

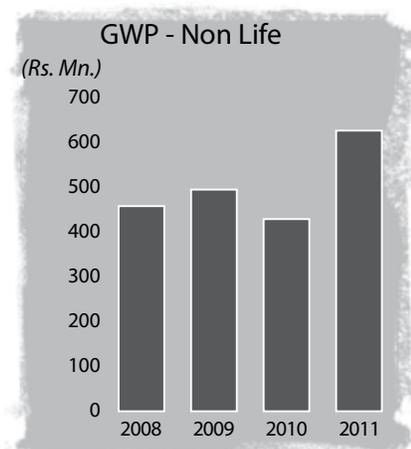
The north and east are uncharted waters and we are in the midst of refining our marketing strategy in these areas. The company has already established its presence in Batticaloa, Ampara and Jaffna. Winning the trust of prospective customers and building emotional bonds will underpin our future growth strategies.

## OPERATIONAL REVIEW – NON LIFE

Highlights of Asian Alliance vis a vis Industry in FY 2011:

- GWP growth of 46%
- Motor: Non Motor mix of 52:48
- Technical Reserve increased by 64%

During the year under review, the Non Life Division was characterized by consolidation of growth, which is clearly reflected in our results. For the first time in the company's 11-year history, Non Life operations exceeded the Rs. 600 million mark, recording a GWP of Rs.628.15 million for the year 2011. The Non Life industry grew by 21% during the period under review while the company surpassed this growth by recording a steep 46% growth. Motor insurance premium made a contribution of approximately 52.5% to Non Life revenues. The Non Life division experienced an upsurge in premium growth, with net earned premium also increasing after deductions in reinsurance payouts.



### Underwriting Profitability

Growth in gross written premium has been exponential during the year with underwriting profitability rising to Rs.50.3 million in 2011, which is an increase of 240% compared to 2010. The Non Life division would have been in a much more comfortable position if not for the impact of investment income, which did not deliver the

expected results during the year. However, the pace of growth that the company has adopted is judicious whilst also being ambitious.

### Product Innovation

During the year we introduced the Golfer Insurance Policy which covers personal and equipment liability in addition to third party cover. We also augmented the Travel Policy to include personal accident coverage within the scope of the policy.

The company further innovated its underwriting process by leveraging on geo mapping capabilities which enabled us to analyze and assess risks of natural disasters geographically. This was done in conjunction with data inputs from the Disaster Management Centre providing a platform for better evaluation of risks.

### Growth Strategy

Expansion characterised our consistent growth through the year. The company continued to focus on canvassing for business from the corporate sector, whilst strengthening relationships with broker and retail business units and leasing companies. This multi-pronged approach has paid rich dividends for the company.

Fine-tuning our claims settlement process remains an ongoing endeavour and now we can proudly claim to perhaps possess the least complicated claims settlement process from an industry perspective.

Unfortunately, budgetary restrictions and considerations of high cost of recruitment challenges constrained a more strident retail business unit expansion in the first half of the year. Recruitment continued to be a challenge in the insurance industry, given the relatively modest availability of experienced professionals. Although the industry is growing there is a dearth of qualified professionals.

### Reinsurance

It was a tremendous year for your Company in terms of reinforcing our credentials and brand equity. Our reinsurance capacity was almost doubled by our reinsurance partners overseas for 2012, arising from the profitability in the reinsurance programme for 2011 putting us on par with the larger insurance companies.

We take pride in the fact that some of the world's most reputed Companies, such as GIC India, Malaysian RE and Best RE from Malaysia, Trust RE from Bahrain, United India from India, Asian RE

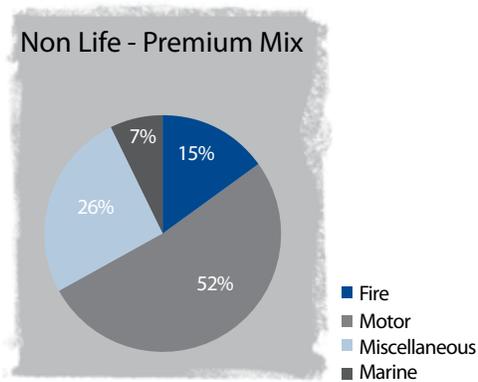
**OPERATIONAL REVIEW – NON LIFE**

from Thailand and Lloyds of London are our re-insurance partners. The company is grateful for their support and partnership.

**Portfolio Quality**

The portfolio achieved significant operational excellence this year. We were successful in improving portfolio quality by shedding weak accounts, revising terms and conditions and spring-cleaning our accounts to eliminate underperforming business. We are also buoyed by the fact that we are now in the enviable position to leverage on Softlogic business sectors and its country wide branch network.

Our robust forecast for the division in the coming months is boosted by our current mandate to devise health insurance policies. The healthcare sector is one of the fastest growing sectors in the country and Softlogic is at the forefront of quality private health care, with ambitious plans to expand its presence in to key locations island-wide. We are thriving in an environment of innovations such as a co-branded card with the hospitals to offer premier service, admission without deposit on a priority basis and a host of other benefits.



**Staff**

We are proud of the fact that we possess one of the most technically sound underwriting and claims handling teams in the country. The company encourages and supports employees to sit for further insurance related examinations and about 90% of our staff are opting for higher qualifications within the industry.

**Future Outlook**

We will strongly focus on enhancing retail units in the year ahead as they comprise a lower risk, resulting in higher profitability. Our sales force remains dedicated to marketing our broad spectrum of products via an aggressive expansion in to new locations, and has a strong foundation to broad base and enhance our Non Life operations. The new synergies arrived at through the Softlogic group have accorded and strengthened perception of stability and strong future potential of the Company. With such a strong shareholder, we are poised for dynamic growth.

## FINANCIAL REVIEW

Year 2011 marked the beginning of a new era for the company through the takeover by the highly diversified Softlogic Group which enables the company to exploit untapped business opportunities in the market and maximize its financial strength, while benefiting from the synergistic effects of the Group. Being under the umbrella of the Softlogic Group provides greater security which in turn, provides an additional guarantee to our shareholders and policy holders who can have higher expectations for their investment.

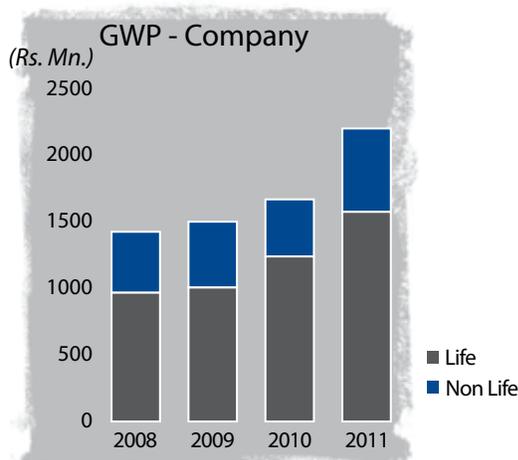
Although the year commenced with much hope and expectations of achieving comparatively superior financial results, the investment strategy adopted by the company made it particularly difficult to achieve targeted profitability. Financial performance of the two core segments, Life and Non Life operations contributed towards strong growth in Underwriting Results. The stable growth of 60% in its Underwriting Results indicates the operational capability of the company and competence in core business activities.

Following the acquisition of the company by Softlogic group, the share price of the company peaked at Rs 405 and settled down at Rs 170 with the slowdown of the stock market towards the year-end. The Company's market capitalization reached the Rs 13.0 billion mark during the year and dropped to Rs 6.4 billion at the year-end.

RAM Ratings Lanka has re-affirmed the company's claim paying ability of BBB- ; the rating outlook remains stable for the second consecutive year. The ratings are upheld by the Company's good capitalization and liquidity as well as its good financial performance in the Life segment. Upon assessing the performance of the Life portfolio, M/S K A Pandit, Consultants and Actuaries has issued a certificate on Embedded value on the Life portfolio, which gives the estimate of future profits to shareholders from the existing business in page 95 a very encouraging indicator.

### Growth in Gross Written Premium (GWP)

The company boasts a growth in premiums of 32 % year-on year with a premium income of over Rs 2.2 billion from both Life and Non life sectors. Both sectors recorded a commendable growth in terms of premium, surpassing industry growth figures and exceeding the budgeted targets.



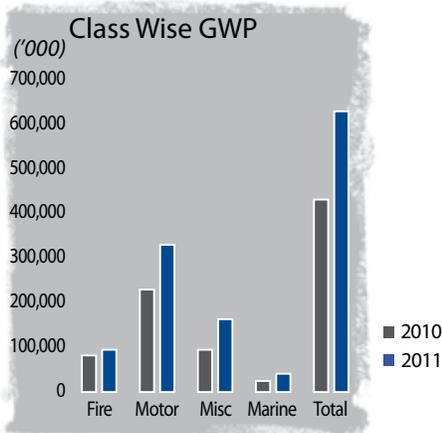
Life premium growth was driven by the 23 % growth in New Business and high premium persistency rates achieved from the first year onwards. During year under review, the Life division achieved an Annualized New Business Premium of Rs 740 million, and an increase in Average Policy value of Rs 63,365, which is the highest in the industry.

Non Life segment of the business recorded an impressive growth in business despite its focus on quality business which resulted in higher margins. This is reflected in the Underwriting results of the division. Premium growth in Non Life business during the year under review was predominantly driven by growth in the Motor and Miscellaneous business classes.

Rs.Mn	Life		General		Total	
	GWP	Growth	GWP	Growth	GWP	Growth
2006	748	29%	417	18%	1,165	25%
2007	891	19%	383	-8%	1,274	9%
2008	970	9%	459	20%	1,429	12%
2009	1,009	4%	496	8%	1,505	5%
2010	1,243	23%	430	-13%	1,673	11%
2011	1,579	27%	628	46%	2,207	32%

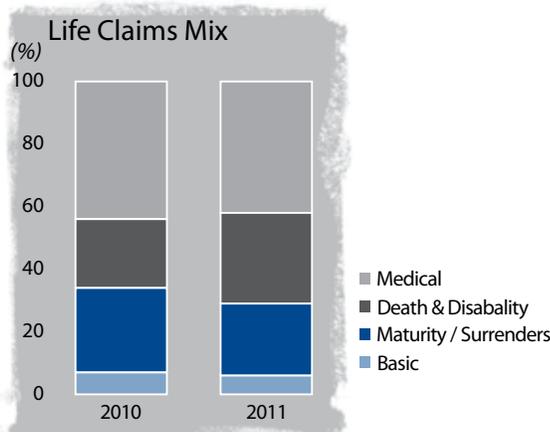
**FINANCIAL REVIEW**

An analysis of the class-wise performance of the Non Life business in relation to the results gleaned over the previous year indicates that the Miscellaneous class grew by 72 % while Marine recorded a growth of 66 % and Motor registered an improvement of 44 %.

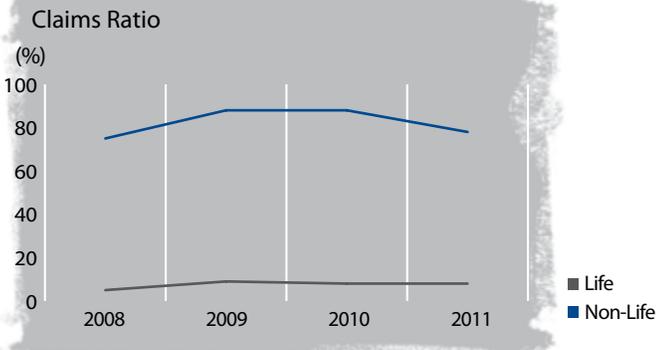


**Benefits and Losses**

Life claims paid for the year amounted to Rs 213 million, an increase of 23% from the previous year. In the year 2011, 42 % of the claims were related to medical claims, which goes on to demonstrate your company’s commitment to the “living benefits” to our policy holders. The medical benefits enjoyed by our policy holders include Family Health Care, Super Family Health Care, Hospital Cash Benefits and Critical Illness cover.



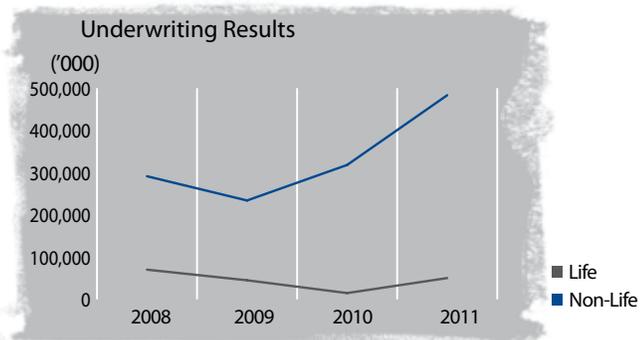
In the NonLife segment, the company was able reduce the claim ratio by 10 percentage points, compared to the previous year due to underwriting discipline and re-insurance arrangements. The Company’s motor loss ratio has been above the industry loss ratio, and this is a result of the low market share, drop in average premium and increased cost of motor repairs. Meanwhile, loss ratio of the Miscellaneous class which includes Medical and the Fire class loss ratio has improved from the previous year due to an increase in premiums, and the re-insurance arrangements.



**Underwriting Result**

In year 2011, the company recorded a highly commendable underwriting result of Rs.533 million, representing a 60% growth over the previous year. This was mainly due to the exceptional performance of the Life segment, whilst the Non Life segment more than tripled its Underwriting Results due to larger volumes of new business, claims management and high policy retention. The share of underwriting result from the life division amounted to a creditable Rs.483 million, a 52% growth over the previous year. Non-life division significantly improved its underwriting result, recording a 240% growth despite a steep increase in the Unearned Premium Reserve. The main reason for such a significant growth in underwriting result was due to best practices adopted under the “process drive strategy” and the heavy investment into training and knowledge management in both the Life and Non-Life segments.

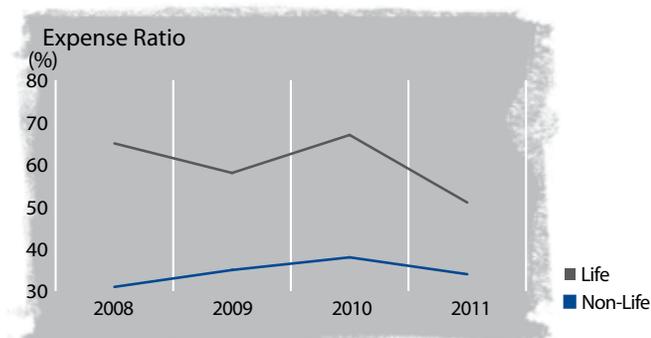
As a future initiative to improve the above results, the company has already taken steps to expand Non-Life sales through the existing Life branch network as well as the Softlogic branch network to reach the profitable retail market segment.



### Expense Ratio

The Operating and Administration expenses of the company during the year increased by just 8% as against the previous year, despite branch expansions, new recruitments in both Life and Non Life sales staff and other cost increases due to inflation. Though the company increased its number of branches to gain more reach and coverage within the island, close monitoring of expenses allowed the company to maintain a 4% drop in the expense ratio in the Life division. This is despite the increase in acquisition costs due to increases in new business strain.

During year 2011, in the Non Life segment, a 25% increase in Net Earned Premium at the same cost base resulted in a 16% drop in the expense ratio, which ended the year at 51%. Furthermore, the company will continue to improve its expense process as this will provide maximum benefits to our policy holders and shareholders.



### Investment Income

The Company managed the Life Fund and the General Fund as per the guidelines issued by the Insurance Board of Sri Lanka. Accordingly, the bulk of the above two funds was invested in government securities and other fixed income securities. Therefore, despite the drop in market rates, the company earned an interest income of Rs 247.3 million from fixed income securities during 2011 as against the previous year's figure of Rs 266.0 million. However the Shareholder's funds, which constituted the money generated by the Right issue and the Revenue Reserves, was invested in the equity market under the guidance of the previous Investment Committee to take advantage of the bull run. Regrettably the market took a u-turn and kept reducing during the year which had a major impact on the Investment income, particularly in the Non Life segment. The Realized and Unrealized losses from the equity portfolio eroded the investment income derived from fixed income securities and dividend income earned for year 2011.

### Life Operating Surplus

Over the past years the Life Operating Surplus has been growing significantly due to high policy value, retention rates, prudent management of insurance claims, surrenders, expenses and the return on investment in the Life segment. In 2011, despite investment income dropping by 40%, the company managed to record a Life Operating Surplus of Rs 623 million, which is in line with the figure recorded in the previous year.

(Rs '000)	2008	2009	2010	2011
Life Operating Surplus	475,571	551,427	622,567	623,656
Life Surplus to Shareholders	160,000	195,000	253,610	200,000

### Profitability

The Life segment recorded a commendable Profit before Tax of Rs 200 million during the year, as the impact on investment income was marginal as the Life fund was invested in a seamless portfolio mix as per regulatory guidelines.

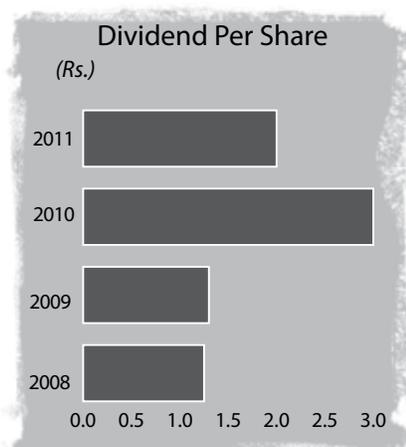
The Non Life segment however had a direct impact on the investment income of the Shareholder's fund, which was skewed towards equity. The operational efficiencies shown by the Non Life segment in terms of lower claims ratio, expense ratio and improved underwriting results was eroded with the negative investment income from the equity portfolio of

## FINANCIAL REVIEW

the Shareholder's fund. Hence, the Net Loss after Tax of the Company for the year under review was Rs (127.7) million. The loss has been arrived at after providing adequate reserves for both Life and Non Life segments. Further, the Company has allocated a Reversionary Bonus amount of Rs 90 million to be awarded to the Life policyholders.

### Dividend

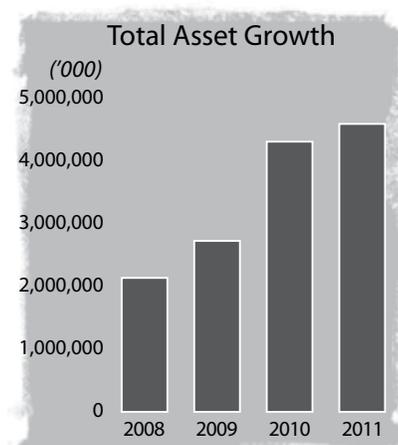
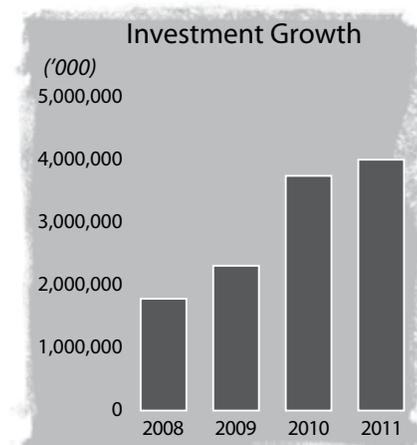
The company's past performance and futuristic approach enabled it to maintain its Dividend pay-out to shareholders in 2011. The Company proposed a dividend of Rs.2.00 per share. In total Rs 75 million in dividend will be paid to shareholders in FY 2011 compared to Rs.112.5 million in the previous year.



### Investment and Asset Growth

The total investment of the company increased to Rs 4.0 billion, a 7 % increase against the previous year despite a Rs 301 million realized/ unrealized loss in the equity portfolio of the company. Out of the total portfolio, 62 % is invested in fixed income securities and the balance 38 % is invested in equity.

The total assets of the company increased by 7% to reach Rs.4.6 billion as at the year-end. Investments represent 87% of the total assets of the company. The company, under the guidance of the new Investment Committee, has taken reasonable steps to ensure growth momentum of the assets in future through increasing investment income within the stipulated guidelines. These steps will support the maintainance of a quality asset portfolio and strong balance sheet in future.



### Insurance Provision

The Company has diligently paid out insurance claims and benefits, and allocated reversionary bonus to its policyholders. After meeting its obligations, the Company has managed to increase the Life fund to the Rs 2.4 billion mark by the year-end, which indicates a year on year growth of 22 %. The above provision includes bonus to policyholders, required solvency margin and other contingencies as certified by the Consultant Actuary.

The Insurance Provision for Non Life too has increased to Rs 370 million, an increase of 42 % year on year. This growth is as a result of the growth in new business. In the

above provision, the management has taken reasonable steps to ensure adequate provisioning for Unearned Premium, Deferred Acquisition Cost and Claim Outstanding Reserves. The provisions of IBNR, IBNER and URR have been certified by the consultant actuary.

### Solvency

The company commendably continued to maintain its solvency margin well above the statutory minimum solvency margins in both the Life and Non Life divisions. The statement of solvency and approved assets covering both life and non life divisions is presented below.

### STATEMENT OF SOLVENCY AND APPROVED ASSETS

#### Statement of Solvency

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

	2011 Rs.'000	2010 Rs.'000
<b>General Insurance Business</b>		
Value of Admissible Assets	1,031,026	1,481,226
Amount of Total Liabilities	674,687	495,765
Available Solvency Margin	356,339	985,461
Required Solvency Margin	92,281	56,548
Solvency Ratio	3.86	17.43
<b>Life Insurance Business</b>		
Value of Admissible Assets	2,711,175	2,130,837
Amount of Total Liabilities	2,554,989	2,013,043
Available Solvency Margin	156,186	117,794
Required Solvency Margin	108,592	89,738
Solvency Ratio	1.44	1.16

### Statement of Approved Assets

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

	2011 Rs.'000	2010 Rs.'000
<b>General Insurance Business</b>		
Approved assets maintained in		
General Insurance Business	516,761	1,452,400
Technical Reserve	323,920	198,120
Approved assets in Excess of		
the Technical Reserve	192,841	1,254,280
Approved assets as a % of		
the Technical Reserve	160%	733%
Required Ratio	100%	100%
<b>Life Insurance Business</b>		
Approved assets maintained in		
Life insurance Business	2,476,720	2,027,219
Life Insurance Fund	2,353,008	1,929,352
Approved assets in Excess of		
the Life Insurance Fund	123,712	97,867
Approved assets as a % of		
Life Insurance Fund	105%	105%
Required Ratio	100%	100%

## INFORMATION COMMUNICATION TECHNOLOGY REVIEW

Through the year under review, the company was focused on strengthening the IT infrastructure of the company with the objective of meeting expanding business needs. We have set high standards in ICT operations to deliver quality real time insurance solutions to our portfolio of clients.

### **Oracle E-Business Suite Release 12.1.2 Deployed Successfully**

The IT division of the company achieved a key milestone during the financial year. The company successfully integrated the Oracle E-Business Suite Release 12.1.2 to its backend system. This implementation has enabled the company to integrate our accounting system with 'iSYS', which is a home-grown front end operational system, enabling the maintenance of the core insurance transactions and customer databases of Life and Non-Life Divisions.

As a result of a strategic decision taken by the senior management in 2010, Asian Alliance invested Rs 25 million towards purchasing the Oracle E-Business Suite Release 12 with the inclusion of the General Ledger, Inventory, Purchasing, Accounts Payable, Accounts Receivable, Fixed Assets and Cash Management modules.

Ernst & Young was contracted as the Project Consultant in order to identify the requirement and provide guidance to ensure a smooth and accurate implementation. DMS Technologies Pvt Ltd, our Oracle implementation solution partner, successfully completed the implementation of Oracle E-Business Suite for your Company. The challenging task of online real time integration of Oracle E Business Suite and the front end system of the company was successfully completed by the in-house systems development team with the assistance of the vendor and the project consultant adding value to the processes of Asian Alliance.

Currently, the in-house ICT development laboratory is a frontrunner in the industry. This step has resulted in an industry first with the development of its very own front end system, 'iSYS', once again by the in-house team of IT professionals. 'iSYS' has been audited by Ernst & Young and found to be foolproof whilst being on par with international standards.

The deployment of the Oracle ERP system was essential to integrate the company's front end system and the finance system onto a common platform in order to maximize the efficiency levels which in turn will

strengthen the services provided to the policyholders. The Oracle solution enables Asian Alliance to better manage and share real time data across the board, empowering the management to arrive at prudent and timely decisions. It also provides a flexible, robust and user friendly system across the segments.

### **Benefits of Oracle Implementation**

This implementation will drive efficiency and productivity, whilst simultaneously eliminating waste and delay in processing claims etc. The next goal is to integrate the Human Resources and Administration module along similar lines to enable seamless operations. Expenditure allocated for IT was 10% of .... during the year under review and we expect this figure to be enhanced further in the forthcoming financial year due to aggressive expansion plans.

Notably, the front end IT system has been developed with in-house expertise which incorporates industry best practices and has pioneered a successful model which will serve as the ideal platform for the future achievements of the company. Significantly, there were very few incidents of troubleshooting with this module and absolutely no negative impact on ongoing operations was reported during its implementation. The HR module has the best functionality and interface of any HR systems and incorporates all the different functions of HR personnel for a seamless operation.

### **Setting Goals**

During the year, the IT division applied itself to addressing the challenge of converting the operational system into a web based system. Once this transformation is effected, the leap in technology for the company will be immense, as the web based system offers greater sharing of resources and instant accessibility by the company's employees.

During the period under review, the company has expanded to a network of over 40 locations, with 20 more planned during 2012. Once this web system is deployed, it will be easy to incorporate and deploy the system in new branches as they are opened.

The takeover of the company by the Softlogic Group has imparted new synergies to the Company and these IT enhancements will serve to keep us abreast of future developments in IT. As a part of a group with IT as its core business, at Asian Alliance we are developing our own IT capabilities rapidly to match the challenges that joint synergies will bring in terms of technology upgrading and advancement.

Eventually, we expect the company's financial operations to be amalgamated with group financials, thereby enabling a shared services model to emerge. This centralized financial operation for the entire group will enable the group to leverage on the combined strength to its advantage.

The Softlogic senior management has already commended the IT expertise reposed in the Company and has called on us to implement certain modules amongst group companies. This is indeed a privilege for the Asian Alliance IT division and reflects the strong technical expertise houses within. We are confident of benchmarking the group's IT standards in time to come.

### **Future Outlook**

In the year ahead we will be focusing on establishing cyber security systems for the company. Plans are afoot to establish a sophisticated firewall or network security system. As the five-year plan is set into motion, we expect the IT division to play a greater role in ensuring operational excellence. The plan to sell the Company products and services through Softlogic's vast retail chain of outlets will make further demands on us to meet the technical requirements and we are gearing up to meet the need as and when it emerges.

## INVESTMENT REVIEW

The year 2011 witnessed investors poised at a juncture where returns through listed equity recorded significant losses, whilst interest rates remained relatively stable, although witnessing a slight increase towards the year-end. Unlike in the past, where in most instances an inverse relationship between interest rates and the ASPI existed to give the investor an exit to maintain/grow his investment, the year under review created awareness in the investor of true fundamentals and macro and micro economic impact on rates, the absence of which would result in assured loss of capital.

The company took these market conditions into perspective and was proactive in changing the composition of its investments to take advantage of the increasing interest rate climate in addition to reinvesting in listed equities primarily on the basis of sustained growth and stability of entity, to ensure protection of shareholders as well as policy holders' funds.

### HIGHLIGHTS

- Reduction of ASPI by 25%
- Monetary policy rates stabilising at 7% for Repurchase rate and 8.5% for Reverse Repurchase rate
- Inflation at 4.5% as at December 2011
- Increasing investments in fixed income portfolio

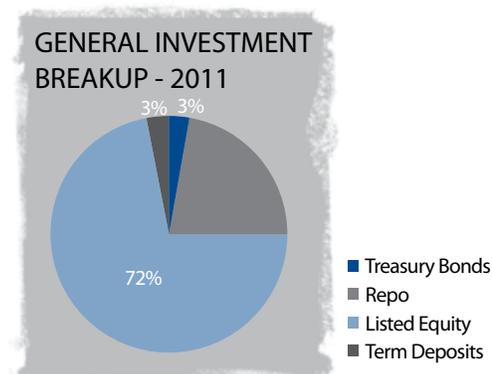
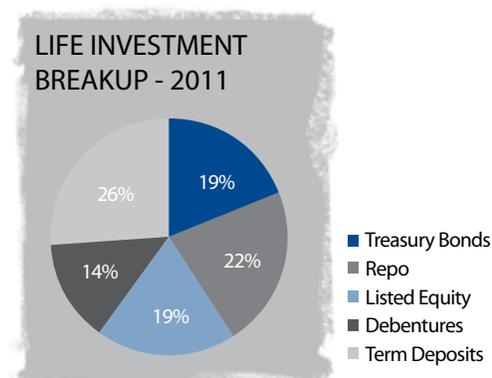
The company sustained its previous approach of maintaining a certain exposure to the short end of the yield curve, though care was taken on behalf of asset liability matching to accumulate assets towards the long end of the curve to offset policy liabilities.

However, the year proved to be a Waterloo for returns from equity. Investments in the stock market which were made in 2010 and carried forward through to 2011, did not perform as expected and the company sustained significant losses in this respect. However, corrective action was taken by the new Investment Committee to start a fresh and the equity portfolio is now more diversified and more stable. Care was taken to address the fundamentals rather than speculation and market sentiment, and emphasis was placed on gradual growth in share price based on said fundamentals, rather than dependency on market share movement. This is reflected in the composition of the equity portfolios of Life General and Shareholder's funds as at year- end 2011.

The Life fund, primarily cash based, grew 21% in 2011, recording the highest growth in the history of its operations. The fund base at

the end of the year arrived at Rs. 2.5 bn and care was taken to ensure that returns remained over and above the minimum stipulated in the product pricing, so as to ensure that policy holders will be rewarded via a declaration of a bonus at year-end.

The Shareholders fund had a significant exposure to equities, and this resulted in the fund having to recognise a loss during the year under review. Nevertheless, the management took steps to reconstitute the equity portfolio under the direction of the new Investment Committee, and at present the fund is in a better position to take advantage of any positive movement in the ASPI. In addition to the above, tangible steps were taken to diversify the General fund to include fixed income investments including deposits and corporate debt. The benefits of this diversification will be seen fully in the coming year, as with the reconstituted equity portfolio.



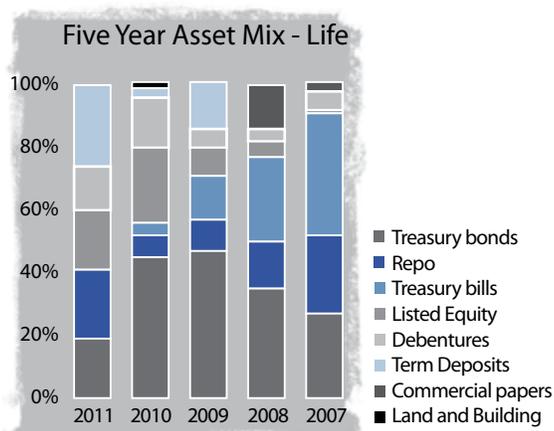
The company continued to maintain a generous portion of its portfolios in the form of government securities, although active steps were taken to maintain healthy though not excessive levels of solvency which would have translated into inefficient usage of funds.

## The Company's Funds

### Life Fund

The management, together with the new Investment Committee, took an active decision to reduce lower yielding investments in government securities while maintaining required limits and transferring assets toward higher yielding fixed income instruments, which had the advantage of being fully admissible for solvency requirements. Investments made in equity through the Life fund during 2011 incurred losses. However, due to lesser exposure as compared to the General/Shareholder Fund, said losses were absorbed by fixed interest rate income. Compositions of both the fixed income portfolio as well as listed equity were changed during the fourth quarter of the year under review, with the resulting mix allowing for maximising of returns on all classes within the Insurance Board Guidelines.

The weightage of the Life fund as at 31st December 2011 shows the break up of investments in the government securities component, which was 41%, an equity component of 19%, corporate debt component of 14% and term deposit component of 26%.



### Forecast

Focus is to be placed on diversifying the fixed income portfolio with a balance on stable returns versus risk encountered. Further, due care will be taken to absorb securities with a long term tenor on realisation of market rates. The management is currently evaluating few options to implement new strategies - in particular to the fixed income portfolio - to take advantage of interest rate fluctuations forecast for 2012.

The equity portfolio in the Life Fund has been reconstituted during the last quarter of the year and policies have been implemented to avoid a recurrence of losses which were absorbed in 2011. The Investment Committee foresees a more stable growth of share prices of stocks held and a higher dividend yield, contributing towards the bonus paid to policy holders and a sound profit to the shareholder at year-end.

### Shareholders Funds

Shareholder's fund which increased significantly after the rights issue at the year end 2010 was invested in the equity market based on the Bull Run prevalent during that time period. However, as a result of the Bear run in 2011, continued holding of equity portfolio resulted in the company having to bear a considerable loss from second quarter of 2011. The new Investment Committee constituted after the acquisition by Sofilogic group took corrective measures to restructure the equity portfolio by disposing loss making shares and reinvesting in equity with returns expected over the mid to long term.

### Forecast

Shares purchased in the last quarter of 2011 are expected to yield a healthy ROI based on entity fundamentals versus sector multiples as opposed to market sentiment. It is envisaged that funds invested through the shareholders funds would yield a return commensurate to or over the growth of the ASPI in 2012. This would result in a direct positive injection to the bottom line of your company.

### General Fund

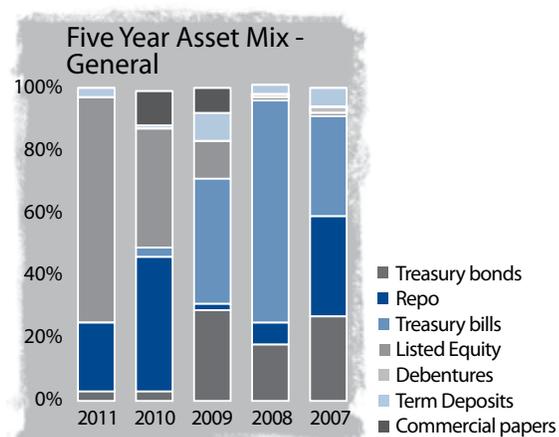
Together with the Shareholders fund, the General fund suffered losses as a result of the correction in the Stock Exchange since the fund had an exposure of nearly 72% in listed equity. Further, the timing of purchases, particularly in the first quarter of 2011, resulted in the company having to incur a high weighted average cost which resulted in accumulated unrealised losses. Nevertheless, the company took

## INVESTMENT REVIEW

decisive steps towards creating a fresh platform for equity investments together with the backing of the new Investment Committee. The year-end portfolio is the result of strategic decision-making and foresight, priming the General fund/Shareholder’s fund to take advantage of the downturn to purchase fundamentally sound stocks at discounted prices.

Increasing fixed income rates in the fourth quarter further assisted the fund to diversify its portfolio. Investments were made in fixed income instruments and this trend is to be continued through to 2012, whereby ratios for admissible assets in fixed income are to be fully utilised to increase the yields of the portfolio.

Therefore, as at 31st December 2011, the government securities component was 25%, equity component 72%, and term deposits component of 3%.



### Forecast

Returns from equity are expected to remain modest in 2012. However, due to external factors as well as Central Bank interventionist policies, interest rates are expected to remain relatively high compared to the interest rate scenario in 2011. Based on models developed to determine solvency and admissibility, the management are better positioned to assign assets to take maximum advantage of the forecasted interest rate scenario, and steps have already been taken in this regard.

## INVESTOR INFORMATION

### Credit Rating maintained at BBB- (RAM)

Your company maintained its Claims Paying Ability rating at investment grade at the annual review, even after taking in to account a loss resulting from investments in equity. This gives a true picture of financial strength of the company to remain stable even in the most volatile of situations or markets. The rating of the company was conducted by RAM Ratings (Lanka) Ltd

### Significant increase in Market capitalisation

The increase in market capitalisation continued through 2011 with your company's share seen an increase in its value through the year, closing at Rs. 170.00, an incredible 111% increase YOY. Market capitalisation thereby increased to Rs. 6,375,000,000 from Rs. 3,007,500,000 as at 31st December 2011, breaking the bear market trend witnessed in the Stock Exchange throughout the year.



### Your investment in Asian Alliance Insurance PLC

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

- Stated Capital – Rs. 1,062,500,000
- Class of share – Ordinary shares
- Shares held by the public – 5.41%

Details on the performance of your company share can be found at the bottom of the page.

Your company experienced a year of mixed returns, where operational efficiencies and focused selling improved operations and thereby profitability, though same was marginalized by over-exposure to equity investments through the Shareholders funds. However corrective action was taken during the last quarter of 2011 to mitigate the affect of these losses and restructure the portfolio in the same instance. Your company believes the restructuring will begin to reap rich dividends in 2012 and beyond.

Macro fundamentals remained stable, though incremental costs of the government and rising current account deficit as a result of increased imports added pressure to interest rates, which saw an upward shift towards the year end. Your company has taken measures to take advantage of this interest rate trend and has increased its investments in fixed income to maximum possible levels with regard to solvency limitations, and will continue to do so in the coming year.

	2011	2010	2009	2008	2007
EPS	-3.41	13.73	5.73	5.42	4.53
PER	-49.85	5.84	9.73	5.53	8.77
Price to Book Value	5.12	1.93	2.71	1.85	3.7
ROCE	-8.84	55.23	31.92	32.45	42.17
Net Assets Per Share	33.22	41.62	20.7	16.16	10.75

Additional information relating to shareholder breakdown is given below. Registered shareholders for the year ended 31st December 2011 was 814.

## INVESTOR INFORMATION

Trading Statistics 2011	2011	Q4	Q3	Q2	Q1	2010
Market price per share	170.00	170.00	354.00	140.00	157.00	80.50
Existing shares	37,500,000	37,500,000	37,500,000	37,500,000	37,500,000	37,500,000
Number of transactions	-					2,123
Shares traded	38,516,716	1,764,600	32,151,216	1,254,200	3,346,700	14,574,100
Value of shares traded (Rs. '000s)	5,410,995	480,282	4,217,052	170,862	542,800	821,003,320
Market Capitalisation (Rs. '000s)	6,375,000,000	6,375,000,000	13,275,000,000	5,250,000,000	5,887,500,000	3,007,500,000
Share Price - Highest	405.00	405.00	384.70	175.00	202.00	95.00
Share Price - Lowest	73.60	121.70	112.00	121.10	73.60	50.00
Period End	170.00	170.00	354.00	140.00	157.00	80.20

Number of Shares	No. of Shareholders	As at 31st December 2011			As at 31st December 2010		
		No. of Shares	% of Total	No. of Shareholders	No. of Shares	% of Total	
1 - 1000	655	175,491	0.47	422	122,133	0.49	
1001 - 10000	129	380,252	1.01	76	235,200	0.94	
10001 - 100000	23	704,150	1.88	8	202,700	0.81	
100001 - 1000000	4	767,500	2.05	1	625,000	2.50	
1000001 & Over	3	35,472,607	94.59	6	23,814,967	95.26	
Total	814	37,500,000	100.00	513	25,000,000	100.00	

Resident / Non Resident	No. of Shareholders	As at 31st December 2011			As at 31st December 2010		
		No. of Shares	% of Total	No. of Shareholders	No. of Shares	% of Total	
Resident	809	37,484,800	99.96	508	24,981,800	99.93	
Non Resident	5	15,200	0.04	5	18,200	0.07	
Total	814	37,500,000	100.00	513	25,000,000	100.00	

Individual/Institution	No. of Shareholders	As at 31st December 2011			As at 31st December 2010		
		No. of Shares	% of Total	No. of Shareholders	No. of Shares	% of Total	
Individual	758	957,802	2.55	474	424,264	1.70	
Institutional	56	36,542,198	97.45	39	24,575,736	98.30	
Total	814	37,500,000	100.00	513	25,000,000	100.00	

As at 31 December 2011

<b>Share Holder Listing</b>	<b>No. of Shares</b>	<b>%</b>	<b>Rank</b>
Softlogic Capital Limited	19,125,000	51.00	1
Mandatory Offer by Softlogic Capital	9,398,191	25.06	2
Softlogic Holdings PLC	6,949,416	18.53	3
Seylan Bank / W.D.N.H Perera	336,200	0.90	4
Divasa Equity (Pvt) Limited	205,100	0.55	5
Snackings (Pvt) Limited	118,700	0.32	6
Asia Trust Investments (Pvt) Limited	107,500	0.29	7
Sampath Bank PLC / Boston Capital (Pvt) Limited	77,300	0.21	8
Mr. Gajath Chryshantha Goonetilleke	76,550	0.20	9
Mr. Mohideen Rifky Badurdeen	70,300	0.19	10
Mr. Arrumadura Samantha Rayynor Silva	70,100	0.19	11
Mr. Pattiyapawulage Don Raj Rohitha Weeraratne	57,400	0.15	12
First Capital Markets Limited / Mr. W.V.J Pushpakumara	45,200	0.12	13
Seylan Bank PLC / Tharana Gangul Thoradeniya	34,700	0.09	14
Mr. Chamara Nuwan Samarathunga	30,400	0.08	15
Mrs. Mohamed Hilmy Fathima Shereen Fazna	28,000	0.07	16
Mrs. Kodippila Hettiarachchige Nirosha Jeevanikumari	20,000	0.05	17
Axis Financial Services (Pvt) Limited	19,900	0.05	18
Seylan Bank PLC / Nalaka Harshijeeva Godehewa	19,800	0.05	19
Lince Holdings (Pvt) Limited	19,100	0.05	20
Mr. Fazlur Rahman Muzammil	18,900	0.05	21
Mr. Vithana Palpita Korallalage Anusha Palpita	15,300	0.04	22
Mr. Vemindra Kumara Sangakkara	15,000	0.04	23
Mrs. Sonali Gomis De Silva	14,000	0.04	24

## *We need to be here for the long haul...*

### OUR PHILOSOPHY

Our sustainability philosophy continues to nurture the progress of the company, strengthening the fundamentals and creating the ideal conditions for future growth of the organisation and the prosperity of our stakeholders. We remain committed to creating long-term shareholder value by embracing opportunities and managing risks in all aspects of our operations. This goal is achieved by deploying technical and management best practices at all levels of the organisation, while strengthening the competencies inherent in the company. Our sustainability strategy consists of integrating long-term economic, environmental and social aspects in our business strategies, driving competitiveness tempered by the highest standards of corporate governance in our business.

### CUSTOMERS

During the year under review, we maintained our unwavering focus on delighting customers and capitalizing on the competencies of our well trained, professional sales force and marketing staff. The fact that Asian Alliance holds the distinction of having the highest policy retention rate in the industry reflects the successful customer service model that has been deployed across the company.

Asian Alliance conducted two strategic surveys during the year under review to read the pulse of the market and to analyze potential demand before launching new products. This exercise enabled us to align product features to meet customer expectations.

#### **Superior Customer Care**

Meanwhile, the company continued to strengthen its three-pronged strategy approach through its Customer Care Contact Centre to interface with customers. The three units - Sales, Premium collection and Follow-up - work seamlessly to forge a circle of trust between the company and the customers. In fact, customer relationship management training is an ongoing endeavour in the company. Employees are recognised for exceptional customer care on a regular basis.

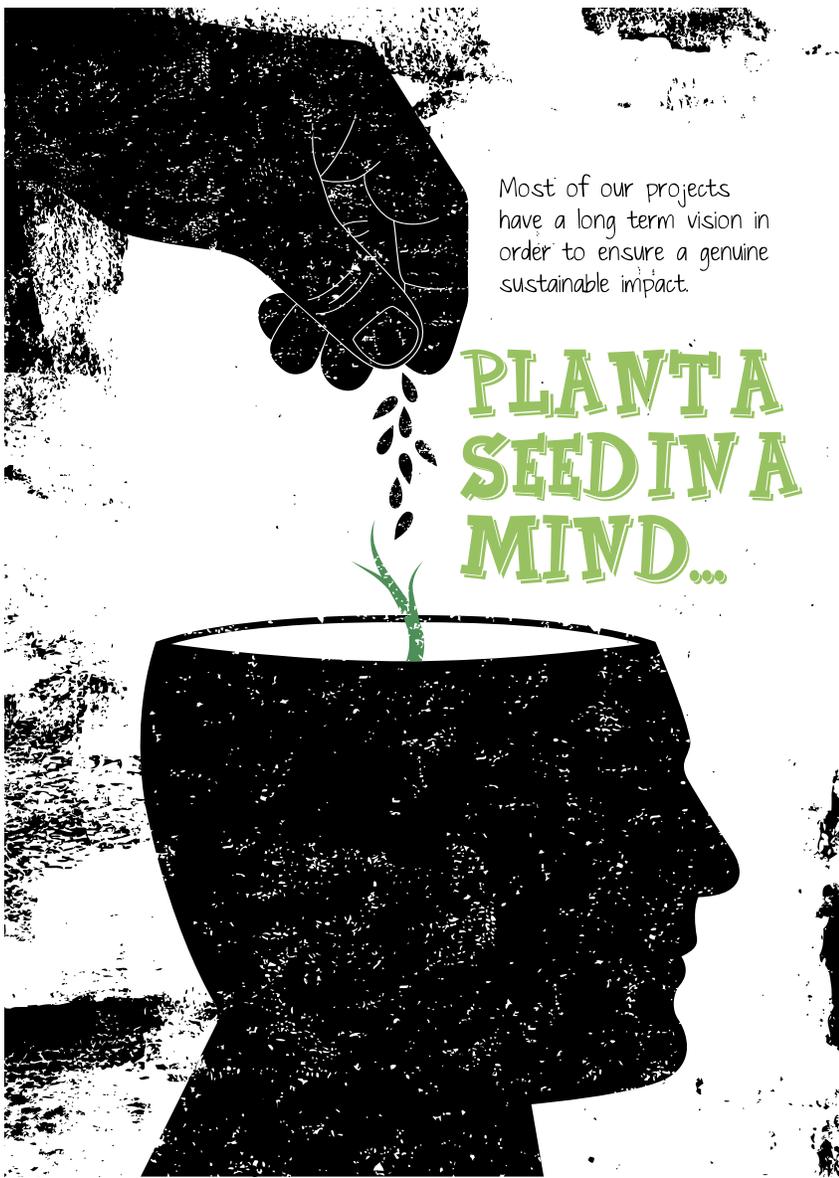
#### **Customising Products**

Since its inception, the Company is engaged in customizing every product to best suit the needs and budgets of our customers. This close attention to customer needs has given rise to high policy retention rates and a better fit, creating brand loyalty in the market place. Asian Alliance has positioned itself on the protection platform since inception and this platform has been further strengthened through unique features in its life policies. In response to customer expectations, both the Premium Life and the Premium Refund Policy have been fine-tuned to a high degree and stand out in the industry for their close adherence to the company's promise of delivering comprehensive life insurance cover. A high level of flexibility enables customers to feel in control of their investment at all times.

### SUPPLIERS

The company has a formal procedure in place for purchase and procurement of products and services from its suppliers. A transparent procurement procedure ensures that all tenders are evaluated on merit and in accordance with our code of conduct. Furthermore, suppliers are evaluated regularly to ensure that the company is optimizing prices, lead time, quality and value for money through a particular supplier. During the year under review, there were no reports of mismanagement in our relationship with suppliers. The company ensures that ethical business strategies are practised with the suppliers at all times.

The E Biz Oracle Suite, which was chosen as our preferred ERP system for implementation within the organization was selected after a careful screening process for the best system fit. The online purchasing



Most of our projects have a long term vision in order to ensure a genuine sustainable impact.

## PLANT A SEED IN A MIND...

*Asian Alliance has maintained a steady focus on its CSR commitment, allocating a substantial amount of funding and appointing a skilled team to spearhead its CSR strategy. At the end of every year, the team analyses the company's achievements in the CSR arena, while assessing deserving projects for the next 12 months. Most of our projects have a long term vision in order to ensure a genuine sustainable impact.*

system interfaces with the finance division, thereby ensuring transparency and automatic replenishment of orders. The company intends to fine-tune this process further over time.

### COMMUNITY

Asian Alliance acknowledges and lives up to its role as one of the leading corporate social entities in the country, ensuring the well-being of all its stakeholders. The company's Corporate Social Responsibility (CSR) policy is evident in its high degree of corporate governance and transparency standards, coupled with the nature of the insurance products which deliver protection during the lifetime of the policyholder. Its sustainable business model ensures that consumers, employees and the community are benefited positively by its operations in any manner. The Company plays a proactive role in society by leveraging on the triple bottomline approach - by focusing on 'people, planet and profits' to ensure longevity of the company, and long term returns for its investors, by spearheading projects to uplift the standards of national health, education and community.

The Company has maintained a steady focus on its CSR commitment, allocating a substantial amount of funding and appointing a skilled team to spearhead its CSR strategy. At the end of every year, the team analyses the company's achievements in the CSR arena, while assessing deserving projects for the next 12 months. Most of our projects have a long term vision in order to ensure a genuine sustainable impact. We also carry out post implementation assessment to evaluate the impact that our partnerships

have had on the stakeholders. Creating long term value and maintaining continuity remains the sole objective in all CSR projects carried out by the Company.

**Flagship CSR Projects**

Asian Alliance places a steadfast and abiding value on the nurturing and development of the next generation in order to mould young professionals. The company has contributed to this through internal and external programmes as well as the educational system itself.

- **Supporting the Recognition of Talents of School Children Island Wide: ‘Contributing Towards Moulding Future Professionals’**

Identified as being a true professional in the insurance industry, Asian Alliance has always taken the initiative to develop and nurture future professionals. Under the Company’s unique CSR programme entitled ‘Contributing towards Moulding Future Professionals’, it has taken many steps to recognize and honour the talents of school children since 2006.



School Certificates

The Company 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 annual events. Absorbing the cost involved in designing, printing and production of certificates, in its totality, the Company’s contribution has held vital



Top: Schools Rugby Season  
Below: Colombo Teaching Hospital

significance whilst been the focus of the company’s CSR initiative in the past few years.

The table featured in page 53 shows the number of certificates designed and printed by Asian Alliance during the year 2011.

- **St. Thomas’ College Rugby Team**

Staying true to the mission to nurture the young minds, Asian Alliance took on the mantle of Sponsor for the St. Thomas College’s Rugby Team for the Schools Rugby Season 2011 for the third consecutive year.

- **Uplifting the Standards of National Health Care**

A fundamental hallmark of a developed society is plentiful access to quality health care. Although Sri Lanka has skilled doctors, government sector hospitals suffer from inadequate funding and lack of training opportunities, coupled with poor implementation of health care policies. World-class health services and standards can be achieved by merging modern management techniques with the already advanced capabilities of the medical profession. The Company’s objective was to contribute towards this vision and therefore, embarked on a programme

No	Name of the school	Name of the event	Quantity
1	Rawatawatta Methodist College	Scholarship Examination	200
	Rawatawatta Methodist College	Sports Meet - 2011	1,000
2	Gothami Balika Vidyalaya	“Tsuki 2010” Night Camp	125
	Gothami Balika Vidyalaya	Nature Club - Arunella 2010	200
	Gothami Balika Vidyalaya	Astronomy Quiz Competition 2011	300
3	Christ King College	Sports Meet - 2011	1,000
	Christ King College	Prize Giving 2011	600
4	Zonal Education Office - Moratuwa	Sports Meet - 2011	1,300
5	Zonal Education Office - Kesbewa	Sports Meet - 2011	1,300
6	Zonal Education Office - Piliyandala	Sports Meet - 2011	1,400
7	Royal College, Colombo 07	Mathamatics Day 2011	410
	Royal College, Colombo 07	Annual Stamp Day 2011	175
8	Ellakkala Maha Vidyalaya, Gampaha	Sports Meet - 2011	750
	Ellakkala Maha Vidyalaya, Gampaha	English Day 2011	150
9	Rajasinghe Maha Vidyalaya, Imbulgoda	Sports Meet - 2011	1,100
10	Mabima Vidyakara Maha Vidyalaya	Sports Meet - 2011	500
11	St. Patrick’s College, Jaffna	Sports Meet - 2011	450
	St. Patrick’s College, Jaffna	Prize Giving 2011	1,020
12	Nalanda College, Colombo	Inter School Announcing Competition 2011	150
13	Ananda College, Colombo	Science Day 2011	300
	Ananda College, Colombo	Agriscience Day 2011	200
14	Ilma College, Matara	Media Day 2011	350
15	Postgraduate Institute of Management	Capacity Development Programme	250
16	Thurstan College, Colombo	Annual Night Camp 2011	500
17	Visaka College, Colombo	ICT Day	200
	Visaka College, Colombo	Hostel Day	180
	Visaka College, Colombo	Arts Day 2011	600
18	D. S. Senanayake College, Colombo	Science Day 2011	200
19	Dharmapala Vidyalaya, Pannipitiya	Cricket Tournament.	350
20	Bandaranayake College, Gampaha	Drama Society	250
	Bandaranayake College, Gampaha	Wesak Lanterns Competition	1,300
	Bandaranayake College, Gampaha	Leadership Camp 2011	400
21	Sri Lanka Hockey Association	All Island Hockey Tournament	1,200
22	Nimala Mariya Vidyalaya, Ja Ela	Sinhala Litreture Day 2011	150
	Nimala Mariya Vidyalaya, Ja Ela	Prefects Day 2011	200
23	University of Jaffna	Sports Meet - 2011	100
24	Colombo District Scouts Association	Sports Meet - 2011	250
25	University of Moratuwa	Badminton Tournament	1,450
26	Princes of Wales College, Moratuwa	Appriciation certificates for Eastern & Western Band	500
	Princes of Wales College, Moratuwa	Debating Competition 2011	250
27	Dalupotha maha Vidyalaya, Negombo	English Day 2011	1,200
28	Girls’ High School, Mt. Lavinia	Art Competition 2011	300
29	Viharamahadevi balika Vidyalaya, Kiribathgoda	All Island Debate Competition	1,000
	Viharamahadevi balika Vidyalaya, Kiribathgoda	All Island Debate Competition	1,000
30	Mahanama College, Colombo	Prefects Day 2011	400
	Mahanama College, Colombo	Leadership Camp 2011	200
31	Royal College, Panadura	Announcing Competition 2011	250
32	Institute of Wertern Music & Speech	All Island Drama Competition 2011	420
33	Roteract Club of Colombo	Youth Model United Nations Conference 2011	360
34	S. De. S. Jayasinghe College	Prize Giving 2011	500
	<b>Total</b>		<b>26,940</b>

in partnership with the Colombo South Teaching Hospital, entitled 'Productivity & Quality Improvement Programme'.

**• Productivity and Quality Improvement Programme**

This project is scheduled for a period of two years and was launched in January 2010 at the Colombo South Teaching Hospital (CSTH), Kalubowila. Dr. Anil Jasinghe, Director of CSTH, had previously spearheaded a similar programme at the Castle Street Maternity Hospital, which was widely accepted as a successful initiative. The aim of this programme was to provide a face-lift to the hospital, focusing on the building blocks of the system; Service Delivery, Human Resources, Infrastructure, Medical Technology, Health Financing and Stewardship. The highly recognized 5-S system was introduced along with programmes to train and develop hospital staff in best practices and customer service.

Further, a Quality Assurance Team was appointed onsite to monitor the programme over the two-year period in accordance with Key Performance Indicators of the proposal framework and the Company's Frame of Reference. To facilitate the initiative, Asian Alliance donated a photocopy machine and medicine carts to CSTH in September 2011 with a view to improving efficiency by leveraging on technology. The Company assisted in numerous training programmes carried out by the hospital for all levels of staff, by sponsoring the resource personnel, refreshments and stationery.

**• Dengue Prevention**

Dengue fever is a potentially fatal disease which has taken on epidemic proportions across Sri Lanka during the past two years. According to the details released by the Epidemiology Unit of Sri Lanka, which falls under the purview of the Health Ministry, about 28,473 people have been infected and 185 deaths have been caused by Dengue during 2011. Given the serious nature of Dengue, Asian Alliance continued its efforts to educate the public on Dengue Prevention through 2011 in cooperation with the Colombo South Teaching Hospital.

**• Reaching Out to Orphaned Children**

The Sports Club of Asian Alliance extended their helping hand to the residents of Peter Weerasekera Children's Home in Buthpitiya as a continuation of its efforts to uplift the lives of the disadvantaged



Top: Dengue Prevention Project  
Below: Staff Training Programmes

*Creating long term value and maintaining continuity remains the sole objective in all CSR projects carried out by Asian Alliance Insurance.*

in society. The Peter Weerasekera Children's Home, inaugurated in 1960, was created as a shelter for girls who had found themselves destitute and orphaned. The initial intake was a batch of 10 girls, ranging from the ages of 7 to 14, but now has come to be the home of 49 girls. It is a Government approved charity with children being directed to the residence by the Department of Probation and Childcare as per a Magistrate Court's authority. The Home is situated in salubrious surroundings, 21 miles away from Colombo, and is led by a committee headed by Mr. Singha Weerasekera, who is the founder of the Peter Weerasekera Children's Home.

The Sports Club has gifted the children living at the home with a motor insurance cover for their recently purchased school bus. This will provide the children protection in the event of any accidents and the same time give the Peter



Left to right:  
White Cane Day  
Peter Weerasekera Children's Home  
Peter Weerasekera Children's Home  
Symphony Orchestra Concert

Weerasekera Children's Home a relief, as it is already burdened by the numerous expenses incurred for the care of its inmates.

The Company places steadfast and abiding value on nurturing the development of the next generation with the prospect of moulding future professionals who will benefit the nation. The company has contributed to this task by collaborating in a diverse array of projects. The Asian Alliance Sports Club believes that this will be the stepping stone towards a long term partnership with the Peter Weerasekera Children's Home and will lead to the children being nurtured in to better citizens.

#### **Other Projects**

The Company's ongoing programmes are testament to the importance we place on partnership and continuity. These programmes are carried out under the following categories.

- **Art & Culture**
- **Social Responsibility**

#### **Art & Culture**

- **Symphony Orchestra Concert**

*Asian Alliance acknowledges and lives up to its role as one of the leading corporate social entities in the country, ensuring the well-being of all its stakeholders. The company's Corporate Social Responsibility CSR policy is evident in its high degree of corporate governance and transparency standards, coupled with the nature of the insurance products which deliver protection during the lifetime of the policyholder.*

Asian Alliance was proud to sponsor the annual concert organised by the Symphony Orchestra of Sri Lanka (SOSL) for the fifth consecutive year in 2011. The Symphony Orchestra of Sri Lanka is one of the pioneering orchestras in South Asia. Its first concert was held on 13th September 1958 under the baton of Hussain S. Mohamed. The SOSL takes special interest in fostering young Sri Lankan talent, and dedicates one of its annual subscription concerts to feature Young Soloists. The 2011 Concert featured two prominent Japanese musicians, Ms. Keiko Kobayashi and Mr. Ado Kihara.

#### **Executive Briefing 2011**

Mr. Ramal Jasinghe, President of the Insurance Association of Sri Lanka (IASL) and Director/CEO of Asian Alliance Insurance PLC was invited to make a presentation at the Executive Briefing 2011 titled "Taking the Lead" held in Cape Town, South Africa from 31st October to 04th November 2011. Mr. Jasinghe addressed this international



Voice of Lanka Felicitation Ceremony

audience on the topic “Medical Insurance and Healthcare in Sri Lanka”

The opportunity to present a paper to an international audience of experts at a technical forum such as this underscores the recognition of the professionalism and confidence that is nurtured at Asian Alliance Insurance PLC as well as insurance industry of Sri Lanka.

**• Voice of Lanka Felicitation Ceremony**

The Voice of Lanka Foundation organised a Felicitation Ceremony under the guidance of Mrs. Sumana Nellampitiya, who is the first-ever TV programme presenter in Sri Lanka. The event was organized with the objective of felicitating the senior radio and TV programme presenters who have been in the industry since its inception. Around 28 presenters were felicitated at a glittering event held on 30th December 2011 at BMICH. Asian Alliance partnered the Voice of Lanka Foundation as the Main Sponsor. Senior presenters were gifted a Life insurance policy with a hospitalisation cover at this event.

**Social Responsibility**

**• White Cane Day**

For the sixth year in a row, Asian Alliance partnered the Sri Lanka Welfare Society of the Visually Handicapped to organise the White Cane Day. This event was held in Seeduwa, North Colombo, wherein white canes and dry rations were distributed to over 350 visually handicapped persons.

**Way Forward**

Asian Alliance Insurance encourages the consistency and continuity of its Corporate Social Responsibility projects. Following are the projects that are in the pipeline for next year.

- Supporting the recognition of talents of school children island wide (“Contributing towards Moulding Future Professionals”)
- Quality and Productivity Improvement Programme – Colombo South Teaching Hospital

**EMPLOYEES**

The insurance business is driven by its people - and an efficient and effective insurance agency force supported by a strong back office team can help grow business exponentially, while generating goodwill for the organization and enhancing brand equity. Although the Company has never striven to be the largest, preferring to focus on the quality of our portfolio as opposed to generating volumes at any cost, we can applaud ourselves for having the most professional and passionate workforce of insurance companies in the country.

At Asian Alliance, the main thrust of the Human Resource function is to develop a well trained and flexible workforce, thus contributing to the organisation’s ability to adapt to an uncertain and changing environment. Through the year, we were focused on attracting and

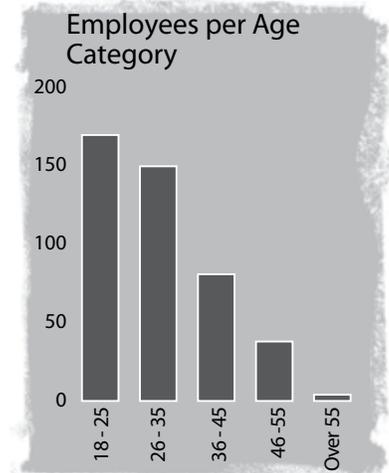
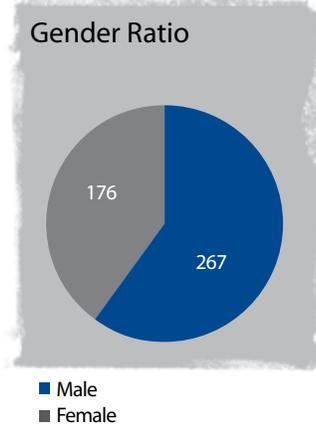
retaining people by equipping them with appropriate skills, expertise and competencies. Anticipating the problems of potential surpluses or deficits of resources is par for the course and we mitigated shortage of qualified personnel in several ways.

We were successful in reducing dependence on external recruitment by formulating retention as well as employee development strategies. To achieve this, we improved the utilisation of people by introducing more flexible systems of work. Over the duration of the period, we maintained an optimum balance of permanent staff and agency force to exert the right pressure to propel our expansion plans forward.

In fact, the year was characterized by a renewed recruitment drive, which witnessed permanent staff rising to 430 from 325 in the previous year. The main reason for this aggressive recruitment drive was to staff the 12 new branches established during the year. Our five-year plan envisages this number to rise to 600 by the year 2016.

More significantly, our recruitment was undertaken in a strategic manner. As the new branches were located in key regional towns and cities, we recruited much of the staff from the vicinity of our branches. The staff was duly inducted and trained in the unique culture of Asian Alliance. In fact, recruitment will remain a key focus, with our ambitious five-year plan envisioning rapid expansion in both Life and Non Life areas of our business. The staff has been trained to improve returns in both the corporate and retail sectors for Non Life. The requirement of agency force for Life insurance will remain high through the coming year, with plans to establish 10 new branches annually.

The dynamism and agility shown by the Company in remaining a force to reckon with despite being much smaller in size compared to several industry players emanates from its young set of employees. The average age of employees in the company range is 35 years.



Simultaneously, the company also values experienced senior insurance veterans who are the forefront of strategizing and widening the scope of the company’s operations. Some of the most astute minds in the insurance industry are our employees and their wealth of knowledge is treasured.

The acquisition of a controlling stake of the company by the Soflogic Group has wide implications for the Human Resources function in the years ahead. For the first time since the inception of the company 11 years ago, we will be in a position to take off from a wide platform, with the backing and support of a diversified conglomerate such as Soflogic. As synergies of the two companies fuse, our employees have been familiarized with what the company expects from them, whilst ensuring that the transition is a smooth one.

**Encouraging Work-Study Employee Profile**

A recent survey by the Sri Lanka Institute of Insurance underscores our drive to develop the most technically qualified staff in the insurance industry. The survey revealed that the Company had 70% of staff taking insurance exams as opposed to the nearest competitor who came in at 45%. Obtaining further qualifications in the field of insurance and related subjects is actively encouraged by line managers and senior management amongst all employees. Interest-free study loans and other incentives such as bonus and promotions are extended to employees in a bid to encourage further studies. By 2012 we will have 5 ACII qualified personnel in the company, and by 2016, we aim to have 10 ACII (Association of Chartered Insurance Institute) qualified officers to add value to our operations.

The Human Resources department is poised to partner the company

in its vision to achieve the goals and objectives of the five-year plan. We have already set the wheels in motion with the development of an in-house HR IT system, iSys HR, a trade net system that has enhanced our operations and improved staff productivity all round. The hitherto paper-based system has now been switched online, thereby fully systemizing all documentation needed for HR managers. The staff too has taken to the system with ease, thereby enabling us to eliminate the need for physical filing. The in-house staffs responsible for designing this module is to be specially commended for their brilliance. We have also recently implemented the recruitment module and the leave and attendance module through the same system.

### **Recruitment Challenges**

During the period under review we have achieved employee turnover of 20-25%. The main reason for the departure of employees was the insurance companies in Africa and Dubai sourcing insurance staff from Sri Lanka. The aggressive recruitment drive by banks and financial institutions as they expand to newly opened areas in the island was another cause for the turnover of staff. The notable feature was that very few employees, if at all, were lost to rival companies. The Asian Alliance work culture is unique and hard to replicate in any other insurance firm in the country. The strong sense of oneness and cooperation that greets new recruits stays with them throughout their career with the company.

Key employees were sent for conferences, seminars and training sessions in India, Indonesia, Singapore and Hong Kong and internal and external training sessions in-house and in Sri Lanka.

During the year under review, a special salary revision was carried out to all those falling in to the clerical grade level, thus bringing them on par with the financial services sector. This amplifies our commitment towards developing employee loyalty as well as our desire to look after the wellbeing of all grades in the company. We are lucky to have a board and senior management who implicitly support our requests and who were quick to authorize an increase in the salary structure of the company's clerical staff.

### **Take-Off 2012 Initiative**

The company has embarked on in-house training with a new theme, Take-Off 2012, to bring all employees on the platform and familiarize them with the five-year plan and the vision for the company in the aftermath of the takeover by Softlogic. The company is targeting

growth of 150% in 2012 and the employees need to be conscious of this goal and ready to facilitate the quantum of growth necessary to reach this objective. A strategic management conference was held on 17th January 2012 to kick-start this initiative. Subsequently, a meeting will be held every quarter to assess and analyse the outcomes and cascade the decision to the rest of the staff.

This vision would need capabilities of recognised leaders in relevant fields, and as such 15 additional senior staff have been recruited to power this visionary growth especially in the strategic areas of the north and east. The company is embracing a more regional growth strategy and this requires expertise of a different kind. The north and east has its own recruitment challenges. Employment in banks and financial institutions is seen as more valuable than insurance companies, which makes recruitment somewhat difficult, but we are making a focused effort on attracting the brightest talents in these areas.

### **Employee Well Being**

The company organized a variety of recreational and welfare events during the year to improve the well being of employees and boosting morale. Employees are engaged constantly on the need to qualify for more insurance certifications which will help their career progression and add value to the company.

Further, in the case of the sudden demise of employees who have completed 2 years with the company, we extend 60 months salary to dependents as a gratuity and welfare measure. Also, the company protects its employees with a comprehensive medical insurance policy. During the period under review, no incidents of occupational hazard were reported and there were no injuries to any employee at the workplace.

**Overseas Training**

	<b>Name of the Programme</b>	<b>No of the Participant/s</b>	<b>Country</b>
<b>Life</b>	13th Global Conference of Actuaries	01	India
<b>Underwriting</b>	Risk Management Seminar	01	Thailand
<b>Life Sales</b>	2011 Asia Productivity Seminar	01	Hongkong
	Trainers' Training Programme	01	India
	5th Asian Conference on Microinsurance	01	Indonesia
<b>Non Life</b>	5th Asian Conference on Microinsurance	01	Indonesia
	5th GIC Re International Training Programme on Reinsurance Fundamentals Practice & Trends	01	India
	11th Singapore International Reinsurance Conference	02	Singapore
<b>Finance</b>	19th Annual Strategic Issues Conference	01	China
	International Cash, Treasury and Risk for Finance Professionals in Asia	01	Singapore
<b>CHR</b>	SIArb Commercial Arbitration Symposium	01	Singapore

**Local Training**

<b>Department</b>	<b>Name of the Programme</b>	<b>No. of the Participant/s</b>	
<b>Non-Life</b>	Intercoms 2010	02	
	CPD Seminar	03	
	Managing Construction Claims	02	
	Sri Lanka Economic Summit 2011	02	
	2nd Asian Motor Insurance and Claims Management Conference	03	
	Flooding in Colombo	03	
	Japan Earthquake, Tsunami & safety of Critical Infrastructure	01	
	Maritime Crime & Trade Malpractices	02	
	Leadership At Its Best	03	
	Guarantee Business Solutions	02	
	Effective Presentation Skills	01	
	FALIA Workshop	02	
	National Insurance Congress 2011	07	
	<b>Non - Life Sales</b>	Leadership At Its Best	03
		Effective Presentation Skills	01
FALIA Workshop		01	
National Insurance Congress 2011		05	
<b>Life-H/O</b>	Leadership At Its Best	02	
	Effective Presentation Skills	03	
	FALIA Workshop	02	
	Life Assurance - Medical Underwriting	01	
	Training Programme	05	
	Life Assurance - Medical Underwriting	01	
	Training Programme	03	
	Managing the Multigenerational Workforce	01	
	Leadership Dialogue Series	02	
	National Insurance Congress 2011	02	
<b>Life Sales</b>	Effective Presentation Skills	01	
	Sri Lanka Economic Summit 2011	02	
	FALIA Workshop	01	
	Managing the Multigenerational Workforce	02	
	National Insurance Congress 2011	10	
<b>Marketing</b>	Media Strategies for Corporate Sector	01	
	Risk Management & Its Relevance	01	
	The Perfect Woman	01	
	CEO Forum	01	
	Sri Lanka Economic Summit 2011	01	
	Effective Presentation Skills	01	
	FALIA Workshop	01	
	11th CIM Annual Conference	04	
	National Insurance Congress 2011	01	

## Local Training

Department	Name of the Programme	No. of the Participant/s
Finance	Taxation	02
	Simplified (Suspended) VAT Scheme	01
	International Financial Reporting Standards (IFRS)	01
	Sri Lanka Economic Summit 2011	01
	Leadership At Its Best	01
	Effective Presentation Skills	01
	CIMA's Evening Discussion	03
	FALIA Workshop	01
	Information & Study Course on VAT & NBT	01
	Relaxation of Foreign Exchange Regulations	01
	32nd National Conference of Chartered Accountants	01
	Share Market Volatility Cause and Remedies	01
	National Insurance Congress 2011	03
	IT	The Power of the Business Analyst
Sri Lanka Economic Summit 2011		01
Effective Presentation Skills		02
FALIA Workshop		01
National Information Technology Conference 2011		02
4th Annual National Conference on Cyber Security		01
7th Insurance Executives' Summit for Strategy, Operations & Technology 2011		02
National Insurance Congress 2011		03
HR		HRM User Conference
	Strategic HR Positioning	01
	National HR Conference	02
	Sri Lanka Economic Summit 2011	01
	Effective Presentation Skills	01
	How to Conduct a Disciplinary Inquiry	02
	2nd Asian Motor Insurance and Claims Management Conference	01
	Termination of Employment Contracts	02
	Shop & Office Employees Act & the Wages Board Ordinance	01
	EPF/ETF & Gratuity & the Proposed Amendments to the EPF Act	01
	National Insurance Congress 2011	01

Type of Exam	Name of Exam	No. of Employees Partially Qualified			
		Life	Non-Life	Corporate	Total
Insurance	Insurance Foundation Certificate	10	1	1	12
	Diploma in Insurance Practice	3	2	1	6
	Indian Insurance Institute	0	8	0	8
	Chartered Insurance Institute	1	2	2	5
	Actuarial	1	0	0	1
Non Insurance	Finance	0	0	15	15
	IT	0	0	5	5
	Marketing	0	0	2	2
	HR	0	0	2	2

## ENVIRONMENT

### Green IT

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

### Conserving Resources

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

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

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

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

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

**Conserving Electricity:** Energy-saving lighting is used throughout the head office and branches of the company. During 2011, we invested funds to elevate sockets from the floor level up to eye level, so that employees are encouraged to switch all mains before leaving office for the day. At the end of every working day, a team checks all sockets and makes a note of any repeat offenders who



Global Award for Brand Excellence

habitually leave the mains on. These efforts have made a significant difference to our electricity usage, thereby also bringing down utility costs for the company.

#### **Global Award for Brand Excellence**

Asian Alliance Insurance PLC was adjudged a winner in the category of “Best Social Marketing Campaign 2011” at the Global Awards for Brand Excellence, in recognition of their contribution towards the community through strategic CSR projects carried out by the company. The Global Awards for Brand Excellence 2011 was held at Hotel Taj Lands End, Mumbai on the 25th of November 2011. Alpha One, Amritsar & Ahmedabad, Inorbit Malls (India) Pvt. Ltd., Expolanka Holdings PLC were the other companies awarded together with Asian Alliance under this category.

#### **Asian Alliance Insurance PLC in Forbes Asia’s “Best under a US\$ Billion”**

Forbes Asia announced Asian Alliance Insurance PLC as one of the four Sri Lankan companies selected for “Best under US\$ Billion” for the year 2011, an annual review of small and mid sized companies in Asia with a turnover less than US\$ One Billion.

The criterion for the selection to the exclusive list included profitability, growth, modest indebtedness and future prospects. Another vital aspect was the process of management to guide the company through the global credit crunch of 2008 with little or no impact to operations. The initial list consisted of 15,000 entities which were pruned down to 200 companies to which Asian Alliance Insurance PLC was selected.

## CORPORATE GOVERNANCE

“Corporate Governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society”

- Sir Adrian Cadbury, UK, Commission Report: Corporate Governance 1992

In order to be aligned with these principles, the company adopts best corporate governance practices with an emphasis of “true professionalism” for the long term sustainability of the company. The Company has been a strong advocate of a principles based approach to corporate governance and it has encouraged attempts to ensure that it is the spirit of governance that prevails, rather than a checklist or boilerplate approach.

### Manual of Financial Authority

The Board of the Company has delegated its financial authority to the Director/CEO and the management through a comprehensively documented Manual of Financial Authority (MOFA).

The CEO is authorized to delegate his authority to the Executive Committee of the Company as necessary for the efficient functioning of the operations of the company. The Executive Committee will be responsible and accountable for the financial transactions and commitment made for and on behalf of the Company. The scope and extent of such responsibility and accountability is to be precisely set out and approved by the Board of Directors of the company. The authority delegated in the manual to the Executive Committee have three definable stages, these are:

- Recommendation
- Approval
- Payment

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

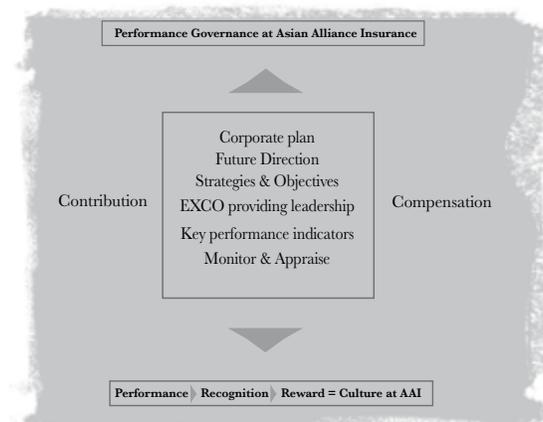
### Performance Governance

Performance Governance at the Company is initiated from the strategic planning processes to set organizational direction and objectives aimed at business risk management. The strategic planning process within

the Company is a bottom up process, by obtaining the corporation and contribution from all staff at different levels there by creating sense of belonging, commitment and harnessing their creative talents. Based on corporate strategies, the board sets objectives for the year in consultation with the Executive Committee. In setting the strategies and objectives Board reviews the company’s vision, mission, competitive position and, internal and external market (SWOT). Based on this information Board and the Executive Committee identify the future direction of the company in the planned period and formulates business strategies and objectives to drive the Company within the defined parameters.

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

- Evaluating the company performance on a monthly basis at Executive Committee meetings
- Providing the Board with monthly management information together with a variance analysis and KPI’s.
- Weekly discussion with management regarding weekly performance and the growth achieved in each week compared to the same week in the previous year.



## HR Governance

The company competes with the best in the industry for skills development and strives to attract, motivate and retain the right caliber of people. At the Company we believe our ability to achieve success depends on engaged and high performing employees. Employees at the Company remain our most valuable resource and therefore we believe in recognizing and rewarding them for their performance and contribution towards the success of the business. We are only able to achieve this in a culture of recognition and acknowledgement along with a proper HR governance process.

By establishing a HR governance system at the Company, we intend to achieve the following objectives :

- To achieve our strategic and business objectives
- Establish a clear communication and reporting structure.
- Provide a motivational culture by enhancing transparency of the performance appraisal system.
- Minimize duplication of activities.
- Training and Development
- Clear recruitment process
- Fair treatment to every employee regardless of sex, race, age and beliefs.

## Investment Governance

At the Company we believe that corporate governance is an important factor in enhancing the risk/return performance of investment. We are proactive in our approach to investment governance which emphasizes on reducing the risk of making incorrect investment decisions. Investment governance policy of our company provides a framework for making governance decisions that are in the best interest of our shareholders and policy holders.

### Investment Governance structure at the Company.

- Existence of critical decision making bodies E.g.-Board of Directors, Investment Committee and In-house investment team
- Clear division of roles and responsibilities-Approval, Supervision Management and Rewarding
- Effective delegation practices
- Existence of decision and approval authority limits.
- Adequate knowledge and skill sets-Internally qualified investment personnel .
- Existence of on going education for decision making and investment staff.
- Investment strategy and procedures are reviewed by Investment Committee annually and more frequently if required.

### Monitoring and Reporting Process

- Frequency of reporting as appropriate E.g.-weekly, monthly.
- Comparison of actual return to budgeted return targets/bench marks.
- Performance distribution is reviewed at least quarterly, to identify and quantify sources of return, and where and to what extent risk exposures are taken which have successfully generated results.(How successful is the investment process)
- Full disclosure of performance review results.
- Daily cash flow analysis report to ensure the availability of liquid funds for working capital management and short term investment.

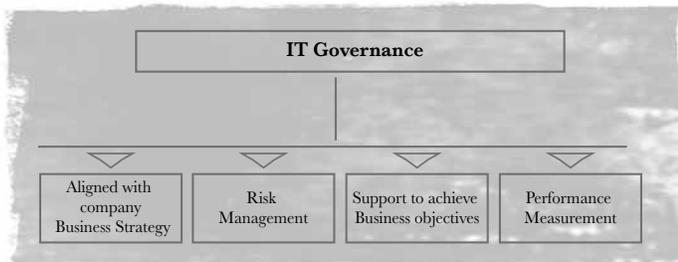
## IT Governance

IT Governance is considered as part of the overall governance of the company, where it is integrated within a wider Enterprise Governance



approach and supports the increasing regulatory requirements of Corporate Governance. IT strategy at the Company is aligned with the overall business strategy of the company, thereby ensuring that the company stays on track to achieve defined objectives and goals.

The key objectives driving the IT governance process are aligned with company business strategy and risk management and this supports to achieve business objectives & performance measurement of the Company .



IT Standards within the Company are continuously improved with regular reviews by the Executive Committee and independent evaluation by Internal/External audits. This ensures alignment to key governance objectives in operational and service levels. Performance measurement and reviews carried out within the Company guarantee peak performance, ensuring continuous monitoring for the mitigation of current and emerging threats as well as exploiting opportunities in the external and internal environment. These periodic and continuous reviews facilitate continued improvements of the IT Governance process within the Company.

### IT controls in Financial Reporting

The accuracy of financial reporting is heavily dependant on a well controlled IT platform. Therefore at the Company, we have implemented the following IT controls over financial reporting to ensure accuracy & integrity of information used for financial reporting.

- Access security controls in order to prevent unauthorized use of the system.
- New integrated IT system in place (i.e. Oracle) which provides customized reports on time for decision making.
- Periodic back up facility for confidential data which is stored both on-site and off-site of the Company.
- Replicate server (Real time on line) at SLT-IDC for the back up of Life and Non life systems.
- System software controls over effective acquisition, implementation and maintenance (according to industry best practice) of system

software, security soft ware and utility software.

### Employee Code of Conduct

Best corporate governance practices are adopted into business processes and activities and staff are actively involved in planning and implementing the corporate governance by setting up various internal committees with clear roles and responsibilities under the leadership of Director/CEO.

The employee code of conduct issued by the Company requires all employees to:

- Act 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:

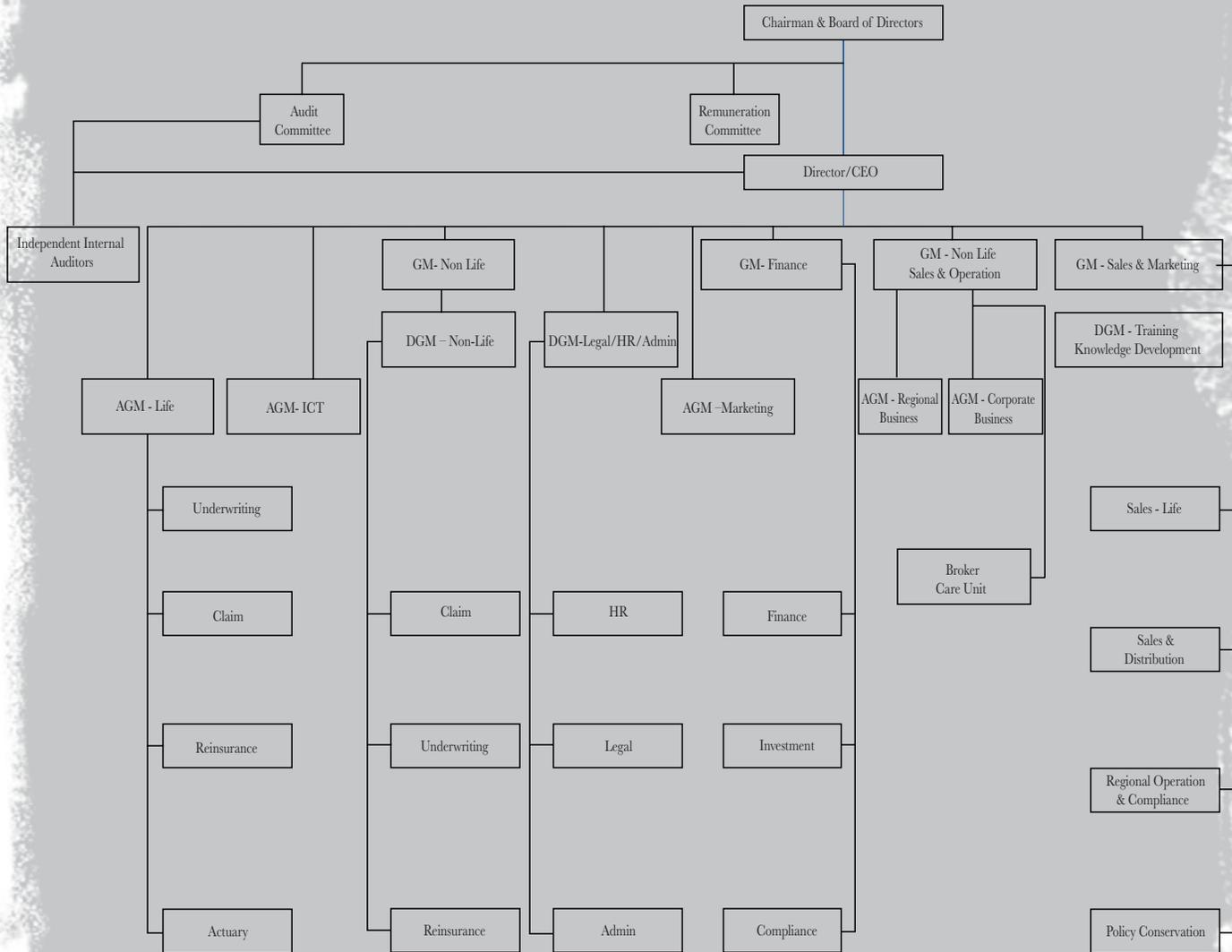
- Act ethically as an intermediary for the policy holders and the Company
- Always follow the professional approach in following the Company procedure and maintains the true professionalism credo of the Company
- Provides the best financial solution to the policy holders that considering the requirements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

### Regulations

Our corporate governance practices are collection of best practices on Corporate Governance jointly issued by ICASL(Institute of Chartered Accountant of Sri Lanka) and SEC (Securities and Exchange Commission) and the Colombo Stock Exchange listing rules (specially section 7.10 on corporate governance rules(given on page 80 of this Annual report) and other relevant requirements of Regulation of Insurance Industry Act No. 43 of 2000, Company's Act No.7 of 2007 and other relevant statutory laws, and our own code of conduct in relation to ethical standard(policies and procedures).

## Corporate Structure of Asian Alliance Insurance

The Company's governance structure is presented below:



**Code of Best Practice**

The Company's compliance status with the Code of Best Practice on corporate governance issued jointly by SEC and ICASL is as follows

Section No.	Principle	Status	Company's Commitment								
1	The Company										
A	Directors										
A.1	The Board										
Principle A.1	Every public company should be headed by an effective Board.	√	<p>The Board of Directors of the Company comprises of eight Directors. The CEO is an Executive Director and other directors hold office in a Non-Executive capacity.</p> <p>The day to day monitoring of operations of the organization has been delegated to the Director/CEO and the Executive Committee governed by policies, procedures and authority given by the Board of Directors.</p> <div data-bbox="894 863 1344 1171" data-label="Figure"> <p><b>Composition of Directors</b></p> <table border="1"> <caption>Composition of Directors</caption> <thead> <tr> <th>Category</th> <th>Count</th> </tr> </thead> <tbody> <tr> <td>Non Executive Directors</td> <td>4</td> </tr> <tr> <td>Independent Directors</td> <td>3</td> </tr> <tr> <td>Executive Directors</td> <td>1</td> </tr> </tbody> </table> </div> <p>The directors are responsible to shareholders for ensuring that the company is appropriately managed and that it achieves its objectives. It meets regularly to determine the Company's operating and financial performance and to provide oversight that the Company is adequately resourced and effectively controlled. The specific duties of the Board are clearly set out in its terms of reference that address a wide range of corporate governance issues and lists those items that are specifically reserved for decision by the Board. Some of the important matters requiring Board approval include :</p> <ul style="list-style-type: none"> <li>• Company Objectives, strategies and business plans;</li> <li>• Transactions outside delegated limits of the management;</li> <li>• Financial reporting and internal controls</li> <li>• Capital structure ;</li> <li>• Dividend policy ;</li> <li>• Investment policy ;</li> <li>• The constitution of management sub-committees; and key business policies , including the remuneration policy.</li> </ul>	Category	Count	Non Executive Directors	4	Independent Directors	3	Executive Directors	1
Category	Count										
Non Executive Directors	4										
Independent Directors	3										
Executive Directors	1										
A. 1.1	The Board should meet regularly (at least once every quarter)	√	During the year the Board met on 5 occasions. Apart from this the sub committees met on a regular basis. ( Audit Committee 4 times, Remuneration Committee 2 times )								

Section No.	Principle	Status	Company's Commitment
A.1.2	<p>The Board should ,</p> <ul style="list-style-type: none"> <li>• Ensure formulation and implementation of a sound business strategy;</li> <li>• Ensure that the CEO and management team possess the skills, experience and knowledge to implement the strategy;</li> <li>• Ensure an effective succession strategy is in place for CEO and senior management;</li> <li>• Ensure effective systems are setup to secure integrity of information, internal controls and risk management;</li> <li>• Ensure compliance with laws, regulations and ethical standards;</li> <li>• Ensure all stakeholder interests are considered in corporate decisions;</li> <li>• Ensure that the company's values and standards are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations;</li> <li>• Fulfill other Board functions that are vital, given the scale, nature and complexity of the business concerned.</li> </ul>	√	<p>The Board of Directors are collectively responsible for formulation, implementation and monitoring of business strategies of the Company. In order to do so, the Board appoints sub committees of the main board to assist the main board in fulfilling its stewardship function by reviewing systems of internal control, internal and external audit, risk management, IT system and financial reporting to shareholders.</p> <p>The main responsibilities of the Board include:</p> <ul style="list-style-type: none"> <li>• Setting, reviewing, directing, approving and monitoring the corporate strategies.</li> <li>• Providing guidance to Director/CEO and senior management and ensuring they possess the relevant skills, experience and knowledge to implement the strategies.</li> <li>• Setting strategic targets and implementation plans and evaluate its effectiveness via periodic board meetings with the management</li> <li>• Ensuring the effectiveness of internal controls and risk management via review of internal audit reports, compliance reports and management letters(external auditors)</li> <li>• Appointing CEO and succession planning of senior management</li> <li>• Discharging its duties through various sub committees of the main board</li> <li>• Monitoring performance against budgets on a regular basis via monthly review of financial performance reports</li> <li>• Compliance with laws, regulation (IBSL) and statutory payments via review of compliance reports</li> <li>• Reporting to shareholders on their stewardship</li> <li>• Reviewing the effectiveness of annual and interim financial statements for reporting purpose</li> <li>• Reviewing company's values and standards that are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations</li> <li>• Ensuring the integrity of financial information, internal controls, risk management and financial statements</li> </ul>
A.1.3	<p>The Board collectively, and Directors individually, must adhere to the laws of the Country. There should be a procedure to obtain independent professional advice where necessary.</p>	√	<p>The Board is collectively and individually committed to meet all compliance requirements applicable to the company. Furthermore ,the Board is empowered to seek independent professional advice from external parties whilst performing their duties for effective directorship functions at the Company's expense.</p>
A.1.4	<p>All Directors should have access to the advice and services of the Company Secretary. Any question of the removal of the Company Secretary should be a matter for the Board as a whole.</p>	√	<p>PR Secretarial Services (Pvt) Ltd is the corporate secretary for the Company.</p>
A.1.5	<p>All Directors should bring independent judgment to bear on issues of strategy, performance, resources (including key appointments) and standards of business conduct.</p>	√	<p>All Directors are expected to make decisions objectively and independently in the best interest of the company.</p>

Section No.	Principle	Status	Company's Commitment
A. 1.6	Every Director should dedicate adequate time and effort to matters of the Board and the Company, to ensure that the duties and responsibilities owed to the Company are satisfactorily discharged	√	The Board Members dedicate adequate time for the affairs of the company by attending Board meetings, Board sub-committee meetings and by making decisions via circular resolutions. In addition, the Board members have meetings and discussions with management as and when required.
A. 1.7	Every Director should receive appropriate and comprehensive training when first appointed to the Board of a company, and subsequently as necessary.	√	Every new Director, who is inducted to the company is given a comprehensive training and further existing directors are also provided with training opportunities in order to ensure that they could discharge their duties effectively.
A.2	CHAIRMAN AND CHIEF EXECUTIVE OFFICER (CEO)		
Principle A.2	There should be a clear division of responsibilities at the head of the Company, which will ensure a balance of power and authority.		
A.2.1	A decision to combine the posts of Chairman and CEO in one person should be justified and highlighted.	N/A	The Chairman and CEO roles are separated at the Company.
A.3	CHAIRMAN'S ROLE		
Principle A.3	The Chairman should preserve order and facilitate the effective discharge of Board functions.		
A 3.1	<p>The Chairman should conduct Board proceedings in a proper manner and ensure, inter-alia, that:</p> <ul style="list-style-type: none"> <li>• There is an effective participation of both Executive and Non-Executive Directors</li> <li>• All Directors are encouraged to make an effective contribution,</li> <li>• A balance of power between executive and non-executive directors is maintained;</li> <li>• The views of Directors on issues under consideration are ascertained;</li> <li>• The Board is in complete control of the Company's affairs and alert to its obligations to all shareholders and other stakeholders.</li> </ul>	√	<p>Chairman is responsible for leading the Board and for its effectiveness :</p> <ul style="list-style-type: none"> <li>• Maintains the balance of power between Executive and Non-Executive Directors</li> <li>• Ensuring the appropriate composition of the Board</li> <li>• Supports the CEO to manage day-to-day operations of the company.</li> <li>• Ensuring that the Board is in full control of the Company's affairs</li> <li>• Sets agenda for the Board meeting with the support of the Company secretary</li> </ul> <p>The Chairman is also the ultimate point of contact for shareholders at the AGM.</p>

Section No.	Principle	Status	Company's Commitment
A.4	FINANCIAL ACUMEN		
Principle A.4	The Board should ensure members within it possess sufficient financial acumen and knowledge to offer guidance on matters of finance.	√	The Board consists of qualified, experienced and knowledgeable members on matters of finance. Members of the Board with financial knowledge are as follows : <ul style="list-style-type: none"> <li>• Asoka Pathirage - Chairman, Over 25 years experience at senior managerial capacities</li> <li>• J .H. P Rathnayake- Independent Non Executive Director, LL.B (University of Colombo), LL.M. (University of London), Attorney-at- Law of the Supreme Court of Sri Lanka, Solicitor of England and Wales</li> <li>• Ramal Jasinghe – Executive Director, MBA, University of Sri Jayawardenapura , Chartered Marketer, FCIM, FAMS</li> <li>• Mohan Ray Abeywardena –Independent Non Executive Director, MBA (University of Wales), CIM (UK )</li> <li>• T.M. Ifthikar Ahamed –Non Executive Director, MBA , University of Wales</li> <li>• Sujeewa Rajapakse – Independent Non Executive Director ,MBA (PIM), FCA</li> <li>• Ranil P. Pathirana – Non Executive Director, BCom. (University of Sri Jayawardenapura), FCMA (UK)</li> <li>• Suraj N. Fernando – Non Executive Director ,FCMA, FCCA, DIPM, MCIM</li> </ul>
A.5	BOARD BALANCE		
Principle A.5	It is preferable for the Board to have a balance of Executive and Non- Executive Directors.	√	The Board Comprises of both Non Executive Directors and Executive Directors.
A.5.1	At least two or one third of the total number of Directors in the Board, whichever higher, should be Non Executive Directors.	√	The Board has Seven Non Executive Directors.
A.5.2	Two or one third of Non- Executive Directors, whichever is higher, should be independent.	√	Three Directors are Independent out of the seven Non Executive Directors. This is more than one third composition.
A.5.3	For a Director to be deemed 'independent' they should be independent of management and free of any business or other relationship that could materially interfere with the exercise of their unfettered and independent judgment.	√	The three Independent Non Executive Directors fulfill the criteria of been deemed independent and free from any business relationship.
A.5.4	Each Non-Executive director should submit a signed and dated declaration annually of his/her independence or non-independence against the specified criteria.	√	Each Non-Executive Director submits a signed and dated declaration annually of his independence or non-independence against specified criteria as set out in Appendix 7A of Colombo Stock Exchange listing rule section 7.10.2(b)
A.5.5	The Board should make a determination annually as to the independence or non-independence of each non-executive director based on the above declaration and other information available to the Board.	√	The Board's determination of the independence or non independence of each of the directors is declared on page 100 in the Annual Report.

Section No.	Principle	Status	Company's Commitment
A.5.6	In the event the Chairman and CEO is the same person, the Board should appoint an Independent Non-Executive Director to be the "Senior Independent Director".	N/A	These roles are separate in the Company
A.5.7	The Senior Independent Director should make himself available for confidential discussions with other Directors who may have concerns .	N/A	Please refer above comment
A.5.8	The Chairman should hold meetings with the Non-Executive Directors only, without the Executive Directors being present ,at least once each year.	√	Board meets with the Remuneration Committee once a year to evaluate Directors/CEOs performance and to agree on his remuneration package.
A.5.9	Where Directors have concerns about the matters of the Company which cannot be unanimously resolved, they should ensure their concerns are recorded in the Board Minutes.	√	All decisions were taken unanimously during the year.
A.6	SUPPLY OF INFORMATION		
Principle A.6	The Board should be provided with timely information in a form and of a quality appropriate to enable it to discharge its duties.		
A.6.1	Management has an obligation to provide the Board with appropriate and timely information.	√	Management provides the board with timely Financial and Non Financial information on a regular basis. In addition to this they provide adhoc information as requested by the Board.
A.6.2	The minutes, agenda and papers required for Board Meetings should be provided at least seven (7) days before the meeting.	√	Board papers, agenda and board minutes (previous) to be tabled one week prior to board meeting.
A.7	APPOINTMENTS TO THE BOARD		
Principle A.7	There should be a formal and transparent procedure for the appointment of new Directors to the Board.		
A 7.1	A Nomination Committee should be established to make recommendations to the Board.	√	The Board has appointed a Nomination Committee. It comprises of four Non Executive Directors. Namely; <ul style="list-style-type: none"> <li>• Mr. Asoka Pathirage – Chairman (Non Executive Director)</li> <li>• Mr. Paul Rathnayake- Member (Independent Non Executive Director )</li> <li>• Mr. Ranil Pathirana- - Member (Non Executive Director )</li> <li>• Mr Ray Abeywardena – Member (Independent Non Executive Director)</li> </ul>
A 7.2	The Board Composition should be assessed annually by the Board.	√	Board Composition is subject to be reviewed annually and new appointments carried out as necessary.
A 7.3	Upon the appointment of a new Director, the Company should disclose information to shareholders.	√	Any appointments of new Directors are disclosed to the Colombo Stock Exchange. Further the Annual Report includes profiles of each director which would provide information to the shareholders.

Section No.	Principle	Status	Company's Commitment
A.8	RE ELECTION		
Principle A.8	All Directors should be required to submit themselves for re-election at regular intervals and at least once every three years.		
A.8.1	Non-Executive Directors should be appointed for specified terms subject to re-election and to the provisions in the Companies Act	√	In agreement with the Articles of Association, each Director other than the CEO and any nominee Director, will retire by rotation and will stand for re-election.
A.8.2	All Directors including the Chairman of the Board, should be subject to election by shareholders at the first opportunity after their appointment, and to re-election thereafter at intervals of no more than three years.	√	To comply with the Article of Association, the Directors who have been appointed to the Board during the year and are required to retire and make themselves available for reelection by the shareholders.
A.9	APPRAISAL OF BOARD PERFORMANCE		
Principle A.9	Boards should periodically appraise their own performance .		
A.9.1	The Board should annually appraise itself on its performance in the discharge of its key responsibilities.	√	The performance of the Board and its sub-committees are evaluated by the chairman.
A.9.2	The Board should also undertake an annual self-evaluation of its own performance and that of its Committees.	To be fully implemented in 2012	An effective evaluation process is under consideration .
A.9.3	The Board should state how such performance evaluations have been conducted, in the Annual Report.	To be fully implemented in 2012	An effective evaluation process is under consideration .
A.10	DISCLOSURE OF INFORMATION IN RESPECT OF DIRECTORS		
Principle A.10	Shareholders should be kept advised of relevant details in respect of Directors.		
A.10.1	The Annual Report should include Details of all Directors.	√	Information regarding Directors is disclosed in the Annual Report. This includes profiles of the Board members (page 16 ) , details of Directors Interests in Contracts (page 100) , details of Board meetings (page 68) and Board Sub Committee meetings (page 68 )
A.11	APPRAISAL OF CHIEF EXECUTIVE OFFICER (CEO)		
Principle A.11	The Board should be required, at least annually, to assess the performance of the CEO.		
A.11.1	Every fiscal year, the Board in consultation with the CEO, should set, in line with the short, medium and long-term objectives of the Company, reasonable financial and non-financial targets that should be met by the CEO during the year.	√	The Board in Consultation with the Director/CEO sets out both Short term and Long term targets for the company that are aligned to the mission and vision of the company. The achievement of each of these objectives are monitored and necessary proactive and reactive action taken.

Section No.	Principle	Status	Company's Commitment
A 11.2	The performance of the CEO should be evaluated by the Board at the end of each year.	√	Based on the agreed targets and objectives the performance of Director/CEO is evaluated by the chairman and the Remuneration Committee.
B	DIRECTORS' REMUNERATION		
B.1	REMUNERATION PROCEDURE		
Principle B.1	Companies should establish a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his/her own remuneration.		
B.1.1	The Board should set up a Remuneration Committee to make recommendations to the Board.	√	A Remuneration Committee has been appointed together with agreed terms of reference , policies and responsibilities of the committee are set out on page 107 of this Annual Report.
B.1.2	Remuneration Committees should consist of Non-Executive Directors, and should have a Chairman.	√	The Remuneration Committee consist of Non- Executive Directors, details of the committee are provided in the Remuneration Committee Report on page 107
B.1.3	The Chairman and members of the Remuneration Committee should be listed in the Annual Report.	√	This information is provided in the Remuneration Committee Report.
B.1.4	The Board as a whole should determine the remuneration of Non-Executive Directors, including members of the Remuneration Committee, within the limits set in the Articles of Association.	√	The details of the Remuneration Committee's composition, policies and responsibilities are set out on page 107 of this Annual Report.
B.1.5	The Remuneration Committee should consult the Chairman and/or CEO and/or professional consultant in discharging their responsibilities.	√	The Committee consults Director/CEO where necessary and has access to professional consultants.
B.2	THE LEVEL AND MAKE UP OF REMUNERATION		
Principle B.2	Levels of remuneration of both Executive and Non-Executive Directors should be sufficient to attract and retain the Directors needed to run the Company successfully. A proportion of Executive Directors' remuneration should be structured to link rewards to corporate and individual performance.		
B.2.1	Remuneration Committee should provide attractive packages to Executive Directors.	√	The remuneration package of the Director/CEO who is the only Executive Director is with accordance to market rates.
B.2.2	The Remuneration Committee should determine remuneration relative to industry standards and company performance.	√	The Remuneration Committee studies the industry standards and structures the remuneration package accordingly.
B.2.3	The Remuneration Committee should be sensitive to remuneration and employment conditions and remuneration in the Company or Group when determining remuneration.	√	Remuneration Committee considers the group remuneration levels when deciding the company remuneration package keeping in mind the market rates.
B.2.4	The performance-related elements of remuneration of Executive Directors should be designed and tailored to align their interests with those of the Company and main stakeholders .	√	Performance related elements of the remuneration package of the Director/CEO and management staff is linked to corporate and individual performance.

Section No.	Principle	Status	Company's Commitment
B.2.5	Executive share options should not be offered at a discount .	N/A	
B.2.6	Remuneration Committee should follow the provisions set out in the code in designing schemes of performance-related remuneration.	√	CEO and employees at all levels are eligible for an annual performance linked bonus based on business targets and profitability targets.
B.2.7	Remuneration Committees should determine appropriate compensation commitments.	√	There are no terminal compensation commitments other than gratuity payments.
B.2.8	Compensation commitments should be decided, where initial contract does not explicitly provide for them.	√	As above.
B.2.9	Levels of remuneration for Non-Executive Directors should reflect the time commitment and responsibilities of their role, taking into consideration market practices.	√	All Non Executive Directors are paid a monthly Director fee in line with the market practice.
B.3	DISCLOSURE OF REMUNERATION		
Principle B.3	The Company's Annual Report should contain a Statement of Remuneration Policy and details of remuneration of the Board as a whole.		
B.3.1	Details of the Remuneration Committee , remuneration policy and aggregate remuneration paid to directors should be stated in the Annual Report.	√	The Remuneration Committees' report together with the Remuneration Policy adopted by the company is given on page 107.
C	RELATIONS WITH SHAREHOLDERS		
C.1	CONSTRUCTIVE USE OF THE ANNUAL GENERAL MEETING (AGM) AND CONDUCT OF GENERAL MEETINGS		
Principle C.1	Boards should use the AGM to communicate with shareholders and should encourage their participation.		
C.1.1	All proxy votes should be counted.	√	The company records proxy votes together with other shareholder votes.
C.1.2	Companies should propose a separate resolution at the AGM for each substantially separate issue.	√	The adoption of the Annual Report together with the Financial Statements is proposed as a separate resolution.
C.1.3	The Chairmen of the sub committee s should be present at the AGM to answer any questions.	√	The Chairman of the Board ensures that the Chairmen of Board Sub Committees are present at the AGM to answer any queries raised by the Shareholders.
C.1.4	Notice of the AGM and related papers should be sent to shareholders before the meeting, within the determined notice period.	√	The Annual Report together with the notice of meeting and related documents are sent to shareholders at least fifteen days prior to the date of the AGM.
C 1.5	A summary of the procedures governing voting at General Meetings should be sent with every Notice.	√	An Agenda including the procedures of the meeting is also sent.

Section No.	Principle	Status	Company's Commitment
C.2	MAJOR TRANSACTIONS		
Principle C.2	Directors should disclose all proposed corporate transactions, which if entered into, would materially alter/vary the Company's net assets base.		
C.2.1	Prior to a company engaging in or committing to a 'Major Transaction', Directors should disclose to shareholders all material facts of such transaction.	√	As per the disclosure requirement of Company's Act, No. 7 of 2007 of section 192, the Board of Directors disclose all transactions that they have with the Company.
D	ACCOUNTABILITY AND AUDIT		
D.1	FINANCIAL REPORTING		
Principle D.1	The Board should present a balanced and understandable assessment of the Company's financial position, performance and prospects.		
D.1.1	The Board's responsibility to present a balanced and understandable assessment extends to interim and other price-sensitive public reports and reports to regulators, as well as to information required to be presented by statutory requirements.	√	The interim financial statements and Annual Report are published according to Sri Lanka Accounting Standards (SLAS) and circulated to shareholders and Colombo Stock Exchange within the stipulated time period.
D.1.2	The Directors' Report should contain declarations by the Directors .	√	Directors Report includes a declaration by the Directors addressing the provisions set out in the code.
D.1.3	The Annual Report should contain a statement setting out the responsibilities of the Board for the preparation and presentation of financial statements, together with a statement by the Auditors about their reporting responsibilities.	√	The Auditors Report is on page 111 and the report containing the Directors responsibilities in the preparation and presentation of financial statements is provided on page 103.
D.1.4	The Annual Report should contain a "Management Discussion & Analysis".	√	Management Discussion & Analysis section is included from page 20.
D.1.5	The Directors should report that the business is a going concern.	√	This information is set out in the Directors' Report on page 98 of this Annual report.
D.1.6	If the net assets of the Company fall below 50% of the value of the Company's shareholders' funds, the Directors shall summon an EGM to inform shareholders.	√	If such a situation does arise , an EGM will be called.
D.2	INTERNAL CONTROL		
Principle D.2	The Board should maintain a sound system of internal control to safeguard shareholders' investments and Company's assets.		
D. 2.1	The Board should review the effectiveness of the internal control system annually.	√	The Audit Committee regularly monitors the effectiveness of internal controls and the board is collectively responsible for sound establishment of internal controls. Assurance of this is achieved via meetings between Internal audit and management representatives with the Audit Committee.

Section No.	Principle	Status	Company's Commitment
D. 2.2	Companies which do not have an internal audit function should from time to time review the need for one.	√	The Company's internal audit function has been outsourced to an independent auditor-Ernst & Young Advisory Services (Pvt) Ltd, which is permanently stationed at the Company and it reports the audit findings with management responses to the Audit Committee.
D.3	AUDIT COMMITTEE		
Principle D.3	The Board should establish formal and transparent arrangements for considering how they should select and apply accounting policies, financial reporting and internal control principles and maintaining an appropriate relationship with the Company's Auditors.		
D.3.1	The Audit Committee consist of Non-Executive Directors, a majority of whom should be independent.	√	Audit Committee comprises of two Independent Non-Executive Directors and the Chairman of the Committee is a Fellow Member of Institute of Chartered Accountants of Sri Lanka. The details of Audit Committee's composition and functions are set out on page 105 of this Annual report
D.3.2	The Audit Committee should review the scope and results of the audit and its effectiveness, and the independence and objectivity of the Auditors.	√	The Audit Committee contributes to the effectiveness of the internal audit function by: <ul style="list-style-type: none"> <li>• Reviewing the internal audit budget, staffing and audit plan</li> <li>• Reviewing the material findings of internal audit reviews and management 's response and the external auditors reports</li> <li>• Reviewing the effectiveness of internal controls. Including IT controls and security, overall control environment and accounting and financial controls</li> <li>• Obtaining internal auditors recommendations regarding internal controls and accounting procedure</li> <li>• Reviewing internal auditors appointment, performance and replacement and the approval of the external auditors</li> <li>• Reviewing major financial exposures and review the process to monitor, control and reporting such exposures.</li> </ul>
D.3.3	The Audit Committee should have a written Term of Reference, dealing clearly with its authority and duties.	√	The Report set out on page 105 indicates that the Committee operates within clearly defined terms.
D.3.4	DISCLOSURES		
	The names of Directors in the Audit Committee and their independence, together with a report from the committee should be provided .	√	This information is disclosed in the Audit Committee Report which can be found on page 105.

Section No.	Principle	Status	Company's Commitment
D.4	CODE OF BUSINESS CONDUCT & ETHICS		
Principle D.4	Companies must adopt a Code of Business Conduct & Ethics for directors, and members of the senior management team and must promptly disclose any waivers of the Code for directors or others.		
D.4.1	<p>The Company must adopt a Code of Business Conduct &amp; Ethics for directors and members of the senior management team .</p> <p>The following important topics need to be addressed :</p> <ul style="list-style-type: none"> <li>• conflict of interest;</li> <li>• corporate opportunities;</li> <li>• confidentiality;</li> <li>• fair dealing;</li> <li>• protection and proper use of company assets;</li> <li>• compliance with laws, rules and regulations (including insider trading laws);</li> <li>• encouraging the reporting of any illegal or unethical behaviour.</li> </ul>	√	The company has adopted a Code of Business Conduct and Ethics that addresses these issues. This is further communicated to staff via Company's "Staff Hand book" and the Company confirms that there were no material violations of this code during the year.
D.4.2	The Chairman must affirm that there is no violation to the Code.	√	The Report from The Board of Directors on page 98 confirms that there has being no material violations of the Company's Code of Business Conduct and Ethics during the year.
D.5	CORPORATE GOVERNANCE DISCLOSURES		
Principle D.5	Directors should be required to disclose the extent to which the Company adheres to established principles and practices of good Corporate Governance.		
D.5.1	The Directors should include a Corporate Governance Report in the Annual Report.	√	This report stands witness to the Board's commitment to the Code of Best Practice on Corporate Governance issued by the ICASL and SEC and the Rule No. 7.10 of Listing Rules issued on Corporate Governance by CSE. Further the Corporate Governance reports sets out the systems and processes in the company to ensure maximum compliance.
SECTION 2:	SHAREHOLDERS		
E	INSTITUTIONAL INVESTORS		
E.1	SHAREHOLDER VOTING		
Principle E.1	Should be encouraged to ensure their voting intentions are translated into practice.		
E.1.1	A listed company should conduct a regular and structured dialogue with shareholders based on a mutual understanding of objectives.	√	The Annual Report , Quarterly Financial Statements and AGM are used as forms of communication to the shareholders. Furthermore the Chairman ensures that adequate attention is given to the views of the shareholders at the AGM.

Section No.	Principle	Status	Company's Commitment
E.2	EVALUATION OF GOVERNANCE DISCLOSURES		
Principle E.2	Institutional investors should be encouraged to give due weight to all relevant factors.	√	This report explains the prevailing governance structure in the Company and would meet the needs of Institutional investors.
F	OTHER INVESTORS		
E.1	INVESTING/ DIVESTING DECISION		
Principle F.1	Individual shareholders, should be encouraged to seek independent advice in investing or divesting decisions.	√	All Shareholders are provided with adequate information in the Annual Report to assist them with their decision making process. This includes the following reports- <ul style="list-style-type: none"> <li>• Chairman's Message</li> <li>• CEO's Review</li> <li>• Management Discussion and Analysis</li> <li>• Sustainability Report</li> <li>• Corporate Governance Report</li> <li>• Annual Financial Statements</li> </ul>
E.2	SHAREHOLDER VOTING		
Principle F.2	Individual shareholders should be encouraged to participate in General Meetings and exercise their voting rights.	√	All Shareholders are encouraged to cast their vote at the General Meetings.

**Section 7 of the Listing Rules of Colombo Stock Exchange**

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

Rule No.	Subject	Requirement	Compliance Status	Details
7.10.1(a)	Non- Executive Directors	Two or one third of total number of Directors, whichever is higher, shall be Non- Executive Directors	√	Seven out of Eight Directors are Non-Executive Directors.
7.10.2.(a)	Independent Non- Executive Directors	Two or one third of Non- Executive Directors, whichever is higher, shall be independent.	√	The Board comprises of three Independent Non- Executive Directors
7.10.2(b)	Submission of declaration by Non- Executive Directors	Each Non Executive Directors shall submit a declaration of Independence / Non- Independence in the prescribed format	√	Each Non- Executive Director has submitted his declaration to CSE
7.10.3(a)	Disclosure relating to Directors	Names of the independent Directors shall be disclosed in the Annual Report	√	Please refer Annual Report under Board of Directors on page 100
7.10.3(b)	Disclosure relating to Directors	In the event a Director does not qualify as “independent” as per the rules of corporate governance but if the Board is of the opinion that the Director is nevertheless independent, it shall specify the basis of the determination in the Annual Report	√	Please refer Directors Report on page 100
7.10.3(c)	Disclosure relating to Directors	Directors’ brief resume shall be published in the annual report with their expertise in the relevant functional areas.	√	Please refer page 16 of the Annual Report
7.10.3(d)	Disclosure relating to Directors	In the event of new appointment of Directors, a brief resume of such director shall be disseminated to public via Colombo Stock Exchange	√	Please refer page 16 of the Annual Report
7.10.5	Remuneration Committee	A listed company shall have a Remuneration Committee	√	Please refer page 107 of the Annual Report
7.10.5 (a)	Remuneration Committee – members	The Remuneration Committee shall comprise of a minimum of two independent Non- Executive Directors or a majority of independent Non-Executive Directors, whichever is higher	√	The Remuneration Committee comprises of two independent and two Non- Executive Directors
7.10.5 (b)	Remuneration Committee – Functions	The Remuneration Committee shall recommend the remuneration of Chief Executive Officer, GMs and senior managers	√	Please refer page 107 of this Annual Report
7.10.5(c)	Disclosure in the Annual Report	The Annual Report shall set out : <ul style="list-style-type: none"> <li>• Name of the Directors of the Remuneration Committee.</li> <li>• The statement of remuneration policy.</li> <li>• Aggregate remuneration paid to Executive and Non- Executive Directors .</li> </ul>	√	Please refer page 107 of this Annual Report Please refer page 107 of this Annual Report Please refer page 108 of this Annual Report

Rule No.	Subject	Requirement	Compliance Status	Details
7.10.6	Audit Committee	A listed Company shall have an Audit Committee	√	Please refer the Audit Committee Report on page 105 of this Annual Report
7.10.6(a)	Composition of Audit Committee	<ul style="list-style-type: none"> <li>The Audit Committee shall comprise of a minimum of two independent Non-Executive Directors or a majority of independent Non-Executive Directors, whichever is higher</li> <li>One of the Non-Executive Directors shall be appointed as the Chairman of the committee by the Board of Directors</li> <li>The Chief Executive Director (CEO/Director) and Chief Financial Officer(CFO) shall attend the Audit Committee meetings</li> <li>The Chairman or one member of the Audit Committee should be a member of a recognized professional accounting body .</li> </ul>	√	<p>The Audit Committee comprises of two Independent Non-Executive Directors .</p> <p>Mr. Sujeewa Rajapakse (Independent Non-Executive Director)acts as the Chairman of the Committee</p> <p>The Chief Executive Director (CEO/Director) and Chief Financial Officer (CFO) attend meetings by invitation.</p> <p>The Chairman of the Audit Committee is a Fellow Member of Institute of Chartered Accountants of Sri Lanka</p>
7.10.6(b)	Functions of Audit Committee	<p>The Audit Committee shall oversee :</p> <p>Preparation, presentation and disclosure of the financial statements and ensuring they are in line with the Sri Lanka Accounting Standards.</p> <p>Compliance with financial reporting, Companies Act and other financial reporting regulations and requirements .</p> <p>Internal controls and risk management are adequate to meet the requirements of Sri Lanka Accounting Standards</p> <p>Independence and performance of external auditors</p> <p>Appointment, re-appointment and removal of external auditors and approve the terms of remuneration and terms of engagement</p>	√	Please refer the Audit Committee Report on page 105 of this Annual Report
7.10.6(c)	Disclosure in the Annual Report	<p>The Annual Report should disclose :</p> <p>Names of the Directors of the Audit Committee</p> <p>How the Audit Committee determines the independence of the auditors and how such determination is made</p> <p>A report by the Audit Committee setting out the manner of compliance with the listing rule 7.10 on Corporate Governance</p>	√	Please refer the Audit Committee Report on page 105 of this Annual Report

Compliance governance – Regulatory	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 the Company and apply relevant methodologies to manage the compliance risks.
Compliance Functions of the Company	<p>The main functions should include :</p> <ul style="list-style-type: none"> <li>• Reviewing the Company’s compliance function in relation to regulatory requirements of Regulation of Insurance Industry Act No. 43 of 2000 and other guidelines, directions, circulars and determinations issued by Insurance Board of Sri Lanka and relevant government Gazette notifications in relation to Insurance Industry</li> <li>• Checking the Corporate Governance requirement of Asian Alliance (particularly section 7.10 of Colombo Stock Exchange Listing rules)</li> <li>• Reviewing the mandatory requirements of Companies Act, No. 7 of 2007, Financial Transaction Reporting Act, No. 6 of 2006, Prevention of Money Laundering Act, No 5 of 2006, and other statutory and requirements</li> <li>• Checking the solvency margin levels(life and general divisions) on a regular basis</li> <li>• Reviewing the effectiveness of Compliance controls via monthly compliance checklist, regular review of Asian Alliance’s procedure manuals and submitting quarterly compliance report to Audit Committee</li> <li>• Reviewing the audit findings of the Company’s external auditors compliance report and take appropriate action</li> <li>• Reviewing the audit findings of the Company’s internal auditors compliance report and take appropriate action</li> <li>• Checking the compliance all the statutory payments and report it to Board of Directors</li> <li>• To make recommendations to the Audit Committee in relation to any non compliance issues</li> <li>• To ensure that The Company’s risk management systems are more effective and efficient to identify, assess and manage the risks</li> <li>• Reviewing the effectiveness of legal (IBSL) and accounting compliance of Investment</li> <li>• Monthly mandatory report to Central bank (FIU- Financial Intelligence Unit)as per the requirements of Financial Transaction Reporting Act, No. 6 of 2006 and developing anti money laundering program for the company</li> </ul>
Risk Assessment - Compliance	Risk assessment of compliance is based on the impact and likelihood of occurrence compliance risks and managing those risks via risk mitigating strategies.
Solvency audit	<p>According to section 26(1) of the Regulations of Insurance Industry Act (RIIA), No. 43 of 2000, the Company has maintained in respect of each class of insurance business, a solvency margin as determined the IBSL throughout the year.</p> <p>Statement of solvency for the Life and Non-Life is set out page 41 of this Annual report.</p>
Prevention of Money Laundering activities	<p>To prevent and detect money laundering activities Asian Alliance has designed an Anti Money Laundering Program and update it on a regular basis to adhere with the relevant provisions in the Prevention of money Laundering Act, No.5 of 2006, Financial Transaction Reporting Act, No. 6 of 2006 and guidelines given by IBSL on anti money laundering and best practices on anti money laundering activities.</p> <p>Key functions of our Anti Money Laundering Program are as follows:</p> <ul style="list-style-type: none"> <li>• Clearly defined criteria for identification of different type of customers (KYC – Know Your Customer)</li> <li>• Clearly defined criteria for identifying suspicious transactions</li> <li>• Procedure for indentifying suspicious transactions</li> <li>• Considering the vulnerability of products to money laundering exposure</li> <li>• Designing of mitigating strategies for money laundering activities</li> <li>• Clearly defined record keeping procedure for verification and subsequent reference.</li> <li>• Mandatory reporting to FIU(Financial Intelligence Unit) on a monthly basis in respect of transactions over Rs. 1,000,000 (in cash) in relation to premium, claims and refunds</li> <li>• Clearly defined tracking process to follow up and monitoring of any suspected money launderer.</li> <li>• An automated system for notifying the FIU of relevant details in a professional manner.</li> </ul>

Data base in respect of	The Company maintains a separate web page for its agents' information with direct access facility to IBSL for checking the agents' compliance with IBSL requirements.
Insurance Agent	Further, our agents' meet the required qualifications as per section 78(4) of Regulations of Insurance Industry Act, No. 43 of 2000 and we pay the commission to our agents and brokers as per section 88 of Regulations of
Insurance Brokers	Insurance Industry Act Asian Alliance complies with the provision in relation to insurance brokers when accepting business from insurance brokers i.e. Asian Alliance does not accept business from brokers who are prohibited by the IBSL
Complying with advertising provisions	As per section 99(1) of the Regulation of Insurance Industry Act, advertisements issued by insurers shall not contain any information or material that is false, incorrect or is likely to mislead the public.  Further, as per Directive No.1 issued under section 99(1) of the Regulation of Insurance Industry Act, a certificate signed by the CEO sends to IBSL confirming that the advertisement is in conformity with the section 99(1) of the Regulation of Insurance Industry Act.  Further, we follow the code of conduct implemented by IASL (Insurance Association of Sri Lanka) in relation to advertisement.

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, and 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 Financial Planning Manager	CEO, GM - Non Life, Finance and Sales and Marketing.	CEO, GM - Non Life, Finance and Sales and Marketing, Assistant General Manager – IT	GM- Finance, Non Life and Marketing & Sales, Deputy General Managers of Legal & HR& Administration and Marketing and Financial Planning Manager	CEO, Consultant Actuary, GM – Finance and Marketing & Sales Manager –Life (Actuarial) and Senior Assistant Manager (Actuarial)	GM- Sales & Marketing, Non Life, Non Life Operations, Finance, AGM- Marketing
Frequency of meeting planned & held	As and when need arises	As and when need arises	Quarterly	Quarterly	Monthly	As and when need arises

## RISK MANAGEMENT

Asian Alliance is in the business of protecting the valued and loved ones of the customers. It is crucial and important for the Company to manage the risks effectively in this growing market environment, to enable customers efficiently manage their risks.

“The Company has a systematic process of application of management policies, procedures and practices to (for the objectives being achieved) the task of identifying, assessing and managing the impacts and likelihood of occurrence of risks via proactive, coordinated and continuous audit process across Asian Alliance with clearly defined risk ownership, roles and responsibilities among the Board members and staff to mitigate all type of risks through effective risk response strategies to our risk appetite level with the appropriate control environment”

The Risk Management process of the Company helps it comply with the corporate governance requirements of listing rule (section 7.10) of the Colombo Stock Exchange. Our risk management system is properly integrated with internal control systems, internal audit and corporate governance.

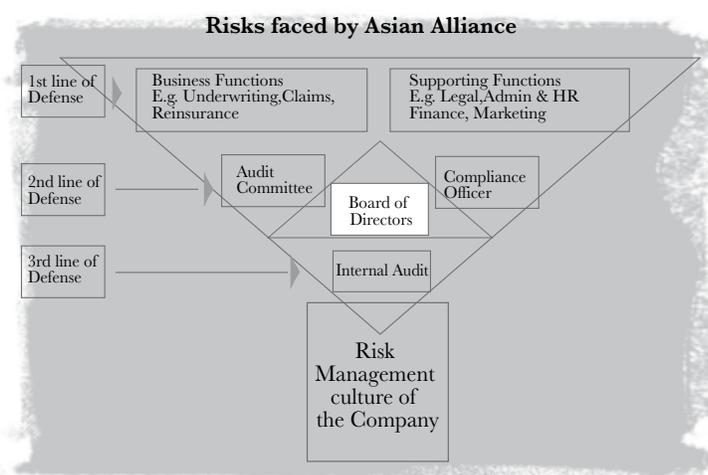
The Objectives of Risk Management at Asian Alliance

- Enable the Company to be successful in achieving its financial and non-financial objectives
  - Identifying the risks faced by the company at a given period of time via various risk identification methods
  - To ensure the business continuity of the company with smooth flow on every aspect of the business processes
  - To assess the scale of the risks in terms of likelihood and impact
  - To apply appropriate risk response strategies for each category of risk (taking into account the Company’s risk appetite level)
  - To provide appropriate system controls and carry out efficient risk reporting to mitigate the risks
  - Create awareness regarding risk management among staff and educate them on risk management process
- Communicate risk assessment and risk response

process to persons concerned

- Obtaining quality, sufficient and accurate information in a timely manner for effective risk management
- Continuous improvement in the ability to respond and mitigate risks faced by the Company
- To help the Company to be socially responsible and to be seen as a good corporate citizen

**The Company Risk Management Governance Structure is as follows:**



At Asian Alliance the risk management formula has been defined as ‘a process whereby there is continuous scan of the internal & external environment to identify events that may have an unfavorable impact on the smooth flow of business operations & business strategy, so that risk mitigating strategies may be worked out to achieve the defined objectives’ This ensures the business continuity and future prospects of the Company.

### **Risk Management and Internal Control**

Risk management is the process of understanding and managing the risks that the Company faces in attempting to achieve its objectives. The risk response strategy of the Company is determined for each category of risk that takes into account its risk appetite, and the system of controls that are put in place for reporting and management of risks. Risks are managed via effective risk response strategies (alternative course of action); stopping an activity (risk avoidance); influencing likelihood and impact of the risk (reduction of risks); sharing of risks through techniques such as insurance and outsourcing or the risk may be accepted. One of the main strategies of managing risks is effective internal control.

For the effective risk management the Company has categorised the risk into four types such as strategic risks, Insurance risks, Investment risk and operational risks. Effective risk management is important for the Company as it helps the business to be successful in terms of financial and non financial objectives while ensuring business continuity.

Internal control system includes all the policies and procedures necessary to ensure that the Company objectives are achieved including the orderly and efficient conduct of the business; safeguarding the assets; prevention and detection of fraud and error ; the accuracy and completeness of accounting records ; compliance with laws and regulation; and timely preparation of reliable financial information. Risk management is an important foundation to internal control as it allows the internal control to be focused on the most significant risks. Therefore, risks are assessed and controls are determined to relate the assessed risks.

### **Internal Audit and Audit Committee**

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

The internal audit function provides the Audit Committee with independent and objective assurance over the appropriateness, effectiveness, and sustainability of the the Company's system of

internal controls to mitigate significant risks. The Audit Committee reviews the financial, operational and compliance controls and risk management systems of the Company.

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

The audit committee contributes to the effectiveness of the internal audit function by ensuring:

- An audit charter is in place
- Independence and objectivity of the internal audit function
- Adequate internal resources to provide necessary support for management assurances and enable the audit committee to advise the board so that the Board can give its report to shareholders
- The recommendations of the internal audit report are implemented properly
- Key internal control issues reported by the Internal Auditor with the Management responses to Audit Committee are monitored on a monthly basis until the risk exposure has been properly mitigated
- Internal audit plan is adequate

### **Internal Audit and Internal Control**

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

and appropriate controls are in place to mitigate risks.

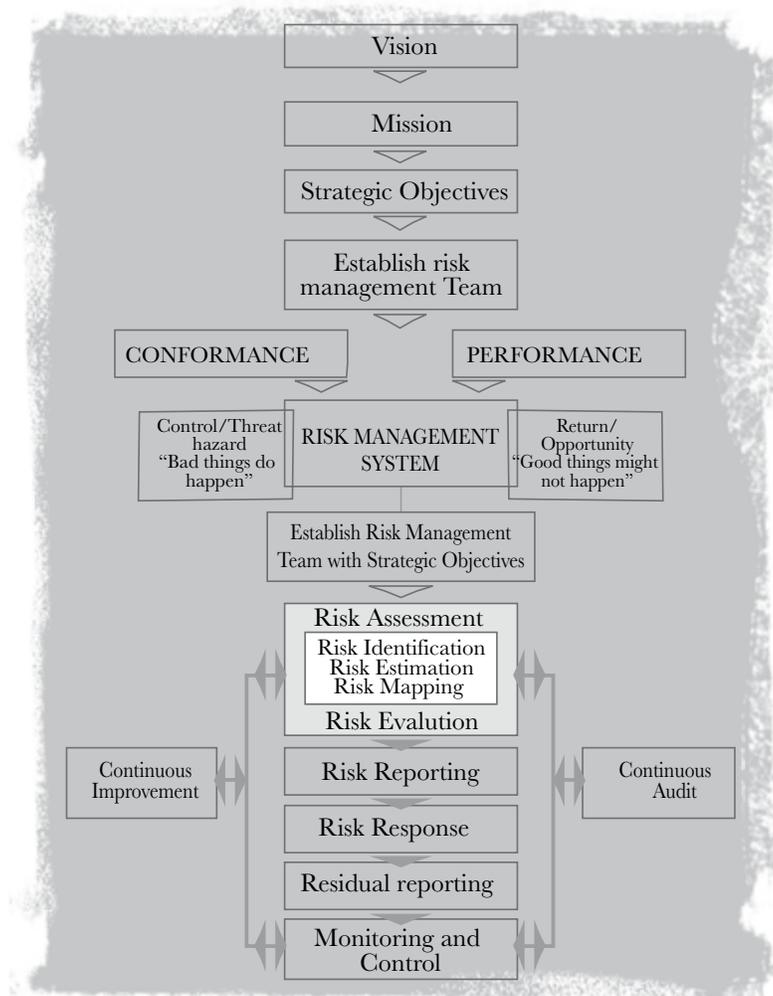
Although the Audit Committee reviews the effectiveness of internal control systems (on a continuous basis) it is the management responsibility to identify and manage the risks, to effectively assess the adequacy of internal controls, internal auditors need to have expertise in the risk management: how the risks are identified, assessed and managed. The risk management system itself needs to be audited in order to ensure that it can be relied upon. Internal audit will identify high risk matters and control deficiencies so that actions can be taken to improve those controls and the risks can be mitigated to the risk appetite level.

### Risk Management and Corporate Governance

The Audit Committee is required to review the effectiveness of risk management via reviewing the internal control systems (whether internal controls are functioning as intended) and audit systems of the Company and assuring the implementation of the recommendations (if appropriate) made by the auditors. The Audit committee also gives assurance in audit committee report that the company has complied with the section 7.10 of the listing rule of Colombo Stock Exchange.

Risk Management is embedded into the policies and procedures and all employees at the Company accept the need for risk management. Therefore at Asian Alliance risk management is embedded in to the company culture to ensure that it is part of the way we do business. Further, this culture is nurtured by including risk management responsibilities within job descriptions, informing all staff in the organisation of the need for risk management and establishing performance indicators that can monitor risks.

Corporate governance is involved in monitoring the risks, internal controls in relation to those risks and the process of internal audit provides the board the assurances that risks are effectively managed.



### Risk Management Process

Risk Management activities of the Company can be presented by way of diagram as given below:

The board is responsible for developing strategic objectives in congruence with the Company’s vision and mission where every strategy of the Company is directed towards achieving the defined objectives of the company. Therefore our risk management process focuses on managing the impact of risks on company’s current performance and continuous growth.

Our current Risk Management system includes the information on how the risks are indentified, prioritized and managed on a regular basis. Analysis of internal and external environment enables the Company to identify events that may have an adverse impact on achieving defined objectives. Risk Reporting allows management to involve with controlling the downside risks that may threaten the strategic objectives of the Company and identify the likelihood and impact of each risk on defined objectives. Further it enables the management to put immediate attention on risks with high impact and likelihood. Key risks which may have a high impact upon the Company may be reported on a daily basis while less significant risks that have low impact may only be reviewed monthly or quarterly.

Our risk Reporting system include both feed – forward and feed back controls which reflect the anticipation of potential risks as well as evaluation of responses to known ones.

At a strategic level the board would determine the risk appetite and the level of risk that is acceptable for the Company to achieve its strategic objectives which is the basis in developing risk response strategies.

In developing risk response strategies cost benefit analysis (cost of operating the internal controls compared with the benefits obtained in managing the risks) is carried out to ensure the effectiveness of risk response strategies.

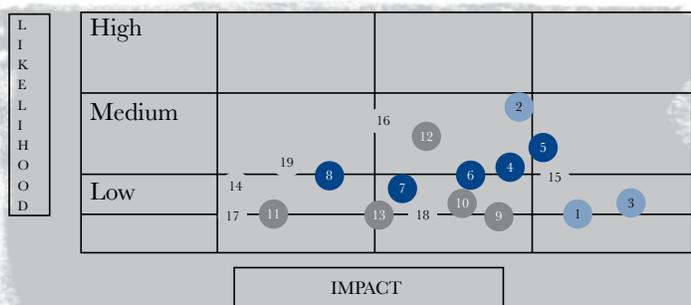
Continuous assessment of the level of “gross risk” prior to the response, and the level of “net” risk post the response is important to identify where it evaluates the effectiveness & adequacy of the response strategies. (E.g. Monthly class wise claim ratio analysis is a good indicator for underwriting and claim management of risks)

Finally it should be noted that it is not possible to entirely eliminate all risks and that some risk must be retained within the company (within the company risk management framework) in order to generate better returns to our shareholders.



The Company categorises (for the effective management of risks) the risks faced by the company in to four main areas.

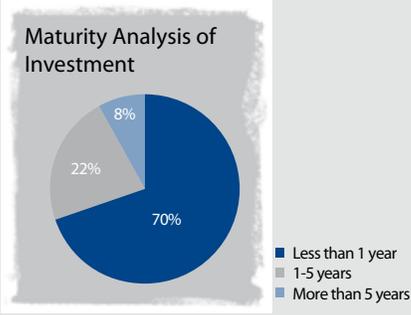
Following table indicates different types of risk face by the Company and risk response strategies developed to mitigate risks.



Types of Risk	Risk Response Strategies
Strategic Risk	
<p><b>1 Corporate Risk</b></p> <p>Relates to the risk of the company failing to achieve its business objectives due to poor understanding of market, competitors, political and other factors affecting the company.</p>	<ul style="list-style-type: none"> <li>• Board involvement to ensure comprehensive strategic plans and constant review of performance to ensure risks are managed and suitable action plans are developed.</li> <li>• Once the objectives and strategies to achieve objectives are set, the management team reviews the risk associated with strategies and develops suitable response strategies.</li> <li>• Continuous scanning of internal and external environment to identify different types of customers and their needs and develop innovative customer need oriented products and factors which may impede the achievement of organisational objectives.</li> <li>• Construct various scenarios in order to identify future changes and adopt strategies to support the most favorable scenario.</li> <li>• Strategic plans of the company are updated on an annual basis in order to remain competitive in the industry.</li> </ul>
<p><b>2 Competition Risk</b></p> <p>Involves the threat to the margins enjoyed by the Company, since it is competing among 19 other entities in the industry and there is potential for several other entities to enter in to the market due to the opportunity to penetrate further in the market.</p>	<ul style="list-style-type: none"> <li>• Understand the competitors objectives, strategies and actions by doing competitor analysis in an ethical way (on a regular basis)</li> <li>• Introducing customised products targeted at niche market segments with special emphasis on true professionalism in all our business activities.</li> <li>• Strictly complying with the code of ethics of the Company in carrying out business activities (professional and ethical manner)</li> <li>• Introduce innovative products to the market with an objective of becoming a unique service provider in the insurance industry while obtaining 1st mover advantage.</li> </ul>
<p><b>3 Regulatory Risk</b></p> <p>This refers to the risk of reputation, negative goodwill, penalty payments or even closure of the business that the Company would face by not complying with the regulations and statutory requirements or the risk of introduction to new laws and regulations or change in existing laws and regulations.</p>	<ul style="list-style-type: none"> <li>• Based on the Company's Compliance grid all the regulatory requirements (IBSL) are assigned to designated staff members in order to comply with the Circular no. 18 (total compliance) issued by the IBSL</li> <li>• The Compliance officer submits his audit findings by way of quarterly report to audit committee and the latter takes corrective actions via management</li> <li>• The Company has obtained an improved rating of BBB - Lanka Rating Agency Ltd on a stand alone basis on the soundness of the insurance operation (claim paying ability of Life and General divisions) for 2010</li> <li>• Regular checking to ensure that all necessary laws, regulations and internal controls have been complied with.</li> <li>• Preparing an up-to-date compliance hand book and educating staff of relevant changes that have been made.</li> </ul>
Insurance Risk	
<p><b>4 Underwriting Risk</b></p> <p>This is the risk of financial loss resulting from the selection of risks to be insured and unfavorable contract clauses.</p>	<ul style="list-style-type: none"> <li>• Clearly defined underwriting procedure manual (Life and General) that considers the underwriting risk, reinsurance risk, claim reserving risk and money laundering risk.</li> <li>• For effective and efficient underwriting (Life division) we have Munch Re Internet Risk Assessor (MIRA)</li> <li>• Provide appropriate training (in house and overseas) to underwriting staff to leverage their skills, knowledge and capabilities in underwriting.</li> <li>• The profit testing of products under pricing assumptions and actual and monthly policy liability valuation helps the Company to monitor the Life Solvency level on a regular basis</li> <li>• The centralised underwriting (effective internal control) for life policies helps the Company to mitigate the money laundering risk exposure</li> <li>• The Manual of Financial Authority (MOFA) limits the authority level applicable to each underwriting staff in relation to underwriting risk</li> <li>• In the case of life insurance, all the new products are subject to Actuary consultant verification and subsequent IBSL approval</li> <li>• Regular review of reinsurance support where underwriting risk exceeds the risk retention limit.</li> </ul>

Types of Risk	Risk Response Strategies
<p><b>5 Reinsurance Risk</b></p> <p>The danger the company faces in falling short of its primary responsibility to policyholders by been exposed to the credit risk of reinsurers.</p>	<ul style="list-style-type: none"> <li>• Reinsurance arrangements with companies who have high credit rating, financially sound and well known in the reinsurance industry.</li> <li>• The Board with the help of management reviews our reinsurance arrangements and ratings to ensure adequate reinsurance support are monitored</li> <li>• 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 (General) are with National Insurance Trust Fund Board as per the requirement in the National Insurance Trust Fund Act, No. 28 of 2006</li> <li>• Examine underwriting result of acceptance periodically and reflect the result in our reinsurance procedure</li> <li>• Monitor reinsurance market trends closely and respond to the changes of the market without delay</li> <li>• The Company avoids over-concentration of risk by establishing retention limits for each product and diversifying balance reinsurance risk through high credit rating reinsurers.</li> <li>• Reinsurer (for the Life division) has also incorporated new Auto acceptance limits for claims in the treaty</li> </ul>
<p><b>6 Claim Settlement Risk</b></p> <p>Refers to the risk of fraud, loss adjustments, litigation when settling claims and the risk of falling short to meet future claims</p>	<ul style="list-style-type: none"> <li>• Clearly defined claims settlement procedure which includes underwriting risk, reinsurance risk and money laundering risk</li> <li>• Customers are advised of any deductibles, excess, adequacy of sum insured (prevent disputes on underinsurance), whether the required covers have been obtained and any risk prevention/minimisation strategies.</li> <li>• under claims settlement risk, authority limits given for approval of claims and the monitoring of loss ratios</li> <li>• Services of third parties loss adjusters, assessors for general insurance and medical specialist for life insurance are sought if necessary with thorough internal claim examination</li> <li>• Providing continuous training for claims management staff to enhance their skills and knowledge in claim settlement</li> <li>• At the point of settling a claim, employees are instructed to verify policy conditions, sum insured &amp; underwriting details.</li> <li>• Any claim in the nature of fraudulent activities may be subject to rejection and or litigation, if necessary</li> </ul>
<p><b>7 Credit Risk</b></p> <p>Refers to the liquidity problem and financial losses the company may face due to the inability of debtors (policy holders) to settle payment in the due period (especially in general insurance).</p>	<ul style="list-style-type: none"> <li>• Complying with the IBSL requirement (Circular No. 25) of 60 days Premium Payment Warranty period</li> <li>• 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</li> <li>• Policy cancellation for the non-payment of premium with the agreed credit period of 90 days (Non- Life division)</li> <li>• Clearly defined provisioning policy for outstanding premium receivable</li> <li>• Clearly defined procedure for legal action for long outstanding debtors</li> <li>• In the case of life insurance, credit risk is low as the premium is accounted on cash basis and normally payments are made before the liability is assumed</li> </ul>
<p><b>8 Reserving Risk</b></p> <p>Relates to inadequate provisioning of reserves for intimated claims and incurred but not reported claims.</p>	<ul style="list-style-type: none"> <li>• Providing appropriate reserves at the time of intimation subject to subsequent verification</li> <li>• Clearly defined claim reserving procedure with frequent review</li> <li>• Clearly defined criterion for initial reserve at the time of the intimation of claim and further reserve adjustment when the claim is finalized</li> <li>• IBNR (Incurred But Not Reported) / IBNER (Incurred But Not Enough Reported) provision is made as per the suggestion of independent Consultant Actuary bi annual basis</li> <li>• We obtain advise from the Actuary Consultant for the Unearned Risk Reserve (URR) at the year end</li> <li>• Life fund is subject to bi-annual review by an independent Consultant Actuary and other quarters are reviewed by our in –house Actuarial team. Further, provisioning of reserves to meet the claims liability is reviewed by the Actuary on a regular basis</li> <li>• Providing continuous training for claims reserving staff to enhance their skills and knowledge in claim reserving procedure.</li> </ul>

Types of Risk	Risk Response Strategies																												
Investment Risk																													
<p><b>9 Credit on Investment</b></p> <p>The cash flow and financial risk that the company faces in engaging in investing activities where parties fall short to pay capital and interest on time.</p>	<ul style="list-style-type: none"> <li>• Investments are made in less risky entities (as approved by the Investment Committee)</li> <li>• At the investment committee meeting, investment report provided by the fund manager is reviewed and suggestions will be made to improve the investment objectives and strategies</li> <li>• The Company's major portion of investments 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)</li> </ul>																												
<p><b>10 Concentration Risk</b></p> <p>It refers to the lack of diversification in the investment portfolio.</p>	<ul style="list-style-type: none"> <li>• Investment Committee reviews the asset allocation of investment portfolio of Life and General division on a regular basis</li> <li>• Investment portfolio of life and general are diversified based on the factors such as regulatory requirements, macro and micro economic environment, external opportunities and liquidity position of the company with the recommendation of Investment Committee</li> <li>• Complying with IBSL requirements in relation to investment itself provides better diversification of investment strategy</li> </ul> <div data-bbox="656 936 1122 1251" style="text-align: center;"> <p><b>Equity Portfolio - Life</b></p> <table border="1"> <caption>Equity Portfolio - Life</caption> <thead> <tr> <th>Category</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Banks, Finance &amp; Insurance</td> <td>49%</td> </tr> <tr> <td>Healthcare</td> <td>25%</td> </tr> <tr> <td>Beverage, Food &amp; Tobacco</td> <td>7%</td> </tr> <tr> <td>Manufacturing</td> <td>14%</td> </tr> <tr> <td>Plantations</td> <td>6%</td> </tr> </tbody> </table> </div> <div data-bbox="656 1356 1122 1671" style="text-align: center;"> <p><b>Equity Portfolio - Non Life</b></p> <table border="1"> <caption>Equity Portfolio - Non Life</caption> <thead> <tr> <th>Category</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Banks, Finance &amp; Insurance</td> <td>77.47%</td> </tr> <tr> <td>Hotels and Travels</td> <td>17%</td> </tr> <tr> <td>Beverage, Food &amp; Tobacco</td> <td>0.91%</td> </tr> <tr> <td>Manufacturing</td> <td>0.63%</td> </tr> <tr> <td>Plantations</td> <td>0.64%</td> </tr> <tr> <td>Telecommunication</td> <td>2.84%</td> </tr> <tr> <td>Diversified</td> <td>0.42%</td> </tr> </tbody> </table> </div> <ul style="list-style-type: none"> <li>• Our investment in government securities are well above the minimum requirement of IBSL regulation</li> </ul>	Category	Percentage	Banks, Finance & Insurance	49%	Healthcare	25%	Beverage, Food & Tobacco	7%	Manufacturing	14%	Plantations	6%	Category	Percentage	Banks, Finance & Insurance	77.47%	Hotels and Travels	17%	Beverage, Food & Tobacco	0.91%	Manufacturing	0.63%	Plantations	0.64%	Telecommunication	2.84%	Diversified	0.42%
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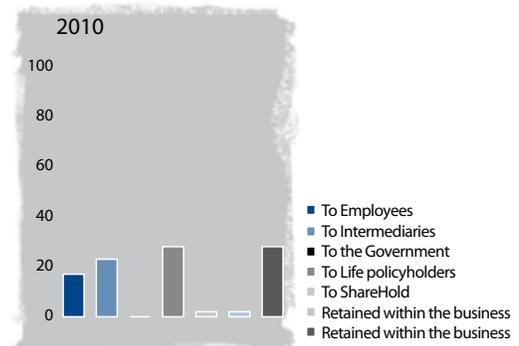
Types of Risk	Risk Response Strategies								
<p><b>11 Liquidity Risk</b></p> <p>It refers to insufficient availability of cash to make payment for claimants and reinsurers and delay in converting investment into cash</p>	<ul style="list-style-type: none"> <li>Major portion of investment is in the form of government securities (liquid investment-Repo) and in the highly liquid listed shares of blue chip companies to meet liquidity of the company</li> <li>Daily cash flow analysis to ensure the availability of liquid funds of Life and General divisions for the working capital management and short term investments</li> </ul>  <p><b>Maturity Analysis of Investment</b></p> <table border="1"> <thead> <tr> <th>Maturity Category</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Less than 1 year</td> <td>70%</td> </tr> <tr> <td>1-5 years</td> <td>22%</td> </tr> <tr> <td>More than 5 years</td> <td>8%</td> </tr> </tbody> </table>	Maturity Category	Percentage	Less than 1 year	70%	1-5 years	22%	More than 5 years	8%
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<p><b>12 Asset and Liability Management Risk</b></p> <p>It arises due to mismatch of duration of the maturity profile of assets and liabilities</p>	<ul style="list-style-type: none"> <li>The Company 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 and complying with solvency margin rules while observing the market interest rates, inflation and external environmental factors.</li> <li>Duration of the investments portfolio are based on type of insurance business i.e. in the case of life insurance business most of the investments are in the form of long term interest of life insurance business and in the case of general insurance business most of the investment are in the form of short term investment</li> </ul>								
<p><b>13 Market Risk</b></p> <p>The prices of invested assets falling due to direct hit of economic factors</p>	<ul style="list-style-type: none"> <li>Monitoring market movements carefully to capitalise on opportunities</li> <li>Investment in instruments on a selective basis having considered the micro and macro economic environment and guide lines given by the Investment Committee</li> <li>This risk is reduced by investing in government securities, corporate debt and listed shares.</li> </ul>								
<b>Operational Risks</b>									
<p><b>14 Socio, Economic &amp; Political Risk</b></p> <p>The risks that the company may experience in carrying out its business activities due to political and environmental turmoil.</p>	<ul style="list-style-type: none"> <li>Socio- economic and political risks are incorporated into financial planning of the Company and monitored on a regular basis</li> <li>Regular SWOT analysis considering the the Company's business strategies, internal and external environment</li> <li>Strengthen underwriting and claims management processes to monitor issues arising from under insurance, fictitious claims etc</li> <li>Periodically review pricing in light of inflation.</li> </ul>								
<p><b>15 IT Risk</b></p> <p>It refers to loss of data from the system due to lack of IT control, operational errors, break down of system due disaster, virus and not providing right information at the right time.</p>	<ul style="list-style-type: none"> <li>The Company has comprehensive IT Security policy and Business continuity plan and periodic awareness program on the same and strictly complying with the same</li> <li>Our Information technology system itself has proper internal controls to mitigate IT related risks</li> <li>New integrated IT system in place i.e. Oracle which provides customised reports on time for decision making</li> <li>Periodic back up facility for confidential data and stored it both on-site and off-site of the Company</li> <li>Internal and external auditors carry out IT System based audits on a regular basis and at the year end</li> <li>Replicate server at SLT – IDC for the back of Life and Non Life system</li> </ul>								

Types of Risk	Risk Response Strategies
<p><b>16 HR Risk</b></p> <p>The costs and performance failure that the company would experience with regard to failure to retain, attract and motivate the right people in the company and experiencing of high staff turn over</p>	<ul style="list-style-type: none"> <li>• Providing continuous training (local and overseas) and relevant knowledge development and encouraging learning culture via effective knowledge management</li> <li>• The company is always keen to have remuneration packages for its staff in line with the industry standard to retain, attract and motivate the relevant staff</li> <li>• Providing appropriate working environment with carrier development</li> <li>• Continuous staff development by providing financial assistance for education and other support</li> <li>• All confirmations, increments, salary revisions, promotion of senior management and succession planning for senior staff based on their contribution, experience and qualification.</li> <li>• Job rotation and job enrichments are provided to promising employees to nurture their knowledge, motivation &amp; take leadership in managing particular functions that shows equal opportunities are available for every employee at the Company who are willing to work hard and smart.</li> </ul>
<p><b>17 Fraud Risk</b></p> <p>The risk of internal control weaknesses leading to a fraudulent actions and mismanagement of assets.</p>	<ul style="list-style-type: none"> <li>• The company has implemented strong control environment with appropriate internal controls and employee code of conduct to be adopted by all employees at the relevant levels</li> <li>• Effective internal control system (Fraud management system) to prevent fraud</li> <li>• Monthly internal audit report by an independent Internal Auditor (M/S Ernst &amp; Young Advisory Services (Pvt) Ltd (highlights the internal control weakness and suggestions to audit committee and subsequently audit committee monitors the implementation of that suggestions</li> <li>• MOFA (Manual of Financial Authority - which is approved by the Board) provides as an internal control device for the authorization of financial transaction after approval of the same</li> <li>• All employees are screened at the time of recruitment and clear disciplinary procedure for fraud may be committed by any staff and any fraud and or misappropriation by the employees and agency members are formally investigated and appropriate actions are taken on time</li> <li>• Any complaint received from customers regarding malpractices or fraud by any employee, is investigated immediately.</li> </ul>
<p><b>18 Reputation Risk</b></p> <p>Relates to the risk of external and internal stakeholders perceiving the company negatively (Impairment of the goodwill of the company due to particular reason)</p>	<ul style="list-style-type: none"> <li>• The Company has effective systems of internal controls which is regularly monitored by the Audit Committee, Internal auditors and the Compliance Officer</li> <li>• The company has the policy of fully compliant with all the laws, regulations and internal controls applicable to Company's operation</li> <li>• All the employees are trained to adopt the culture of the Company of " True Professionalism" in their operations</li> <li>• All the sensitive information are disseminated to public via Colombo stock Exchange</li> <li>• The Company evaluates its operation from the perspective of all stakeholders and taking appropriate actions if there is any shortcomings</li> </ul>
<p><b>19 Money Laundering Risk</b></p> <p>The action of disguising the source of assets in order to avoid detection of the illegal activity from which they were derived.</p>	<p>The Company has designed an Anti Money Laundering Program which includes the following key features :</p> <ul style="list-style-type: none"> <li>• Procedure for identification of different type of customers (KYC – Know Your Customer)</li> <li>• Procedure for identifying suspicious transaction</li> <li>• Analysing the Vulnerability of products to money laundering activities</li> <li>• Designing mitigating strategies for money laundering activities</li> <li>• Record keeping procedure for verification and subsequent reference.</li> <li>• Mandatory reporting to FIU (Financial Intelligence Unit) in respect of transactions over Rs. 1,000,000 (in cash) in relation to premium, claims and refunds</li> <li>• Tracking process to follow up and monitoring of any suspected money launderer.</li> <li>• An automated notifying system to FIU of relevant details in a professional manner.</li> </ul>

## VALUE ADDITION

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

	2011 Rs.' 000	%	2010 Rs.' 000	%	
Net Earned Premium	1,669,134		1,315,796		
Investment and Other Income	60,257		700,771		
Reinsurance Commission Income	119,315		65,286		
	1,848,706		2,081,853		
Net Claims & Benefits	(394,846)		(349,424)		
Cost of External Services	(444,865)		(409,376)		
<b>Value Addition</b>	<b>1,008,995</b>		<b>1,323,053</b>		
<b>Distribution of Value Added</b>					
To Employees	Salaries & Other Benefits	241,853	24%	222,189	17%
To Intermediaries	Insurance Commission	330,733	33%	308,319	23%
To the Government	Taxes	4,411	0%	3,673	0%
To Life policyholders	Increase in Insurance Provision - Life	423,656	42%	368,957	28%
To ShareHolders	Dividends	112,500	11%	32,500	2%
Retained within the business	Depreciation	23,571	2%	19,407	2%
Retained within the business	Revenue Reserves	(127,729)	-12%	368,008	28%
		1,008,995	100%	1,323,053	100%



## EMBEDDED VALUE CERTIFICATE

### 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

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

As Consulting Actuaries to the Asian Alliance Insurance PLC, Colombo-02, Sri Lanka, we have estimated Embedded Value of Life portfolio and Goodwill value of the company as on 1st September 2011.

Embedded Value (EV) provides the estimate of future profits to shareholders from the existing business. EV is calculated at risk discount rate, which is addition of Risk Free Rate plus a rate shareholder's would expect to invest in Insurance business.

Company has four major categories of products namely Endowment, Term Assurance, Premium Relief Plan and Decreasing Term Assurance Plan. Company also have several Rider Benefits and collect sizable amount of Rider Premiums.

Company has supplied us with data in respect of all the in force and paid up policies giving individual details. This data was checked for reasonableness and then processed to arrive at present value of future profits using appropriate assumptions.

Company has also provided us with the financials for last 10 years and share price movements in past six quarters. We had a discussion with the company about the recent growth in investment income and improvement in ratings.

Keeping above in mind and using appropriate assumptions we have estimated the value per share to be Sri Lankan Rupees 122, which includes the value of Goodwill, Free Reserves and Share Capital and Embedded Value from Life business.

*Akshay D. Pandit*

(Akshay Pandit)

ACTUARY

1 November 2011

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**Churchgate** : 2nd. Floor, Churchgate House, Veer Nariman Road, Fort, Mumbai - 400 001. • Fax : (91-22) 2288 3155  
**Offices : Andheri** : 201/C, Remi Bizcourt, Off. Veera Desai Road, Andheri (W), Mumbai-400 058. • Fax : (91-22) 2673 3638  
**Ahmedabad** : 509, Golden Triangle, Near Sardar Patel Stadium, Navrangpura, A'bad - 380 014. • Email : kapabd@vsnl.net

**\*\* PRINTED ON ECO-FRIENDLY PAPER\*\***



**UNDERWRITING RESULT IMPROVED YEAR ON YEAR BY 60% TO RS. 533 MILLION**

**HIGHER NON LIFE REVENUE WAS ACHIEVED WITH 52% OF MOTOR PREMIUM**

**INVESTMENT PORTFOLIO BALANCE INCREASED BY 7% DESPITE THE LOSS IN MARKET VALUE OF INVESTMENTS IN EQUITY.**

**THE COST EFFICIENCY RATIO OF BOTH LIFE AND NON LIFE IMPROVED COMPARED TO PREVIOUS YEAR**

**IN A STRATEGIC MOVE, INVESTMENTS WERE RE-STRUCTURED BY INVESTING PREDOMINANTLY IN BLUE CHIP EQUITIES**

**THE LIFE FUND INCREASED TO RS. 2.3 BILLION AND NON LIFE FUND TO RS. 370 MILLION REFLECTING FINANCIAL STABILITY AND GROWTH.**

## FINANCIAL INFORMATION

Our size, our reach, and the trust that our stakeholders place in us...taken together with the clarity of understanding we bring to our personal and corporate clients' insurance needs - all depend upon our maintaining our response and our strategy.

We know we are a  
rather different  
insurance company...

We have stuck to our strategy. We plan to be the nation's best insurance provider, setting benchmarks in all we do. We work in markets we understand thoroughly, we have long-standing relationships with our clients, selling insurance products we understand and care about.

# Directors' Report

## Preface

The details set out in the following report provide information required by the Companies Act No 07 of 2007 and the listing rules of the Colombo Stock Exchange of Sri Lanka and are guided by recommended best practices on Corporate Governance. This Report was approved by the Board of Directors by resolution passed by circulation as of 21 February 2012.

## General

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 2011 and the Auditors' Report thereon.

## Review of Performance for the year ended 31st December 2011

The operations of the Company for the year ended 31st December 2011 are reviewed in the Chairman's Report.

## Company Activities and structure

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

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

The company commenced Non Life Insurance business on 1st December 1999 & Life Insurance business on 1st April 2000.

During the year the Principal Activity of the Company was to carry out the business of Life & Non Life Insurance.

The major shareholder of the Company is Softlogic Holdings PLC which has a direct holding of 18.53 % and indirect holding of 40.62% which amounts to 59.15% in total as at 31 December 2011

## Directors Responsibility for Financial Reporting

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

The Statement of Directors Responsibility for Financial Reporting is given on Page 103.

The Financial Statements of the Company are given on pages 112 to 142.

## Accounting Policies

The Accounting Policies adopted in preparation of Financial Statements are given on pages 119 to 127 There were no material changes in the Accounting Policies during the year.

## Auditors

The Financial Statements for the year ended 31st December 2011 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 23 on Page 138 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.

## Auditors Report

The Auditors Report on the Financial Statements is given on page No 111.

## Gross Written Premium

The Company has underwritten a total amount of Rs. 2,207,354,041 during the year (2010 - Rs. 1,673,274,144 ) which is made up of Non Life Insurance amounting to Rs. 628,163,419 (2010-Rs. 430,665,748) and Life Insurance amounting to Rs.1,579,190,622 (2010 – Rs. 1,242,608,396).

Financial Results	2011	2010
	Rs' 000	Rs' 000
Profit/(Loss) Before Taxation	(124,008)	370,576
Taxation	(3,721)	(2,568)
Profit/(Loss) After Taxation	(127,729)	368,008
Share Issue Expenses	-	(4,688)
Allocation for Life Solvency	(75,000)	(100,000)
Dividends Paid	(112,500)	(32,500)
Profit / (Loss) Brought Forward	498,360	267,540
Accumulated Profit At the End of the Year	183,131	498,360

## Dividends

The Directors have recommended a final dividend of Rs 2.00 per share for the year ended 31 December 2011, on 21 February 2012.

## Property, Plant and Equipment

An analysis of the Property, Plant and Equipment of the

Company is disclosed in Note No 05 to the Financial Statements on page 130.

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

### **Stated Capital**

The Stated Capital of the Company as at 31 December 2011 was Rs. 1,062,500,000 comprising 37,500,000 fully paid ordinary shares.

### **Donations**

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

### **Capital Commitments**

The Capital Expenditure Commitments as at 31 December 2011 is Nil.

### **Provisions**

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

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

The basis adopted for provisioning is disclosed in Accounting Policy No 2.4.1 & 2.4.2 on pages 123 & 124 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 17 to the Financial Statements on Page 135 and in the Statement of Changes in Equity on Page 114 to the Financial Statements.

### **Provision for Taxation**

The provision for taxation is computed at the rates as disclosed in Note No 25.1 on page 138 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 103.

### **Contingent Liabilities**

There were no material contingent liabilities outstanding as at 31st December 2011.

### **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 events disclosed in Note No 30 to the Financial Statements on Page 142.

### **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 pages 68 to 81.

The Board of Directors is satisfied with the effectiveness of the systems of internal controls for the year under review and up to the date of the Annual Report.

### **Compliance with Rules & Regulations**

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

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

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

The Audit Committee Report is disclosed in Page No 105.

### **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 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 2011 was 443 (2010- 370)

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 Stake Holders and their interest

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

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

### Environmental Protection

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

### Directors during the Year/Changes

The Directors of the Company during the year were as follows:

- o Mr. Asoka K. Pathirage (appointed as a Director with effect from 07.09.2011 and as the Chairman with effect from 15.09.2011 )
- o Mr. J.H.P. Ratnayeke (appointed as the Deputy Chairman with effect from 15.09.2011)
- o Prof. Lakshman R.Watawala
- o Mr. Ramal G. Jasinghe
- o Mr. Sujeewa Rajapakse (appointed with effect from 07.09.2011)
- o Mr. T.M Ifikar Ahamed (appointed with effect from 07.09.2011)
- o Mr. Ranil P. Pathirana (appointed with effect from 07.09.2011)
- o Mr. Suraj N.Fernando (appointed with effect from 07.09.2011)
- o Mr. Mohan Ray Abeywardena (appointed with effect from 28.09.2011)

### Note

Mr. H.L.L.M. Nanayakkara resigned from the Board of Directors with effect from 7 September 2011.

Mr. S.A..Abeyasinghe resigned from the Board of Directors with effect from 7 September 2011.

Mr. R.J.Wickramasinghe resigned from the Board of Directors with effect from 7 September 2011.

Mr. Daya Muthukumarana resigned from the Board of Directors with effect from 7 September 2011.

Mr. Valentine Siva Jr. resigned from the Board of Directors with effect from 8 September 2011

Mr. R.C.D. De Silva resigned from the Board of Directors with effect from 15 September 2011.

Prof. Laksman R.Watawala resigned from the Board of Directors with effect from 31 December 2011

### Rotation of Directors

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

### Re-election of Directors

Messrs. Asoka K. Pathirage, Sujeewa Rajapakse, T.M Ifikar Ahamed, Suraj N. Fernando, Ranil P. Pathirana and Mohan Ray Abeywardena retire in accordance with Article 103 of the Articles of Association of the Company and being eligible, offer themselves for re-election.

### Independent Directors

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

Mr. R.J. Wickramasinghe (resigned with effect from 7 September 2011.)

Mr. R.C.D. De Silva (resigned with effect from 15 September 2011.)

Mr. Sujeewa Rajapakse (appointed with effect from 07.09.2011)  
Mr. Mohan Ray Abeywardena (appointed with effect from 28.09.2011)

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

### Directors Interest Register

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

### Directors Interest in Contracts

Directors interest in contracts both direct and indirect are as follows. The transactions entered with following Companies during the year are disclosed in Note No 28 on page 140.

Name of Director	Position	Company	Relationship
Asoka K. Pathirage T.M. Ifikar Ahamed Ranil P. Pathirana Suraj N. Fernnado	Chairman Director Director Director	Softlogic Holdings PLC	Parent Company
Asoka K. Pathirage	Director	Softlogic InformationSystems Ltd	Group Company of Softlogic Holdings PLC
Asoka K. Pathirage T.M. Ifikar Ahamed	Chairman Director	Softlogic Capital Ltd.	Share Holder Company
Asoka K. Pathirage T.M. Ifikar Ahamed	Chairman Director	Softlogic Finance PLC	Group Company of Softlogic Holdings PLC
Asoka K. Pathirage	Director	Asiri Hospital Holdings PLC	Group Company of Softlogic Holdings PLC
Asoka K. Pathirage	Chairman	Asiri Surgical Hospitals PLC	Group Company of Softlogic Holdings PLC
Asoka K. Pathirage Sujeewa Rajapakse	Deputy Chairman Director	National Development Bank PLC	Director Related Entity
Ranil P. Pathirana	Finance Director	Hidramani Group of Companies	Director Related Entity
J. H. P. Ratnayeke Prof. Lakshman R. Watawala	Director Director	Richard Pieris & Company PLC	Director Related Entity
J. H. P. Ratnayeke	Director	Richard Pieris Distributors Ltd	Director Related Entity
J. H. P. Ratnayeke	Deputy Chairman	Asia Capital PLC	Director Related Entity
J. H. P. Ratnayeke	Chairman	Asia Securities (Pvt) Ltd	Director Related Entity
J. H. P. Ratnayeke	Senior Partner	Paul Ratnayeke Associates	Director Related Entity
J. H. P. Ratnayeke	Chairman	P.R.Secretarial Services (Pvt) Ltd	Director Related Entity

#### Directors' Interest in Shares

Name of The Director	As At 31 December 2011	As At 31 December 2010
Asoka K. Pathirage	Nil	Nil
J. H. P. Ratnayeke	Nil	10,000
Mohan Ray Abeywardena	Nil	Nil
T.M.Ifikar Ahamed	Nil	Nil
Sujeewa Rajapakse	Nil	Nil
Ranil P. Pathirana	Nil	Nil
Suraj N.Fernando	Nil	Nil
Prof. Lakshman R. Watawala	Nil	Nil
Mr. Ramal G. Jasinghe	Nil	Nil

#### Use of Company Information by Directors

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

#### Directors Fees & Remuneration

The amount of the Directors fees & Remuneration paid during the year is Rs. 9,646,674.95

#### Related Party Transactions

The Directors have disclosed the transactions with Related Parties in terms of the Sri Lanka Accounting Standard 30 (SLAS 30), Related Party Disclosures (Revised 2005) in Note No 28 on Page 140.

## Shareholders

The number of registered shareholders' of the Company as at 31st December 2011 was 814.

The distribution and analysis of shareholdings were as follows:

Number of Shares	As At 31st December 2011			As At 31st December 2010		
	No. of Shareholders	No. of Shares	% of Total	No. of Shareholders	No. of Shares	% of Total
1-1000	655	175,491	0.46	421	122,133	0.48
1001-10000	129	380,252	1.01	76	235,200	0.95
10001-100000	23	704,150	1.88	8	202,700	0.82
100001-1000000	4	767,500	2.06	1	625,000	2.50
1000001- & Over	3	35,472,607	94.59	6	23,814,967	95.25
<b>Total</b>	<b>814</b>	<b>37,500,000</b>	<b>100.00</b>	<b>512</b>	<b>25,000,000</b>	<b>100.00</b>

## Resident / Non Resident

	As at 31 December 2011			As at 31 December 2010		
	No of Shareholders	No of Shares	% of Total	No of Shareholders	No of Shares	% of Total
Resident	809	37,484,800	99.96	507	24,981,800	99.02
Non Resident	5	15,200	0.04	5	18,200	0.98
<b>Total</b>	<b>814</b>	<b>37,500,000</b>	<b>100.00</b>	<b>512</b>	<b>25,000,000</b>	<b>100.00</b>

## Individual / Institution

	As at 31 December 2011			As at 31 December 2010		
	No of Shareholders	No of Shares	% of Total	No of Shareholders	No of Shares	% of Total
Individual	758	957,802	2.55	473	424,264	1.70
Institutional	56	36,542,198	97.45	39	24,575,736	98.30
<b>Total</b>	<b>814</b>	<b>37,500,000</b>	<b>100.00</b>	<b>512</b>	<b>25,000,000</b>	<b>100.00</b>

## Annual Report

The Board of Directors approved the Company Financial Statements together with the reviews which forms part of the Annual Report on 21 February 2012. 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.

(Sgd.)

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

On behalf of the Board.

## Annual General Meeting

The Annual General Meeting will be held at 4th Floor, Central Hospital (Pvt) Ltd, 114, Norris Canal Road, Colombo 10 on 26 March 2012 at 10.00 a.m. The notice of Annual General Meeting is given on page 152.

(Sgd.)

**Asoka K. Pathirage**  
Chairman

Colombo  
21 February 2012

(Sgd.)

**Sujeewa Rajapakse**  
Director

# 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 111.

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 112 to 142, 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.

(Sgd.)  
**Asoka K. Pathirage**  
Chairman

(Sgd.)  
**Sujeewa Rajapakse**  
Director

Colombo  
21 February 2012

# 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.

(Sgd.)

**Ramal G. Jasinghe**

Director/CEO

(Sgd.)

**Saliya Wickramasinghe**

Chief Financial Officer

Colombo

21 February 2012

# Audit Committee Report

## Composition

The Audit Committee comprise Mr. Sujeewa Rajapakse (Chairman), Prof. L.R.Watawala and Mr. Suraj Fernando, Non Executive Directors of the Company were appointed by the Board after the Board Committees were re-constituted on 15th September 2011.

The Chairman is a Fellow member of the Chartered Accountants of Sri Lanka and Society of Certified Management Accountants of Sri Lanka. He is the Managing Partner of BDO Partners (formerly known as BDO Burch Harhy) a firm of Chartered Accountants.

## Objectives

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

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

## Meetings

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

## Summary of activities

The Committee carried out the following activities during the year.

- Reviewed the Half Year and Annual Financial Statements of the Company prior to its publication.
- Reviewed the consistency and appropriateness of the

accounting policies adopted by the company to ensure compliance with Sri Lanka Accounting Standards (SLAS)

- Expanded the scope of the 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 action.
- Reviewed the Compliance Report prepared by the Compliance Officer to ensure compliance with Directions of the Insurance Board of Sri Lanka and other regulatory and statutory requirements.

## Internal Audit

The Internal audit function is outsourced to Messrs 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, effectiveness and efficiency of the internal controls and the action taken to mitigate operational and business risks. In addition, they monitor and report on compliance with statutory regulations and the Company's accounting and operational policies. The internal audit representatives are present at Audit Committee meetings during discussions relating to their respective audit reports.

## External Audit

During the year the Committee met with Messrs KPMG, 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 2011 prior to the commencement of the audit.

## Independence of the External Auditors

As far as the Audit Committee is aware, Auditors do not have any relationship (other than that of Auditors) with the Company. The Committee has also received a declaration from Messrs KPMG, Ford, Rhodes, Thornton and Company, as required by the Company's Act No 07 of 2007, confirming that they do not have any relationship with the Company, which may have a bearing on their independence with in

the meaning of the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and Securities & Exchange Commission of Sri Lanka and the Guidelines for Listed Companies on Audit & Audit Committees issued by the Securities Exchange Commission of Sri Lanka. In addition, the lead Audit Partner is rotated for every five years.

### **Provision of Non Audit Services**

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

### **Re appointment of External Auditors**

The Audit Committee has recommended to the Board of Directors that Messrs KPMG Ford, Rhodes, Thornton & Company be reappointed as Auditors for the financial year ending 31 December 2012 subject to the approval of the shareholders at the Annual General Meeting . The Committee has also made its recommendation to the Board with regards to the remuneration 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 organisation 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 criterias pertaining to the segments which are reviewed by the Executive Committee on a monthly basis.

### **Corporate Governance**

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

### **Conclusion**

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

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

(Sgd.)

**Sujeewa Rajapakse**

Chairman, Audit Committee

Colombo

21 February 2012

# Remuneration Committee Report

## Composition and Charter of the Remuneration Committee

The Remuneration Committee comprises Mr. Asoka K Pathirage – Chairman, Mr. J.H.P.Ratnayake, Mr. Ray Abeywardena and Mr. Ranil P. Pathirana Non Executive Directors of the Company.

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

## Remuneration Policy

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

Responsibilities of the Remuneration Committee:

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

- Recommending corporate management appointments to the Board and advising on succession planning.

## Remuneration Committee Meetings

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

## Remuneration Package

### Employees

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

Fixed Component	Variable Component	Other Benefits
Basic Salary	Annual bonus	Insurance Benefits
Travelling Allowance	Production and Quality incentive for Sales & Distribution Management Team	Examinations Loans

### Fixed Components

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

### Variable Components

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

### Other Employee Benefits

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

### Retirement Benefits

There are no retirement benefits to employees other than gratuity.

**Board of Directors**

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

Total fees and remuneration paid to all Directors are disclosed on Note No 28.2.2 page 141.

Non-Executive Directors are not entitled to retirement benefits.

**Share option plans for Directors**

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

**Directors' Shareholding**

The shareholdings of Directors are provided on page 101.

**Personal Loans for Directors**

No Director is entitled for Company loans.

(Sgd.)

**Asoka K. Pathirage**

Chairman - Remuneration Committee

Colombo.

21 February 2012

# 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, 2011

We have carried out an actuarial valuation of the Long Term Insurance Business as at 31 December, 2011. 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, 2011, 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, 2011, exceed the required actuarial reserves as at 31 December, 2011 by Rs. 470.927 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. 108.592 million, including the solvency margin for the new reversionary bonus allotted as at 31 December 2011, and is fully provided for.

**M Poopalanathan**

Actuary

03 February 2012

# 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. MAJUMDAR

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



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**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, 2011.

### (I) IBNR and IBNER Claims Reserves:

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 31-12-2011 to be provided by the Asian Alliance Insurance PLC in respect of its non-life business are estimated as Rs. 15,779,000 equal to 4.54% of the Net Earned Premium of Rs. 347,578,168 as on 31-12-2011. They seem adequate and may be provided accordingly.

### (II) Provision of AURR for the year ended 31-12-2011

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 31-12-2011, we take a view that AURR (as defined above) is not exactly necessary to be provided for the reasons adduced herein below:

As envisaged last year, the Company has turned the corner and shown profit for the year 2010 and 2011. It has started pruning unprofitable businesses with good results. Also 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. There is a margin of over 4% of the NEP in the IBNR/IBNER provision recommended, which can be diverted and considered towards other reserves.

Thus on the basis of facts and figures as also General reasoning and taking a holistic view, no AURR is recommended for the year ended 31-12-2011.

(N. K. Parikh)

(Partner)

Mumbai, India,

24 January 2012

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**\*\* PRINTED ON ECO-FRIENDLY PAPER\*\***

# Independent Auditors' Report



**KPMG Ford, Rhodes, Thornton & Co.**  
(Chartered Accountants)  
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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, 2011, 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 112 to 142 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 policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

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

### Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended December 31, 2011 and the financial statements give a true and fair view of the Company's state of affairs as at December 31, 2011 and its loss 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. Pursuant to Section 47(2) of the Regulation of Insurance Industry Act No.43 of 2000, we also report, so far as appears from our examination, proper accounting records have been maintained as required by the relevant rules made by the Insurance Board of Sri Lanka.

### Chartered Accountants

Colombo, Sri Lanka

21 February 2012

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

A.N. Fernando FCA  
P.Y.S. Perera FCA  
W.W.J.C. Perera FCA  
W.K.D.C. Abeyrathne ACA

M.R. Mihular FCA  
C.P. Jayatilake FCA  
Ms. S. Joseph FCA  
S.T.D.L. Perera FCA

Ms. M. P. Perera FCA  
T.J.S. Rajakarier FCA  
Ms. S.M.B. Jayasekara ACA  
G.A.U. Karunaratne ACA

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

# Balance Sheet

As at 31 December	Notes	Company	
		2011 Rs.'000	2010 Rs.'000
<b>Assets</b>			
Investments	3	4,009,864	3,751,287
Investment Property	4	-	36,750
Property, Plant & Equipment	5	96,365	79,818
Policy Loans & Other Loans	6	60,187	45,879
Reinsurance Receivable		64,593	99,937
Premium Receivable	7	189,998	102,611
Other Assets	8	155,201	139,089
Cash & Cash Equivalents	9	55,192	62,438
<b>Total Assets</b>		<b>4,631,400</b>	<b>4,317,809</b>
<b>Liabilities &amp; Shareholders' Equity</b>			
<b>Liabilities</b>			
Insurance Provision Life	10	2,353,008	1,929,352
Insurance Provision Non-Life	11	370,191	261,206
Provision for Life Solvency		175,000	100,000
Reinsurance Creditors	12	98,273	81,695
Other Liabilities	13	349,844	310,217
Amounts Due to Related Companies	14	-	47,499
Employee Benefits	15	27,863	22,738
Bank Overdraft		11,590	4,242
<b>Total Liabilities</b>		<b>3,385,769</b>	<b>2,756,949</b>
<b>Shareholders' Equity</b>			
Stated Capital	16	1,062,500	1,062,500
Revenue Reserves	17	183,131	498,360
<b>Total Shareholders' Equity</b>		<b>1,245,631</b>	<b>1,560,860</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>		<b>4,631,400</b>	<b>4,317,809</b>

The above balance sheet is to be read in conjunction with the Accounting Policies and Notes to the Financial Statements on Pages 119 to 142.

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

(Sgd.)

**Saliya Wickramasinghe**

Chief Financial Officer

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

Signed for and on behalf of the Board by

(Sgd.)

**Asoka K. Pathirage**

Chairman

(Sgd.)

**Sujeewa Rajapakse**

Director

Colombo

21 February 2012

# Statement of Income

For the year ended 31 December 2011	Notes	Company		Change %
		2011 Rs. ' 000	2010 Rs. ' 000	
<b>Revenue</b>	18.2			
Net Earned Premium		1,669,134	1,315,796	
Income from Investments		50,342	693,023	
Other Income		9,915	7,748	
		1,729,391	2,016,567	-14%
Gross Written Premium		2,207,354	1,673,274	32%
Less : Reinsurance Premium		(424,392)	(352,599)	20%
Net Written Premium		1,782,962	1,320,675	35%
Net Change in Reserve for Unearned Premium	11.1	(113,828)	(4,879)	2233%
Net Earned Premium	18	1,669,134	1,315,796	27%
<b>Benefits, Losses and Expenses</b>				
Increase in Insurance Provision -Life	10.1	(423,656)	(368,957)	15%
Net Insurance Claims & Benefits	19	(394,846)	(349,424)	13%
Net Acquisition Cost	20	(317,184)	(264,524)	20%
<b>Underwriting Result</b>		533,448	332,891	60%
<b>Other Revenue</b>				
Income from Investment	21.1	50,342	693,023	-93%
Other Income	21.2	9,915	7,748	28%
<b>Expenses</b>				
Operating & Administration Expenses	22	(710,315)	(650,950)	9%
<b>Profit/(Loss) From Operations</b>	23	(116,610)	382,712	-130%
Financial Expenses	24	(7,398)	(12,136)	-39%
<b>Profit/(Loss) Before Taxation</b>		(124,008)	370,576	-133%
Income Tax (Expense)/Reversal	25	(3,721)	(2,568)	45%
<b>Net Profit/ (Loss) for the Year</b>		(127,729)	368,008	-135%
<b>Earnings/(Loss) per Share</b>	26	(3.41)	13.73	
<b>Dividends per Share - Proposed</b>	27	2.00	3.00	

The above Statement of Income to be read in conjunction with the Accounting Policies and Notes to the Financial Statements on pages 119 to 142.

# Statement of Changes in Equity

	Stated Capital Rs.'000	Revenue Reserve Rs.'000	Total Rs.'000
<b>Balance as at 1st January 2010</b>	<b>250,000</b>	<b>267,540</b>	<b>517,540</b>
Rights Issue of Shares	812,500	-	812,500
Net Profit for the Year	-	368,008	368,008
Share Issue Expenses		(4,688)	(4,688)
Allocation for Life Solvency	-	(100,000)	(100,000)
Dividend Paid	-	(32,500)	(32,500)
<b>Balance as at 31st December 2010</b>	<b>1,062,500</b>	<b>498,360</b>	<b>1,560,860</b>
Net Profit/(Loss) for the Year	-	(127,729)	(127,729)
Allocation for Life Solvency	-	(75,000)	(75,000)
Dividend Paid	-	(112,500)	(112,500)
<b>Balance as at 31st December 2011</b>	<b>1,062,500</b>	<b>183,131</b>	<b>1,245,631</b>

The above Statement of Changes in Equity to be read in conjunction with the Accounting Policies and Notes to the Financial Statements on pages 119 to 142.

# Cash Flow Statement

For the Year Ended 31st December	Non Life Insurance		Life Insurance		Company	
	2011	2010	2011	2010	2011	2010
	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Premium Received from Customers	616,156	460,539	1,575,476	1,153,741	2,191,633	1,614,280
Reinsurance Premium Paid	(113,124)	(113,652)	(166,351)	(186,017)	(279,475)	(299,669)
Claims Paid	(299,344)	(477,580)	(193,952)	(172,472)	(493,296)	(650,052)
Reinsurance Receipt in respect of Claims	16,985	175,109	95,650	68,249	112,635	243,358
Cash paid to and on behalf of employees	(119,260)	(112,502)	(160,467)	(144,602)	(279,727)	(257,104)
Salvage income	15,265	14,911	-	-	15,265	14,911
Fund Transfer to Non Life division	200,000	253,610	(200,000)	(253,610)	-	-
Reimbursement of Overhead Expenditure from life	135,922	73,767	(135,922)	(73,767)	-	-
Operating Cash Payments	(398,079)	(183,664)	(551,381)	(412,197)	(949,461)	(595,861)
<b>Cash Inflow/(Outflow)from Operating Activities (Note A)</b>	54,521	90,538	263,053	(20,675)	317,574	69,863
Tax paid	(4,411)	(3,673)	-	-	(4,411)	(3,673)
Interest Paid	(616)	(1,247)	(15)	(48)	(631)	(1,295)
<b>Net Cash flows from Operating Activities</b>	49,494	85,618	263,038	(20,723)	312,532	64,895
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Purchase of Investments	(3,451,010)	(2,973,779)	(4,157,120)	(2,711,257)	(7,608,130)	(5,685,036)
Sale of Investments	3,487,459	2,089,325	3,682,969	2,540,810	7,170,428	4,630,135
Sale of Investment Property			38,000		38,000	
Interest & Dividend income received	61,099	59,940	164,095	208,580	225,194	268,520
Purchase of Property, Plant & Equipment	(14,882)	(22,562)	(25,236)	(12,183)	(40,118)	(34,745)
Proceeds on Sale of Property, Plant & Equipment	-	3,387	-	-	-	3,387
<b>Net Cash flows from Investing Activities</b>	82,666	(843,689)	(297,292)	25,950	(214,626)	(817,739)
<b>Net Cash Flows before Financing Activities</b>	132,160	(758,071)	(34,254)	5,227	97,906	(752,844)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>						
Proceeds from Issuance of Shares	-	812,500	-	-	-	812,500
Share Issue Expenses	-	(4,688)	-	-	-	(4,688)
Dividend Paid	(112,500)	(32,500)	-	-	(112,500)	(32,500)
<b>Net Cash from/(used in) Financing Activities</b>	(112,500)	775,312	-	-	(112,500)	775,312
<b>Net Increase/(Decrease) in Cash and Cash Equivalents (Note B)</b>	19,660	17,241	(34,254)	5,227	(14,594)	22,468

For the year ended 31st December	Non Life Insurance		Life Insurance		Company	
	2011 Rs. ' 000	2010 Rs. ' 000	2011 Rs. ' 000	2010 Rs. ' 000	2011 Rs. ' 000	2010 Rs. ' 000
<b>A. Reconciliation of operating profit with Cash Flows Operating Activities</b>						
Profit/(Loss) before Taxation	(124,008)	370,576	-	-	(124,008)	370,576
Increase in Insurance Provision - Life	-	-	423,656	368,957	423,656	368,957
Depreciation Charges	8,325	5,883	15,246	13,524	23,571	19,407
Provision for Retirement Benefits	685	5,557	5,060	2,998	5,745	8,555
Retirement Benefit Paid	(503)	(356)	(117)	(114)	(620)	(470)
Interest Paid	616	1,247	15	48	631	1,295
Interest & Dividend Income	(80,242)	(60,105)	(222,634)	(217,353)	(302,876)	(277,458)
Realised Capital (Gain)/Loss	108,241	(81,715)	(102,808)	(109,488)	5,433	(191,203)
Unrealised Capital (Gain)/Loss	167,634	(144,563)	81,917	(78,899)	249,551	(223,462)
Profit on Sale of Investment Property	-	-	(1,250)	-	(1,250)	-
Profit on Sale of Fixed Assets	-	(2,307)	-	-	-	(2,307)
(Increase) / Decrease in Debtors and Other Assets	(129,836)	(83,863)	(16,732)	2,517	(146,568)	(81,346)
Increase / (Decrease) in Non-Life Insurance Provision	108,984	(14,396)	-	-	108,984	(14,396)
Increase / (Decrease) in Creditors & Accruals	(5,375)	94,580	80,700	(2,865)	75,325	91,715
Cash Inflow/(Outflow) from Operating Activities	54,521	90,538	263,053	(20,675)	317,574	69,863
<b>B. Increase in Cash and Cash Equivalents</b>						
Cash In Hand & at Bank.	43,375	16,367	11,817	46,071	55,192	62,438
Bank Overdraft	(11,590)	(4,242)	-	-	(11,590)	(4,242)
Net cash & cash equivalents as at 31st December 2011	31,785	12,125	11,817	46,071	43,602	58,196
Net cash & cash equivalents as at 31 December 2010	12,125	(5,116)	46,071	40,844	58,196	35,728
Increase / (Decrease) in Cash and Cash Equivalents	19,660	17,241	(34,254)	5,227	(14,594)	22,468

# Statement of Income - Segment Review

For the year ended 31st December	Notes	Non Life Insurance		Life Insurance		Company	
		2011	2010	2011	2010	2011	2010
		Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000
Gross Written Premium		628,163	430,666	1,579,191	1,242,608	2,207,354	1,673,274
Reinsurance Premium		(166,757)	(147,927)	(257,635)	(204,672)	(424,392)	(352,599)
Net Written Premium		461,406	282,739	1,321,556	1,037,936	1,782,962	1,320,675
Net Change in reserves for Unearned Premium	11.1	(113,828)	(4,879)	-	-	(113,828)	(4,879)
Net Earned Premium	18	347,578	277,860	1,321,556	1,037,936	1,669,134	1,315,796
Non-Life Insurance Losses & Loss							
Adjustment expenses	19	(271,300)	(246,348)	-	-	(271,300)	(246,348)
Life insurance benefit	19	-	-	(123,546)	(103,076)	(123,546)	(103,076)
Increase in Insurance Provision - Life	10.1	-	-	(423,656)	(368,957)	(423,656)	(368,957)
Net Acquisition cost	20	(25,958)	(16,733)	(291,226)	(247,791)	(317,184)	(264,524)
<b>Total Benefit &amp; Losses</b>		(297,258)	(263,081)	(838,428)	(719,824)	(1,135,686)	(982,905)
<b>Underwriting Results</b>		50,320	14,779	483,128	318,112	533,448	332,891
Income/(Loss) From Investment	21.1	(195,633)	286,383	245,975	406,640	50,342	693,023
Other Income	21.2	-	2,307	9,915	5,441	9,915	7,748
Operating & Administration Expenses	22	(176,442)	(180,373)	(533,873)	(470,577)	(710,315)	(650,950)
<b>Profit/(Loss) From Operations</b>	23	(321,755)	123,096	205,145	259,616	(116,610)	382,712
Financial Expenses	24	(2,253)	(6,130)	(5,145)	(6,006)	(7,398)	(12,136)
<b>Profit/(Loss) Before Taxation</b>		(324,008)	116,966	200,000	253,610	(124,008)	370,576
Income Tax Expense	25	(3,721)	(2,568)	-	-	(3,721)	(2,568)
<b>Net Profit/(Loss) for the Year</b>		(327,729)	114,398	200,000	253,610	(127,729)	368,008

# Balance Sheet-Segment Review

As at 31st December	Notes	Non Life Insurance		Life Insurance		Company	
		2011 Rs. ' 000	2010 Rs. ' 000	2011 Rs. ' 000	2010 Rs. ' 000	2011 Rs. ' 000	2010 Rs. ' 000
<b>Assets</b>							
Investments	3	1,484,267	1,796,591	2,525,597	1,954,696	4,009,864	3,751,287
Investment Property	4	-	-	-	36,750	-	36,750
Property, Plant & Equipment	5	39,942	33,386	56,423	46,432	96,365	79,818
Policy Loans & Other Loans	6	592	1,223	59,595	44,656	60,187	45,879
Reinsurance Receivable		60,827	96,319	3,765	3,618	64,593	99,937
Premium Receivable	7	189,998	102,611	-	-	189,998	102,611
Other Assets	8	171,622	73,216	82,724	98,398	155,201	139,089
Cash & Cash Equivalents	9	43,375	16,367	11,817	46,071	55,192	62,438
<b>Total Assets</b>		<b>1,990,623</b>	<b>2,119,713</b>	<b>2,739,921</b>	<b>2,230,621</b>	<b>4,631,400</b>	<b>4,317,809</b>
<b>Liabilities &amp; Shareholders' Equity</b>							
<b>Liabilities</b>							
Insurance Provision Life	10	-	-	2,353,008	1,929,352	2,353,008	1,929,352
Insurance Provision Non-Life	11	370,191	261,206	-	-	370,191	261,206
Provision for Life Solvency		175,000	100,000	-	-	175,000	100,000
Reinsurance Creditors	12	54,854	47,369	43,419	34,326	98,273	81,695
Other Liabilities	13	119,100	84,462	329,888	258,280	349,844	310,217
Amounts due to Related Companies	14	-	47,499	-	-	-	47,499
Employee Benefits	15	14,257	14,075	13,606	8,663	27,863	22,738
Bank overdaft		11,590	4,242	-	-	11,590	4,242
<b>Total Liabilities</b>		<b>744,992</b>	<b>558,853</b>	<b>2,739,921</b>	<b>2,230,621</b>	<b>3,385,769</b>	<b>2,756,949</b>
<b>Shareholders' Equity</b>							
Stated Capital	16	1,062,500	1,062,500	-	-	1,062,500	1,062,500
Revenue Reserves	17	183,131	498,360	-	-	183,131	498,360
<b>Total Shareholders' Equity</b>		<b>1,245,631</b>	<b>1,560,860</b>	<b>-</b>	<b>-</b>	<b>1,245,631</b>	<b>1,560,860</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>		<b>1,990,623</b>	<b>2,119,713</b>	<b>2,739,921</b>	<b>2,230,621</b>	<b>4,631,400</b>	<b>4,317,809</b>

# Notes to the Financial Statements

## 1.1 Reporting Entity

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

The Company's parent undertaking is Soflogic Holdings PLC.

## 1.2 Principal Activity

The Company is engaged in the business of Insurance.

## 2 Summary of Significant Accounting Policies

### 2.1 Basis of Preparation

#### 2.1.1 Statement of Compliance

The financial statements have been prepared and approved by the Directors in accordance with Sri Lanka Accounting Standards (SLASs), 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 and amendments thereto. The formats and disclosures where applicable are also in accordance with the Statement of Recommended Practice for Insurance Contracts (SORP), issued by the Institute of Chartered Accountants of Sri Lanka.

The Financial Statements of Asian Alliance Insurance PLC for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the Board of Directors on 21 February 2012.

#### 2.1.2 Responsibility for Financial Statement

The Board of Directors is responsible for the preparation and presentation of the financial statements in accordance with the Companies Act No.07 of 2007.

#### 2.1.3 Basis of Measurement

The financial statements are presented in Sri Lankan rupees rounded to the nearest thousand and prepared on the historical cost convention, except for the investments in equity shares which are recorded at Market Value and Investment Properties are measured at cost at the time of acquisition.

The company balance sheet represents the assets, liabilities and equity of the general insurance business and life insurance business. The life insurance balance sheet represents the assets and liabilities of the life insurance fund. The statement of income reflects the underwriting results of general insurance business, surplus from life insurance business and investment and other income of the general insurance business as well as the life insurance business.

#### 2.1.4 Functional and presentation currency

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

#### 2.1.5 Use of Estimates & Judgements

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

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

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

Critical Accounting Estimate/Judgement	Disclosure Reference	
	Note	Page
Insurance Provision - Life	10	133
Unearned Premium	11.1	133
Deferred Acquisition Cost	11.2	133
Provision for Gross Outstanding Claims	11.3	133
Provision for IBNR/IBNER	11.4	133
Provision for Retirement Benefits	15	134
Deferred Taxation – Utilisation of Losses	25.3	139

**2.1.6. Materiality and Aggregation**

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

**2.1.7. Consistency of Accounting Policies**

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

**2.1.8. Foreign Currency Transactions**

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

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

**2.2. Assets and basis of their Valuation**

**2.2.1. Investments**

**a) Investments in Trading Equity Shares**

Investments made in equity shares with the intention of disposing in the near future are 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, treasury bonds and repurchase agreements are stated at cost and interest is accrued up to the year end.

**c) Investment in Debt Instruments and Bank Deposits**

Investments 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, duties 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.

**2.2.2. Investment Property**

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

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

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

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

is transferred to retained earnings. Any loss arising in this manner is recognized in profit or loss immediately.

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

### 2.2.3. Property Plant and Equipment

#### a) **Recognition and measurement**

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

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

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

#### b) **Gains and losses on disposal**

Gains and losses on disposal of an item of Property, Plant and Equipment are determined by comparing the proceeds from disposal with the carrying amount of Property, Plant and Equipment, and are recognised net within "other income/other expenses" in profit or loss.

#### c) **Subsequent 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.

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

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

#### e) **Capital Work-in-Progress**

Capital work-in-progress is stated at cost. These are expenses of a capital nature directly incurred in the installation of financial application system.

#### f) **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.

#### g) **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. Major inspection costs are capitalized. At each such capitalization, the remaining carrying amount of the previous cost of inspections is derecognized.

#### 2.2.4. Trade and Other Receivables

##### a) Premiums Receivables

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 valued at the lower of cost and net realisable value, after making due allowances for obsolete and slow moving items. Cost is determined on a weighted average basis. Net realisable value is the price at which inventories can be sold in the ordinary course of business.

#### 2.2.6. Cash & Cash Equivalents

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

#### 2.2.7. Impairment of Assets

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

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future

cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessment of the time value of money and risks specific to the asset or cash generating unit.

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

### 2.3. Liabilities and Provisions

#### 2.3.1. Provisions

Provisions are recognised 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 net off with commission income due to reinsurance in respect of the reinsurance contracts that are entered into by the Company.

#### 2.3.3. Taxation

##### a) Current Taxes

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

##### b) Deferred Taxation

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit.

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

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference 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.

#### 2.3.4. Employee Benefits

##### a) **Defined Benefit Plan- Gratuity**

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; and discounting that benefit to determine its present value. The calculation is performed annually by a qualified independent actuary using the projected unit credit (PUC) method as recommended by Sri Lanka Accounting Standard No. 16 - Employee Benefits.

The actuarial gains and losses are charged or credited to income statement in the period in which they arise.

The assumptions based on which the results of the actuarial valuation was determined, are included in Note 15 to the financial statements on page 135.

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

The provision is not externally funded.

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

A defined contribution plan is a post employment plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay a further amount. Obligations for contributions to Provident Fund under the Provident Fund Act No. 15 of 1958 as amended and Trust Fund under the

Trust Fund Act No. 46 of 1980 covering all employees, are recognised as an employee benefit expense in profit and loss when they are due.

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

##### 2.3.5. **Proposed Dividends**

Dividend proposed / declared by the Board of Directors after the balance sheet date is not recognised as a liability and is disclosed as a note to the financial statements.

##### 2.3.6. **Stated Capital**

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

#### 2.4. **Statement of Income**

##### 2.4.1. **Non – Life (General) Insurance Business**

###### a) **Gross Written Premiums**

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 premiums**

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, incurred but not reported claims (IBNR), incurred but not enough reported (IBNER) and the anticipated direct and indirect costs of settling those claims. Claims outstanding are assessed by review of individual claim files and estimating changes in the ultimate cost of settling claims, The provision in respect of IBNR & IBNER is actuarially valued 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.

**2.4.2. Life (long term) Insurance Business**

**a) Gross Written Premiums**

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 reserves/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 policyholder 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.

**2.4.3. Investment Income Recognition**

**a) Interest**

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

**b) Dividends**

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

**c) Other Income**

Other income is recognised on an accrual basis

**2.4.4. Borrowing Costs**

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

**2.4.5. 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.

**2.4.6. Operating lease payments**

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

**2.4.7. 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. 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.

**2.4.8. Earnings Per Share**

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

**2.4.9. Cash Flow Statements**

The cash flow statement has been prepared using the direct method. Interest received, interest paid and dividend received are classified as operating cash flows while dividends paid is classified as financing cash flow. For cash flow purposes, cash and cash equivalents are presented net of bank overdrafts.

**2.4.10 Commitments and Contingencies**

Contingencies are possible assets or obligations that arise from a past event and would be confirmed only on the occurrence or non-occurrence of uncertain future events, which are beyond the Company's control. Contingent liabilities are disclosed in Note 29.2 to the Financial Statements on page 142. Commitments are disclosed in Note 29.1 to the Financial Statements on page 142.

**2.4.11 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 30 to the Financial Statements on Page 142.

**2.4.12 New Accounting Standards issued but not Effective as At Balance Sheet Date**

The Institute of Chartered Accountants of Sri Lanka has issued a new framework and Sri Lanka Accounting Standards which will become applicable from 1st January 2012.

Accordingly these Standards have not been applied in preparing these Financial Statements as they were not effective for the year ended 31st December 2011. These Sri Lanka Accounting Standards comprise Accounting Standards prefixed both SLFRS (corresponding to IFRS) and LKAS (corresponding to IAS).

The Company has carried out a preliminary assessment of the gaps between the present Standards and the ones. The key impact areas are set out below:

- SLFRS 4 requires insurance companies to carry out a product classification exercise to see whether all insurance products are within the purview of the standard or should be treated as investment products. The Company carried out the product classification exercise required under SLFRS 4 and have concluded that all the existing Life products are Insurance Contracts as defined under SLFRS 4.
- A liability adequacy test is required to ensure that the measurement of liabilities has considered all gross contractual cash flows, using current estimates. The Company has not yet implemented this process.
- Renewal Premium for Life Insurance contracts to be accounted on Accrual Basis which is currently recognised on cash basis.
- The Company will have to classify all its investments as required under these standards in to one of the categories below;
  - Financial asset at fair value through profit or loss (FVTPL)
  - Held-to-maturity investments (HTM)
  - Loans and receivables (L&R)
  - Available-for-sale financial assets (AFS)

Consequently the measurement criteria would also change to fair value or amortised cost.

- Staff loans and loans offered at concessional interest rates will be stated at fair value and any difference arising on fair value measurement will be amortised over the term of the loan.

The Company has not quantified the differences that may arise due to the adoption of the above and all other SLASs which come into effect on 1 January 2012.

#### 2.4.13 Comparative Information

The comparative information is re-classified wherever necessary to conform with the current year's presentation in order to provide a better presentation. The details of restatements are disclosed in Note 31 to the Financial Statements on page 142.

## 2.5. 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. Further quantitative disclosures are included throughout these financial statements. 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's, 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 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 its restricted funds in liquid securities and only with counterparties that have a credit rating of at least BBB (1k) 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 15.5% 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.
- Losses equivalent to the value of Rs. 1mn arising from any individual asset through marking to market equity and government securities portfolios to be notified immediately to the Investment Committee for deliberation and decision making.

For the year ended	Notes	Non Life Insurance		Life Insurance		Company	
		2011	2010	2011	2010	2011	2010
		Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000
<b>3 Investments</b>							
Sri Lanka Government Securities	(3.1)	371,898	889,184	1,033,580	1,113,759	1,405,478	2,002,943
Investment in Quoted Shares	(3.2)	1,071,804	687,762	468,791	471,938	1,540,595	1,159,700
Investment in Debentures	(3.3)	-	-	354,676	310,062	354,676	310,062
Term Deposit		40,565	19,776	668,550	58,937	709,115	78,713
Commercial Papers	(3.4)	-	199,869	-	-	-	199,869
		1,484,267	1,796,591	2,525,597	1,954,696	4,009,864	3,751,287
<b>3.1 Sri Lanka Government Securities</b>							
Treasury Bonds		50,537	51,608	470,910	903,425	521,447	955,033
Repos		321,361	779,671	562,670	138,452	884,031	918,123
Treasury Bills		-	57,905	-	71,882	-	129,787
		371,898	889,184	1,033,580	1,113,759	1,405,478	2,002,943

	No. of Shares	2011	No. of Shares	2010
		Market Value Rs' 000		Market Value Rs' 000
<b>3.2 Investment in Quoted Shares</b>				
<b>Non- Life</b>				
<b>Banks, Finance &amp; Insurance</b>				
Commercial Bank PLC	130,000	13,000	-	-
Hatton National Bank PLC	86,000	13,012	-	-
National Development Bank PLC	5,732,200	791,617	-	-
Nations Trust Bank PLC	-	-	189,100	15,789
Sampath Bank PLC	65,000	12,675	-	-
Seylan Bank PLC (Non Voting)	-	-	1,557,400	76,002
<b>Diversified</b>				
Aitken Spence PLC	108,000	13,003	-	-
John Keells PLC	1,000,000	170,200	-	-
<b>Manufacturing</b>				
Dipped Products PLC	64,200	6,837	180,000	21,600
Lanka Wall Tiles PLC	-	-	338,700	46,774
Royal Ceramics Lanka PLC	-	-	850,100	259,195
Tokyo Lanka Cement PLC	-	-	2,788,600	112,382
<b>Beverage, Food and Tobacco</b>				
Bairaha Farms PLC	120,900	25,425	-	-
Cargills Ceylon PLC	6,000	1,218	-	-
Distilleries Company of Sri Lanka	-	-	500,000	89,000
Lion Breweries Ceylon PLC	20,000	3,800	40,000	7,520
<b>Telecommunications</b>				
Dialog Telecom PLC	868,600	6,775	5,000,000	59,500
<b>Hotels and Travels</b>				
Aitken Spence Hotel Holdings PLC	65,100	4,524	-	-
<b>Plantations</b>				
Namunukula Plantations PLC	149,500	9,718	-	-
<b>Total</b>		1,071,804		687,762

	No. of Shares	2011 Market Value Rs' 000	No. of Shares	2010 Market Value Rs' 000
<b>3.2 Investment in Quoted Shares (Contd.)</b>				
<b>Life</b>				
<b>Banks, Finance &amp; Insurance</b>				
Asia Capital PLC	1,463,100	94,224	2,191,500	103,000
Hatton National Bank PLC (Voting)	27,000	4,085	-	-
Hatton National Bank PLC (Non Voting)	170,450	14,181	638,800	136,958
National Development Bank PLC	908,500	125,464	-	-
Seylan Bank PLC (Non Voting)	350,000	10,780	350,000	17,080
<b>Manufacturing</b>				
Dipped Products PLC	756,800	80,599	756,800	90,816
Royal Ceramics Lanka PLC	271,800	38,460	285,900	87,170
<b>Beverage, Food and Tobacco</b>				
Lion Breweries Ceylon Ltd	196,400	37,316	196,400	36,914
<b>Health Care</b>				
Asiri Hospital Holdings PLC	5,000,000	43,000	-	-
Asiri Surgical Hospitals PLC	1,034,800	8,175	-	-
<b>Plantations</b>				
Namunukula Plantations PLC	192,400	12,507	-	-
<b>Total</b>		<b>468,791</b>		<b>471,938</b>

	2011			2010		
	Face Value Rs' 000	Carrying Value Rs' 000	Market Value Rs' 000	Face Value Rs' 000	Carrying Value Rs' 000	Market Value Rs' 000
<b>3.3 Investment in Debentures</b>						
<b>Life</b>						
<b>Quoted</b>						
Sampath Bank PLC - Floating	25,000	25,000	25,000	25,000	25,000	25,000
Nations Trust Bank PLC - 20.53%	40,000	40,000	40,000	40,000	40,000	40,000
Singer Sri Lanka PLC - 19.75%	9,000	9,676	9,000	9,000	10,062	9,000
LB Finance PLC - 24%	15,000	15,000	14,956	15,000	15,000	14,956
Lanka Orix Leasing Company PLC 11.7%	45,000	45,000	45,000	-	-	-
	<b>134,000</b>	<b>134,676</b>	<b>133,956</b>	<b>89,000</b>	<b>90,062</b>	<b>88,956</b>
<b>Non Quoted</b>						
Peoples Leasing Co. PLC-14.25%	70,000	70,000	-	70,000	70,000	-
Commercial Leasing PLC - 13%	70,000	70,000	-	70,000	70,000	-
Merchant Bank of Sri Lanka PLC -13%	80,000	80,000	-	80,000	80,000	-
	<b>220,000</b>	<b>220,000</b>	<b>-</b>	<b>220,000</b>	<b>220,000</b>	<b>-</b>
<b>Total</b>	<b>354,000</b>	<b>354,676</b>	<b>-</b>	<b>309,000</b>	<b>310,062</b>	<b>-</b>

	Non Life Insurance		Life Insurance		Company	
	2011	2010	2011	2010	2011	2010
	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000
<b>3.4 Investment in Commercial Papers</b>						
Asia Capital PLC- 12.5%	-	199,869	-	-	-	199,869
	-	199,869	-	-	-	199,869
<b>4 Investment Property</b>						
Balance as at 1 January 2011	-	-	36,750	36,750	36,750	36,750
Acquisitions	-	-	-	-	-	-
Change in Fair Value	-	-	-	-	-	-
Disposal	-	-	(36,750)	-	(36,750)	-
Balance as at 31 December 2011	-	-	-	36,750	-	36,750

	Non-Life Insurance		Life Insurance		Company	
	2011	2010	2011	2010	2011	2010
	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000
<b>5 Property Plant &amp; Equipment - Freehold</b>						
Net Book Value	39,942	33,386	56,423	46,432	96,365	79,818
	39,942	33,386	56,423	46,432	96,365	79,818

	Computer Hardware	Computer Software	Office Equipment	Furniture & Fittings	Fixtures & Fittings	Motor Vehicles	Total
	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000
<b>5.1 Non-Life Insurance</b>							
<b>Cost</b>							
Balance as at 1 January 2011	19,783	12,118	6,415	7,405	7,343	4,105	57,169
Additions during the Year	5,563	22,408	1,008	877	2,626	-	32,482
Disposals/Transfers	-	-	-	-	-	-	-
<b>Balance as at 31 December 2011</b>	<b>25,346</b>	<b>34,526</b>	<b>7,423</b>	<b>8,282</b>	<b>9,969</b>	<b>4,105</b>	<b>89,651</b>
<b>Depreciation</b>							
Balance as at 1 January 2011	13,934	9,785	4,690	4,415	6,514	2,096	41,434
Depreciation Charge for the Year	2,690	2,865	722	509	513	1,026	8,325
Disposal/Transfers	-	-	-	-	-	-	-
<b>Balance as at 31 December 2011</b>	<b>16,624</b>	<b>12,650</b>	<b>5,412</b>	<b>4,924</b>	<b>7,027</b>	<b>3,122</b>	<b>49,759</b>
<b>Carrying Value</b>							
As at 31 December 2011	8,722	21,876	2,011	3,358	2,942	983	39,892
As at 31 December 2010	5,849	2,333	1,725	2,990	829	2,009	15,735

	Computer Hardware Rs. ' 000	Computer Software Rs. ' 000	Office Equipment Rs. ' 000	Furniture & Fixtures & Fittings Rs. ' 000	Fixtures & Fittings Rs. ' 000	Motor Vehicles Rs. ' 000	Total Rs. ' 000
<b>5.2 Life Insurance</b>							
<b>Cost</b>							
Balance as at 1 January 2011	18,003	24,007	28,887	26,341	34,993	-	132,231
Additions during the Year	2,096	645	5,210	4,728	12,558	-	25,237
Disposals/Transfers	-	-	-	-	-	-	-
<b>Balance as at 31 December 2011</b>	<b>20,099</b>	<b>24,652</b>	<b>34,097</b>	<b>31,069</b>	<b>47,551</b>	<b>-</b>	<b>157,468</b>
<b>Depreciation</b>							
Balance as at 1 January 2011	12,389	23,836	18,039	11,553	19,982	-	85,799
Depreciation Charge for the Year	2,114	70	4,384	2,630	6,048	-	15,246
Disposal/Transfers	-	-	-	-	-	-	-
<b>Balance as at 31 December 2011</b>	<b>14,503</b>	<b>23,906</b>	<b>22,423</b>	<b>14,183</b>	<b>26,030</b>	<b>-</b>	<b>101,045</b>
<b>Carrying Value</b>							
<b>As at 31 December 2011</b>	<b>5,596</b>	<b>746</b>	<b>11,674</b>	<b>16,886</b>	<b>21,521</b>	<b>-</b>	<b>56,423</b>
<b>As at 31 December 2010</b>	<b>5,614</b>	<b>171</b>	<b>10,848</b>	<b>14,788</b>	<b>15,011</b>	<b>-</b>	<b>46,432</b>

	Balance as at 01.01.2011 Rs. ' 000	Incurred During the Year Rs. ' 000	Transferred Rs. ' 000	Balance as at 31.12.2011 Rs. ' 000
<b>5.3 In the Course of Construction</b>				
IT System Work in Progress	17,651	8,893	(26,494)	50
	17,651	8,893	(26,494)	50

**5.4** Property, Plant & Equipment includes fully depreciated assets having a gross carrying amount of Rs. 90,801,440 (2010-Rs. 75,947,650)

	Non-Life Insurance		Life Insurance		Company	
	2011 Rs. ' 000	2010 Rs. ' 000	2011 Rs. ' 000	2010 Rs. ' 000	2011 Rs. ' 000	2010 Rs. ' 000
<b>6 Policy Loans &amp; Other Loans</b>						
Loans granted to employees (6.1)	592	1,223	138	74	730	1,297
Loans granted to policy holders (6.2)	-	-	59,457	44,582	59,457	44,582
	592	1,223	59,595	44,656	60,187	45,879
<b>6.1 Loans to Employees</b>						
Balance as at 01 January	1,223	841	74	128	1,297	969
Loans granted during the Year	1,327	2,081	1,806	1,353	3,133	3,434
	2,550	2,922	1,880	1,481	4,430	4,403
Repayment during the Year	(1,958)	(1,699)	(1,742)	(1,407)	(3,700)	(3,106)
Balance as at 31 December	592	1,223	138	74	730	1,297
<b>6.2 Loans to Life Policy Holders</b>						
Balance as at 01 January	-	-	44,582	30,484	44,582	30,484
Loans granted during the Year	-	-	18,925	18,879	18,925	18,879
Interest Accrued	-	-	9,914	5,441	9,914	5,441
	-	-	73,421	54,804	73,421	54,804
Repayment during the Year (10,222)	-	-	(13,964)	(10,222)	(13,964)	(10,222)
Balance as at 31 December	-	-	59,457	44,582	59,457	44,582



## 10 Insurance Provision Life

The valuation of the long term Insurance business as at 31.12.2011, was made by Mr. M. Poopalanathan, AIA of Actuarial & Management Consultants (Pvt) Ltd for and on behalf of Asian Alliance Insurance PLC.

In accordance with the Consultant Actuary's Report, the sum of provision Rs. 2,353 Mn includes the liability in respect of Policy holders' 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. 30.498 Mn has been created for the purpose of any future bonus and contingencies by the Actuary.

Actuary recommended to transfer Rs. 200 Mn to Share holders

	2011 Rs. ' 000	2010 Rs. ' 000
<b>Actuarial Assumptions</b>		
Interest Rate	7.5%	6.5%
Mortality Table Used	A67/70	A67/70
<b>10.1 Movement in Insurance provision - Life</b>		
Balance as at 1 January	1,929,352	1,560,395
Increase in Life fund (gross)	423,656	368,957
Balance as at 31 December	2,353,008	1,929,352
<b>11 Insurance Provision -Non-Life</b>		
Reserve for net unearned premiums (11.1)	293,827	179,999
Reserve for net deferred acquisition cost (11.2)	(22,591)	(14,462)
Reserve for Gross Outstanding Claims (11.3)	83,176	81,104
Reserve for IBNR & IBNER (11.4)	15,779	14,565
	370,191	261,206
<b>11.1 Reserve for net unearned premiums</b>		
Balance as at 1st January	179,999	175,120
Transfers during the year	113,828	4,879
Balance as at 31st December	293,827	179,999
<b>11.2 Reserve for net deferred acquisition cost</b>		
Balance as at 1st January	(14,462)	(10,062)
Transfers during the year	(8,129)	(4,400)
Balance as at 31st December	(22,591)	(14,462)
<b>11.3 Reserve for gross outstanding claims</b>		
Balance as at 1st January	81,104	97,069
Transfers during the year	302,455	456,684
Claims approved during the year	(300,383)	(472,649)
Balance as at 31st December	83,176	81,104
<b>11.4 Reserve for IBNR &amp; IBNER</b>		
Balance as at 1st January	14,565	13,475
Transfers during the year	1,214	1,090
Balance as at 31st December	15,779	14,565
<b>11.5 Reconciliation between Insurance Provision and Technical Reserve</b>		
Non Life Insurance Provision	370,191	261,206
Reinsurance Receivable on Claims Outstanding	(46,270)	(63,087)
<b>Technical Reserve</b>	<b>323,921</b>	<b>198,119</b>

The above Non Life Insurance Provision Rs.370,190,712 as at 31.12.11 includes the claims incurred but not reported reserve (IBNR) and claims incurred but not enough reported (IBNER) reserve that have been certified by independent consultants actuaries M/S K.A.Pandit of Mumbai, India. According to the actuary certificate dated 24 January 2012, the IBNR & IBNER reserve as at 31 December 2011 is Rs.15,779,000 which is equal to 4.54% of Net Earned Premium of Rs. 347,578,167 as at 31st December 2011.

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.

	Non-Life Insurance		Life Insurance		Company	
	2011 Rs.'000	2010 Rs.'000	2011 Rs.'000	2010 Rs.'000	2011 Rs.'000	2010 Rs.'000
<b>12 Re-insurance Creditors</b>						
Reinsurance Creditors	54,854	47,369	43,419	34,326	98,273	81,695
	54,854	47,369	43,419	34,326	98,273	81,695
<b>13 Other Liabilities</b>						
Commission Payable	47,449	25,096	68,256	60,124	115,705	25,096
Claims Payable (13.1)	1,812	773	94,731	76,026	96,543	76,799
Current A/C with Non-Life	-	-	99,145	32,525	-	-
Premium Deposit & Other	-	-	42,264	46,223	42,264	46,223
Tax & Other Statutory Payables	15,712	1,848	-	1,215	15,712	3,063
Accruals & Others	54,127	56,745	25,492	42,167	79,620	159,036
	119,100	84,462	329,888	258,280	349,844	310,217
<b>13.1 Movement of Claims Payable</b>						
Balance as at 1 January	773	5,704	76,026	65,606	76,799	71,310
Claims Approved during the year	300,383	472,649	212,657	182,892	513,040	655,541
Claims Paid during the year	(299,344)	(477,580)	(193,952)	(172,472)	(493,296)	(650,052)
Balance as at 31 December	1,812	773	94,731	76,026	96,543	76,799
<b>14 Amounts Due to Related Companies</b>						
<b>Relationship</b>						
Asia Securities(Pvt) Ltd Affilate	-	45,562	-	-	-	45,562
Asia Capital PLC Parent Co	-	1,937	-	-	-	1,937
	-	47,499	-	-	-	47,499
<b>15 Employee Benefits</b>						
Balance as at 1 January	14,075	8,874	8,663	5,779	22,738	14,653
Provisions made during the year	685	5,557	5,060	2,998	5,745	8,555
	14,760	14,431	13,723	8,777	28,483	23,208
Payments during the year	(503)	(356)	(117)	(114)	(620)	(470)
Balance as at 31 December	14,257	14,075	13,606	8,663	27,863	22,738

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

The actuary's valuation of the defined benefit obligation was carried out by 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.

## 15 Employee Benefits (Contd.)

	2011 Rs.'000	2010 Rs.'000
<b>Movement in the present value of the defined benefit obligations</b>		
Defined benefit obligations at 1 January	22,738	14,653
Interest Cost	2,324	1,758
Current service costs	3,236	5,542
Benefits paid by the plan	(620)	(470)
Actuarial (gains)/ losses	185	1,255
Defined benefit obligations at 31 December	27,863	22,738
<b>Expense recognised in Profit/ (Loss)</b>		
Current service costs	3,236	5,542
Interest Cost	2,324	1,758
Actuarial Losses	185	1,255
	5,745	8,555
<b>The expense is recognised in the following line items in the Statement of Income:</b>		
Staff expenses	5,745	8,555

### Actuarial assumptions

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

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

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

	Company	
	2011 Rs.'000	2010 Rs.'000
<b>16 Stated Capital</b>		
37,500,000 fully paid ordinary shares	1,062,500	1,062,500
Balance as at 1 January	1,062,500	250,000
Issued during the Year	-	812,500
Balance as at 31 December	1,062,500	1,062,500

## 17 Revenue Reserves

	Revenue Reserve Rs.'000
Balance as at 1 January 2010	267,540
Net Profit for the Year	368,008
Share Issue Expenses	(4,688)
Allocation for Life Solvency	(100,000)
Dividend paid	(32,500)
Balance as at 31 December 2010	498,360
Net Profit/(Loss) for the Year	(127,729)
Allocation for Life Solvency	(75,000)
Dividend paid	(112,500)
<b>Balance as at 31 December 2011</b>	<b>183,131</b>

	Non-Life Insurance		Life Insurance		Company	
	2011 Rs. ' 000	2010 Rs. ' 000	2011 Rs. ' 000	2010 Rs. ' 000	2011 Rs. ' 000	2010 Rs. ' 000
<b>18 Net Earned Premium</b>						
<b>Gross Written Premium</b>						
First Year Premium	-	-	499,337	379,118	499,337	379,118
Renewal Premium	-	-	1,062,949	846,829	1,062,949	846,829
Group Life Premium	-	-	9,953	7,151	9,953	7,151
Single Premium	-	-	6,952	9,510	6,952	9,510
Fire	94,710	81,958	-	-	94,710	81,958
Marine	41,010	24,767	-	-	41,010	24,767
Miscellaneous	163,003	94,552	-	-	163,003	94,552
Motor	329,440	229,389	-	-	329,440	229,389
	628,163	430,666	1,579,191	1,242,608	2,207,354	1,673,274
<b>Reinsurance</b>	(166,757)	(147,927)	(257,635)	(204,672)	(424,392)	(352,599)
<b>Net Written Premium</b>	461,406	282,739	1,321,556	1,037,936	1,782,962	1,320,675
(Increase) / Decrease in Unearned Premium	(113,828)	(4,879)	-	-	(113,828)	(4,879)
<b>Net Earned Premium</b>	347,578	277,860	1,321,556	1,037,936	1,669,134	1,315,796

	Company	
	2011 Rs. ' 000	2010 Rs. ' 000
<b>18.1 Annualised New Business Premium</b>		
Individual Policies	739,402	599,801
<b>18.2 Revenue</b>		
Gross Written Premium	2,207,354	1,673,274
Reinsurance Premium	(424,392)	(352,599)
Net Written Premium	1,782,962	1,320,675
(Increase)/Decrease in Unearned Premium	(113,828)	(4,879)
Net Earned Premium	1,669,134	1,315,796
Income from Investment	50,342	693,023
Other Income	9,915	7,748
<b>Total Revenue</b>	1,729,391	2,016,567
<b>Insurance Revenue Accounts</b>		
<b>18.2.1 Non-Life Insurance Revenue Account</b>		
<b>Gross Written Premium</b>	628,163	430,666
Net Earned Premium	347,578	277,860
Net Benefit Payment	(271,300)	(246,348)
Net Acquisition cost	(25,958)	(16,733)
Expenses	(178,695)	(186,503)
<b>Net Underwriting Result</b>	(128,375)	(171,724)
Investment & Other Income	(195,633)	288,690
<b>Net Profit / (Loss) for the Year</b>	(324,008)	116,966
<b>18.2.2 Life Insurance Revenue Account</b>		
<b>Gross Written Premium</b>	1,579,191	1,242,608
Net Earned Premium	1,321,556	1,037,936
Net Benefit Payment	(123,546)	(103,076)
Net Acquisition Cost	(291,226)	(247,791)
Expenses	(539,018)	(476,583)
<b>Net Underwriting Result</b>	367,766	210,486
Investment & Other Income	255,890	412,081
<b>Surplus from Life Insurance before Transfers</b>	623,656	622,567
Transfer to Insurance Provision - Life	(423,656)	(368,957)
<b>Transfer to Shareholders Fund</b>	200,000	253,610

	Non-Life Insurance		Life Insurance		Company	
	2011	2010	2011	2010	2011	2010
	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000
<b>19 Insurance Claim &amp; Benefit - Net</b>						
Gross Claims Incurred	307,373	459,079	165,175	150,688	472,548	609,767
Policy Maturities	-	-	19,929	2,227	19,929	2,227
Policy Surrenders	-	-	28,118	40,603	28,118	40,603
Reinsurance Recoveries	(22,443)	(199,417)	(89,676)	(90,442)	(112,119)	(289,859)
Salvage Value	(13,630)	(13,314)	-	-	(13,630)	(13,314)
	271,300	246,348	123,546	103,076	394,846	349,424
<b>20 Underwriting &amp; Net Acquisition Cost</b>						
Net policy acquisition cost	31,419	21,534	296,110	241,208	327,529	262,742
Increase in Deferred Acquisition Expenses	(8,129)	(4,400)	-	-	(8,129)	(4,400)
Other insurance related cost	2,668	(401)	(4,884)	6,583	(2,216)	6,182
	25,958	16,733	291,226	247,791	317,184	264,524
<b>21 Investment Income &amp; Other Income</b>						
<b>21.1 Investment Income</b>						
Interest Income on government securities and other money market instruments	45,750	55,272	201,622	211,166	247,372	266,438
Dividend Income	34,492	4,833	21,012	6,187	55,504	11,020
Realised Capital Gain/ (Loss) on Quoted Shares	(108,241)	81,715	48,415	109,488	(59,826)	191,203
Un realised Capital Gain/ (Loss) on Quoted Shares	(167,634)	144,563	(81,917)	78,899	(249,551)	223,462
Realised Capital Gain/ (Loss) on Treasury Bonds	-	-	54,393	-	54,393	-
Rental Income on Investment Property	-	-	1,200	900	1,200	900
Profit on Sale of Investment Property	-	-	1,250	-	1,250	-
	(195,633)	286,383	245,975	406,640	50,342	693,023
<b>21.2 Other Income</b>						
Profit on sale of fixed Assets	-	2,307	-	-	-	2,307
Interest on Policy Loans	-	-	9,914	5,441	9,914	5,441
Other Interest Income	-	-	1	-	1	-
	-	2,307	9,915	5,441	9,915	7,748
<b>22 Other Operating and Administration Expenses</b>						
Staff Expenses (22.1)	77,744	72,659	164,109	149,530	241,853	222,189
Administration Expenses	78,182	90,657	250,517	220,412	328,699	311,069
Publicity & Business Promotion	20,516	17,057	119,247	100,635	139,763	117,692
	176,442	180,373	533,873	470,577	710,315	650,950
<b>22.1 Staff Expenses</b>						
Salaries & Wages	60,933	55,046	121,920	106,789	182,853	161,834
EPF & ETF	7,848	6,739	15,317	13,181	23,166	19,920
Gratuity	685	5,557	5,060	2,998	5,745	8,555
Others	8,278	5,317	21,812	26,562	30,089	31,880
	77,744	72,659	164,109	149,530	241,853	222,189
<b>22.2 Number of Employees</b>						
As at the end of the Financial Year					443	370

	Non-Life Insurance		Life Insurance		Company	
	2011 Rs. ' 000	2010 Rs. ' 000	2011 Rs. ' 000	2010 Rs. ' 000	2011 Rs. ' 000	2010 Rs. ' 000
<b>23 Profit from Operations</b>						
Profit from Operations for the year is stated after charging following Expenses						
Depreciation	8,325	5,883	15,246	13,524	23,571	19,407
Auditors' Remuneration - Audit	375	330	875	770	1,250	1,100
- Non Audit	19	19	44	44	63	63
Legal Fees	1,542	1,215	486	1,365	2,028	2,580
Management Fees	4,761	25,919	2,782	5,811	7,543	31,730
<b>24 Financial Expenses</b>						
Bank Interest	616	1,247	15	48	631	1,295
(Gain) \ Loss on Exchange	(120)	1,058	-	-	(120)	1,058
Bank Charges	1,757	3,825	5,130	5,958	6,887	9,783
	2,253	6,130	5,145	6,006	7,398	12,136

	Company	
	2011 Rs. ' 000	2010 Rs. ' 000
<b>25 Income Tax Expense</b>		
<b>Current Income Tax</b>		
Current Tax Expense on Ordinary Activities for the Year	-	-
(Charge) / Reversal of Previous Year Economic Service Charge	(3,721)	(2,568)
<b>Deferred Income Tax</b>		
Deferred Taxation (Charge)/ Reversal	-	-
	(3,721)	(2,568)

	Non-Life Insurance		Life Insurance		Company	
	2011 Rs. ' 000	2010 Rs. ' 000	2011 Rs. ' 000	2010 Rs. ' 000	2011 Rs. ' 000	2010 Rs. ' 000
<b>25.1 Numerical Reconciliation Between Tax Charge and the product of Accounting Profit multiplied by the applicable tax rate</b>						
Accounting Profit/( Loss)	(324,008)	116,966	200,000	253,610		
Aggregate Disallowed Items	313,040	92,576	80,565	75,864		
Aggregate Allowable Expenses	(13,131)	(5,405)	(466,320)	(513,248)		
Aggregate Allowable Income	(34,626)	(233,419)	-	-		
Taxable Profit/(Loss)	(58,725)	(29,282)	(185,755)	(183,774)	(244,480)	(213,056)
Tax Losses Brought Forward					(2,264,959)	(2,051,903)
Tax Loss Carried Forward					(2,509,439)	(2,264,959)
Statutory Tax Rate					28%	35%
Current Income Tax Expense					Nil	Nil

**25.2** The Company is liable to income tax at the rate of 28% of its taxable profit. However no provision is made in view of the tax loss. The tax loss carried forward as at 31st December 2011 is Rs. 2,059,439,427 (2010 is Rs. 2,264,959,609)

	Company	
	2011 Rs. ' 000	2010 Rs. ' 000
<b>25.3 Deferred Tax Assets &amp; Liabilities</b>		
<b>Unrecognised Deferred Tax Assets</b>		
Deferred Tax Assets have not been recognised in respect of following items		
Tax Losses Carried Forward	2,509,439	2,264,959
Employee Benefits	27,863	22,738
Total Deductible Temporary Differences	2,537,302	2,287,697
Unrecognised Deferred Tax Assets	710,445	640,555

#### **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 profit 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.

Property, Plant & Equipments	18,812	16,913
Total Taxable Temporary Differences	18,812	16,913
Unrecognised Deferred Tax Liabilities	5,267	4,736

#### **25.4 Economic Service Charges**

Economic Service Charges (ESC) is accounted under taxes, which is recoverable from the annual tax payments. An amount of Rs.17,820,594 is shown as ESC Recoverable.

ESC (Charged) / Reversal	(3,721)	(2,568)
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An amount of Rs.3,720,768 is written off to the Statement of Income as unrecoverable taxes as per the tax legislations.

#### **25.5 Notional Tax Credit**

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

Notional Tax Credit	119,810	104,177
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	Company	
	2011 Rs. ' 000	2010 Rs. ' 000
<b>26 Earnings/(Loss) Per Share</b>		
<b>Basic Earnings/ (Loss) per Share</b>		
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.		
Profit Attributable to Ordinary Share Holders	(127,729)	368,008
No of Ordinary Shares	37,500	37,500
Earnings/(Loss) Per Share	(3.41)	13.73

	Company	
	2011 Rs. ' 000	2010 Rs. ' 000
<b>27 Dividends per Share</b>		
The dividend per share is calculated by dividing the dividend proposed, by the number of ordinary shares in issue.		
Final Dividend - (Rs. 000)	75,000	112,500
No of Ordinary Shares	37,500	37,500
Dividends Per Share	2.00	3.00

**28 Related Party Disclosures**

**28.1 Transactions with Group Companies and Director related entities**

Company	Relationship	Nature of Transaction	2011 Rs.'000	2010 Rs.'000
Softlogic Holdings PLC	Softlogic Holdings PLC owns 18.53% of the Company's issued Share Capital	Insurance Placed Claims Incurred	6,964 356	- -
Softlogic Capital Ltd	Softlogic Capital Ltd owns 76.06% of the Company's issued Share Capital	No Transactions	- -	- -
Softlogic Information Technologies (Pvt) Ltd	Group Company of Softlogic Holdings PLC	Purchase of Fixed Assets	1,592	-
Services (Pvt) Ltd				
Uni Walkers (Pvt) Ltd	do	Purchase of Fixed Assets	403	-
Softlogic Finance PLC	do	Investments in Fixed Deposits Interest Income	100,000 3,066	- -
Asiri Hospital Holdings PLC	do	Investments in Equity Shares Dividend Income Received	43,000 422	- -
Asiri Surgical Hospitals PLC	do	Investments in Equity Shares	8,175	-
Asia Capital PLC	Asia Capital PLC owns 44.3% of the Company's issued share capital up to the date of 12 August 2011	Insurance Placed Claims Incurred Management Fees Paid Investments in Equity Shares Investments in Commercial Papers	1,802 1,224 7,543 - -	1944 344 31,730 103,000 225,000
Asia Fort Sri Lanka Direct Investment Fund Ltd	Asia Fort Sri Lanka Direct Investment Fund Ltd owns 34.45% of the Company's issued share capital upto the date of 12 August 2011	No Transactions		
Asia Assets Finance Ltd	Group Co. of Asia Capital PLC	Insurance Placed Claims Incurred Purchase of Investment Property Sale of Investment Property	642 301 - 38,000	1,378 460 36,750 -
Asia Securities (Pvt) Ltd	Group Co. of Asia Capital PLC	Insurance Placed Claims Incurred Share Brokerage Charges incurred	126 15 6,755	87 89 15,481
Asia Siyaka Commodities (Pvt) Ltd	Group Co. of Asia Capital PLC	Insurance Placed Claims Incurred	3,975 638	5,317 1,371
Investor Access Asia (Pvt) Ltd	Group Co. of Asia Capital PLC	Insurance Placed Claims Incurred	547 -	14 37
Asia Tea Pacakging (Pvt) Ltd	Group Co. of Asia Capital PLC	Rental Income	1,200	900

## 28 Related Party Disclosures (Contd.)

### 28.1 Transactions with Group Companies and Director related entities

Company	Relationship	Nature of Transaction	2011	2010
			Rs.'000	Rs.'000
Richard Pieris & Co.PLC	Richard Pieris & Co.PLC owns 15% of the Company's issued share capital up to the date of 10 October 2011	Insurance Placed	19,094	35,304
		Claims Incurred	12,119	26,385
Richard Pieris Distributors Ltd	Richard Pieris Distributors Ltd owns 10% of the Company's issued share capital up to the date of 10 October 2011	Insurance Placed	57	2,906
		Claims Incurred	623	1,821
Arpico Interiors (Pvt Ltd)	Group Co. of Richard Pieris & Co.PLC	Purchase of Fixed Assets	1,035	1,502
		Insurance Placed	54	145
		Claims Incurred	-	198

**28.1.1** The Amounts Due From and Amounts Due to above related parties are disclosed in Note No.7.2 and 14 respectively.

### 28.2 Transactions with Key Management Personnel

**28.2.1** 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.

	Company	
	2011 Rs. ' 000	2010 Rs. ' 000
Short Term Benefits	33,203	43,284
Long Term Benefits	14,508	13,091
	47,711	56,375
<b>28.2.2 Directors' Fees &amp; Remuneration</b>	9,647	11,353

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

Company	Relationship	Nature of Transaction	2011	2010
			Rs. ' 000	Rs. ' 000
National Development Bank PLC	Director Related Entity	Investments in Equity Shares	917,081	-
		Dividend Income Received	22,176	-
Paul Rathnayake Associates	Director Related Entity	Insurance Placed	291	-
		Legal Fees Paid	229	702
P.R.Secretarial Services	Director Related Entity	Secretarial Fees paid	698	368
Hidramani Group of Companies	Director Related Entity	Insurance Placed	1,544	-
Ceat Kelany Holdings Ltd	Director Related Entity	Insurance Placed	-	197
		Claims Incurred	-	187

**29 Commitments & Contingencies**

**29.1 Capital Expenditure Commitments**

The Company does not have significant Capital Expenditure commitments as at the Balance Sheet date.

**29.2 Contingent Liabilities**

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

**30 Events occurring after the Balance Sheet Date**

There were no material events occurring after the balance sheet date which require adjustments or disclosure in the Financial Statements, except for the following:

**30.1** The Directors have proposed a final dividend of Rs. 2.00 per share for the Year Ended 31 December 2011, on 21 February 2012.

**30.2 Decline in Market Values of Investments**

Subsequent to the Balance Sheet Date, there were unusual large changes in share prices and the market values of investments have declined. Due to the above, unrealized losses on price fluctuation for the Company as at 21 February 2012 is Rs. 188.6 million.

**31 Comparative Informations**

The comparative information have been reclassified wherever necessary to confirm to the current year presentation.

# Ten Years Performance

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
	Rs. ' 000									
<b>Non Life Insurance</b>										
<b>Statement of Income</b>										
<b>Gross Written Premium</b>	628,163	430,666	496,749	459,771	383,590	417,679	353,281	310,401	271,097	287,074
Net Earned Premium	347,578	277,860	312,552	243,614	207,089	173,892	139,168	120,036	90,037	90,149
Net Insurance Claims & Benefits	(271,300)	(246,348)	(275,552)	(183,734)	(151,867)	(115,671)	(100,588)	(89,354)	(53,991)	(61,048)
Net Commission	(34,087)	(21,133)	(7,805)	5,604	30,621	25,132	34,940	23,382	29,599	25,611
Net Deferred Acquisition Cost	8,129	4,400	15,881	4,723	(1,827)	(4,387)	(2,375)	(3,649)	2,034	(4,231)
<b>Underwriting Results</b>	50,320	14,779	45,076	70,207	84,016	87,740	71,145	50,415	67,679	50,481
Investment & Other Income	(195,633)	288,690	87,279	59,214	33,630	21,473	23,864	15,261	16,324	12,790
Expenses	(178,695)	(186,503)	(180,248)	(158,275)	(118,453)	(107,104)	(86,728)	(64,809)	(75,122)	(80,666)
<b>Operating Profit / (Loss) for the Year</b>	(324,008)	116,966	(47,893)	(28,854)	(807)	2,109	8,281	867	8,881	(17,395)
<b>Life Insurance</b>										
<b>Statement of Income</b>										
<b>Gross Written Premium</b>	1,579,191	1,242,608	1,009,031	970,077	890,793	747,934	577,695	421,681	274,440	162,143
Net Earned Premium	1,321,556	1,037,936	843,499	811,449	742,835	631,386	468,317	334,701	226,281	126,525
Net Insurance Claims & Benefits	(123,546)	(103,076)	(87,529)	(48,902)	(38,942)	(32,730)	(9,443)	(7,267)	(9,012)	(762)
Net Acquisition Cost	(291,226)	(247,791)	(165,536)	(155,619)	(164,653)	(139,939)	(129,155)	(112,062)	(92,701)	(53,540)
<b>Underwriting Results</b>	906,784	687,069	590,434	606,928	539,240	458,717	329,719	215,372	124,568	72,223
Investment & Other Income	255,890	412,081	311,527	173,898	122,487	54,674	22,667	10,415	6,604	4,197
Expenses	(539,018)	(476,583)	(350,534)	(305,249)	(233,125)	(182,334)	(156,957)	(149,181)	(114,370)	(100,814)
<b>Operating Surplus before Transfer to Insurance Provision - Life</b>	623,656	622,567	551,427	475,577	428,602	331,058	195,429	76,606	16,802	(24,394)
Transfer from \ (to) Shareholder's Fund	(200,000)	(253,610)	(195,000)	(160,000)	(115,241)	(66,091)	(20,000)	-	2,806	42,566
<b>Transfer to Insurance Provision - Life</b>	423,656	368,957	356,427	315,577	313,361	264,966	175,429	76,606	19,608	18,172
<b>Company Statement of Income</b>										
<b>Gross Written Premium</b>	2,207,354	1,673,274	1,505,780	1,429,848	1,274,383	1,165,613	930,976	732,082	545,537	449,217
Net Profit \ (Loss) Before Taxation	(124,008)	370,576	147,107	131,146	114,434	68,200	28,281	866	6,075	(59,961)
Taxation	(3,721)	(2,568)	(2,329)	4,258	(1,138)	2,568	(2,568)	(2,331)	-	-
<b>Net Profit \ (Loss) After Taxation</b>	(127,729)	368,008	144,778	135,404	113,296	70,768	25,713	(1,465)	6,075	(59,961)

# Ten Year Balance Sheet Summary

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000					
<b>Company</b>										
<b>Assets</b>										
Investment	4,009,864	3,751,287	2,314,576	1,787,010	1,457,673	924,700	564,050	325,321	201,431	132,874
Investment Property	-	36,750	-	-	-	-	-	-	-	-
Property Plant & Equipment	96,365	79,818	65,564	54,136	33,948	30,249	34,458	44,288	64,210	66,690
Policy Loans & Other Loans	60,187	45,879	31,453	13,915	6,655	1,884	1,317	5,142	18,736	30,979
Reinsurance Receivable	64,593	99,937	41,041	45,940	283,975	485,915	93,305	171,535	156,540	163,141
Premium Receivable	189,998	102,611	74,517	105,926	78,078	96,267	58,555	65,344	49,615	53,453
Other Assets	155,201	139,089	152,872	103,291	57,251	52,627	36,119	21,294	20,454	39,136
Cash & Cash Equivalents	55,192	62,438	52,140	30,507	21,713	26,272	20,414	26,827	26,100	5,947
<b>Total Assets</b>	<b>4,631,400</b>	<b>4,317,809</b>	<b>2,732,163</b>	<b>2,140,725</b>	<b>1,939,293</b>	<b>1,617,914</b>	<b>808,218</b>	<b>659,751</b>	<b>537,086</b>	<b>492,220</b>
<b>Liabilities &amp; Shareholders' Equity</b>										
<b>Liabilities</b>										
Insurance Provision - Life	2,353,008	1,929,352	1,560,395	1,203,968	888,391	575,030	310,064	134,635	58,026	38,417
Insurance Provision - Non Life	370,191	261,206	275,602	246,139	431,004	611,062	167,855	273,674	194,486	199,576
Provision for Life Solvency	175,000	100,000	-	-	-	-	-	-	-	-
Reinsurance Creditors	98,273	81,695	87,192	55,654	91,923	59,620	82,275	61,325	86,137	62,940
Other Liabilities	349,844	310,217	248,007	206,877	248,222	194,112	129,751	80,026	50,994	95,122
Amounts due to Related Companies	-	47,499	12,362	2,976	1,884	2,451	13,932	21,207	23,469	1,518
Interest bearing Borrowings	-	-	-	-	-	578	2,157	13,053	48,102	32,757
Employee Benefits	27,863	22,738	14,653	10,871	9,213	7,201	5,092	4,452	3,029	1,768
Bank Over Draft	11,590	4,242	16,412	10,180	-	-	-	-	-	-
<b>Total Liabilities</b>	<b>3,385,769</b>	<b>2,756,949</b>	<b>2,214,623</b>	<b>1,736,665</b>	<b>1,670,637</b>	<b>1,450,054</b>	<b>711,126</b>	<b>588,372</b>	<b>464,243</b>	<b>432,098</b>
<b>Shareholders' Equity</b>										
Stated Capital	1,062,500	1,062,500	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000
Reserve for Long Term Insurance Fund	-	-	-	-	-	-	-	7,354	7,354	5,479
Preliminary & Pre Operational Expenses	-	-	-	-	-	-	-	-	-	(6,646)
Revenue Reserves	183,131	498,360	267,540	154,060	18,656	(82,140)	(152,908)	(185,975)	(184,511)	(188,711)
<b>Total Shareholders' Equity</b>	<b>1,245,631</b>	<b>1,560,860</b>	<b>517,540</b>	<b>404,060</b>	<b>268,656</b>	<b>167,860</b>	<b>97,092</b>	<b>71,379</b>	<b>72,843</b>	<b>60,122</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>4,631,400</b>	<b>4,317,809</b>	<b>2,732,163</b>	<b>2,140,725</b>	<b>1,939,293</b>	<b>1,617,914</b>	<b>808,218</b>	<b>659,751</b>	<b>537,086</b>	<b>492,220</b>

# 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

**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).

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

**Net Loss Ratio - Non-Life**

A formula used by insurers to relate net claims incurred to net earned premium (i.e. after deducting relevant reinsurances).

**Net Written Premium**

Gross written premium less reinsurance premium payable.

**Net Claims Incurred**

Claims incurred less reinsurance recoveries.

**Net Asset Value per share (NAV)**

$$\frac{\text{Net Assets}}{\text{No. of Ordinary Shares}}$$

**Non-medical Limit**

The maximum face value of a policy that a given Company will issue without the applicant taking a medical examination.

**Non-participating Business**

Life Insurance business where policyholders are not entitled to share in the surplus of the relevant life fund.

**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.

**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 13th Annual General Meeting of ASIAN ALLIANCE INSURANCE PLC will be held on 26th March, 2012 at 10.00 a.m. at 4th Floor, Central Hospital (Pvt) Ltd, 114, Norris Canal Road, Colombo 10.

## AGENDA

1. To read the notice convening the meeting.
2. To receive and consider the Report of the Directors on the State of Affairs of the Company and the Statement of Audited Accounts for the year ended 31st December, 2011 and the Report of the Auditors thereon.
3. To declare a final dividend as recommended by the Board of Directors.
4. To re-elect Mr. J.H.P. Ratnayake 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. Asoka K. Pathirage who retires in terms of Article 103 of the Articles of Association of the Company as a Director of the Company.
6. To re-elect Mr. Sujeewa Rajapakse, who retires in terms of Article 103 of the Articles of Association of the Company as a Director of the Company.
7. To re-elect Mr. T.M Ifikar Ahamed who retires in terms of Article 103 of the Articles of Association of the Company as a Director of the Company.
8. To re-elect Mr. Suraj N. Fernando who retires in terms of Article 103 of the Articles of Association of the Company as a Director of the Company.
9. To re-elect Mr. Ranil P. Pathirana who retires in terms of Article 103 of the Articles of Association of the Company as a Director of the Company.
10. To re-elect Mr. Mohan Ray Abeywardene who retires in terms of Article 103 of the Articles of Association of the Company as a Director of the Company.
11. To re-appoint Messrs KPMG Ford, Rhodes, Thornton & Co., Chartered Accountants, as Auditors of the Company for the ensuing year and to authorize the Directors to determine their remuneration.
12. To transact any other business of which due notice has been given.

By Order of the Board of Directors of  
ASIAN ALLIANCE INSURANCE PLC

(Sgd.)

P. R. Secretarial Services (Private) Limited  
SECRETARIES  
Colombo  
21 February, 2012

## NOTE

- A Member entitled to attend and vote at the meeting, is entitled to appoint a Proxy to attend and vote instead of him/her;
- A Proxy need not be a member of the Company;
- A Member wishing to vote by Proxy at the meeting may use the Form of Proxy Form enclosed;
- Any Member or Proxy holder attending the meeting is kindly requested to bring this report.
- The completed Form of Proxy should be deposited at the Registered Office of the Company, 7th Floor, Millennium House, 46/58, Navam Mawatha, Colombo 02, not less than forty eight (48) hours before the time appointed for holding of the meeting.
- For security reasons, Members/Proxy holders are kindly advised to bring along with them their National Identity Card or a similar form of acceptable identity when attending the meeting.

# Regional Distribution Network

## Ampara Branch

No.209, Kalmunai Road,  
Ampara.  
Tel; 063 2224120  
Fax; 063 2224120

## Anuradhapura Branch

No521/5,  
Maithreepala Senanayaka Mawatha,  
Anuradhapura.  
Tel; 025 2225937-8  
Fax; 025 2225938

## Battaramulla Branch

No 24 1/1, Kaduwela road,  
Battaramulla.  
Tel; 011 2884516-7  
Fax; 011 2884518

## Batticaloa Branch

No.601 D, Trinco road,  
Batticaloa.  
Tel; 065 2228624-5  
Fax; 0065 2228624

## Colombo Central Branch

No.460, Galle road  
Colombo 03  
Tel; 011 2564551-2  
Fax; 011 2372981  
E-mail; colombocentral@asianalliance.lk

## Dambulla Branch

No. 2/11, Kurunegala Junction,  
Dambulla.  
Tel; 066 2283186  
Fax; 066 2283186

## Galle Branch

No.118, Matara road,  
Galle.  
Tel; 091 2226367-8  
Fax; 091 2226369  
E-mail; galle@asianalliance.lk

## Gampaha Branch

No, 95/1, Colombo Road,  
Gampaha.  
Tel; 033 2230890 , 033 2231179 -80  
Fax; 033 2230891  
E-mail; gampaha@asianalliance.lk

## Gampola Branch

No.12/ B 1, Nawalapitiya Road  
Gampola  
Tel; 081 2350538  
Fax; 081 235 0891  
E-mail; gampola@asianalliance.lk

## Horana Branch

No153 A, Anguruwathota road,  
Horana.  
Tel; 034 2261631 -2  
Fax; 034 2261633  
E-mail; horana@asianalliance.lk

## Ja-ela Branch

No.264A, Colombo road,  
Ja-Ela.  
Tel; 011 2229351  
Fax; 011 2229297  
E-mail; jaela@asianalliance.lk

## Jaffna Branch

No.11/8, Stanly road,  
Jaffna.  
Tel; 021 2221161  
Fax; 021 2221162  
E-mail; jaffna@asianalliance.lk

## Kaduwela Branch

No.329, Kaduwela road,  
Kaduwela.  
Tel; 011 2538151 -2  
Fax; 011 2538155  
E-mail; kaduwela@asianalliance.lk

## Kalutara Branch

No.426/1/1, Main Street,  
Kalutara.  
Tel; 034 2222322  
Fax; 034 2222322

## Kandy Branch

No.514, Peradeniya road,  
Kandy.  
Tel; 081 2201990-1  
Fax; 081 2201992  
E-mail; kandy@asianalliance.lk

## Kegalle Branch

No.218, Kandy Road,  
Kegalle  
Tel; 035 2230654-5  
Fax; 035 2230656  
E-mail; kegalle@asianalliance.lk

## Kiribathgoda Branch

No.04, Sirimavo Bandaranaika  
Mawatha,  
Mahara, Kadawatha.  
Tel; 011 2926472-3  
Fax; 011 2926479  
E-mail; kiribathgoda@asianalliance.lk

## Kottawa Branch

No. 129/10, High Level Road,  
Kottawa.  
Tel; 011 2851449, 011 2851811  
Fax; 011 2851787  
E-mail; kottawa@asianalliance.lk

Kurunegala Branch  
No.76, Negombo road,  
Kurunegala.  
Tel; 037 2220016-7  
Fax; 037 2220016  
E-mail; kurunegala@asianalliance.lk

Negombo Branch  
No.17 , Station road,  
Negombo.  
Tel; 031 2231788  
Fax; 031 2231789  
E-mail; negombo@asianalliance.lk

St' Michaels Branch (Colombo Metropolitan)  
No,131, St'Michael's road,  
Colombo 03.  
Tel; 011 2331881  
Fax; 011 2336413

Kurunegala Citiy Branch  
No.254, Colombo road,  
Kurunegala.  
Tel; 037 2222052-3  
Fax; 037 2222054  
E-mail; kurunegalacity@asianalliance.lk

Nugegoda Branch  
No.224 A, High Level road,  
Nugegoda.  
Tel; 011 2826776-7  
Fax; 011 2826778  
E-mail; nugegoda@asianalliance.lk

Warakapola Branch  
No.08, Meerigama Junction,  
Warakapola.  
Tel; 035 2267521  
Fax; 035 2267521

Mahiyanganaya Branch  
No.102/C,Padiyanthalawa road  
Mahiyanganaya.  
Tel; 055 2257610/11  
Fax; 055 2257610

Panadura Branch  
No. 46 (293/1/1) Galle road,  
Panadura.  
Tel; 038 2240223, 038 2240401 - 2  
Fax; 038 2240224  
E-mail; panadura@asianalliance.lk

Wariyapola Branch  
No.115, Puttlam road,  
Wariyapola.  
Tel; 037 2267268-9  
Fax; 037 2267269

Matara Branch  
No.312 A, Galle road, Nupe,  
Matara.  
Tel; 041 2231301-3  
Fax; 041 2232304  
E-mail; matara@asianalliance.lk

Piliyandala Branch  
No.78 1/1, Horana road,  
Piliyandala.  
Tel; 011 2608606, 5608821  
Fax; 011 2608606  
E-mail; piliyandala@asianalliance.lk

Wattala Branch  
No.396 /1/1, Negombo road,  
Wattala.  
Tel; 011 2981256  
Fax; 011 2981256

Minuwangoda Branch  
No.113 B/1, Veyangoda road,  
Minuwangoda.  
Tel; 011 2281540  
Fax; 011 2281540

Puttalam Branch  
No.35 A, Poles road,  
Puttalam  
Tel; 032 2266180  
Fax; 032 2266180

Wennappuwa Branch  
No.56/ B, Chilaw road,  
Wennappuwa.  
Tel; 031 2251201  
Fax; 031 2251201

Moratuwa Branch  
No.482, Galle road, Rawatawatta,  
Moratuwa.  
Tel; 011 2641387  
Fax; 011 2641635  
E-mail; moratuwa@asianalliance.lk

Rathnapura Branch  
No.232 A 2/1, Colombo road,  
Moragahayata,  
Rathnapura.  
Tel; 045 2231160-1  
Fax; 045 2231160

# Form of Proxy

I/We.....of.....  
 .....being a member/members  
 of the above named Company, hereby appoint:

(1) .....of.....  
 ..... failing him/her,

- |                             |                |                               |                |
|-----------------------------|----------------|-------------------------------|----------------|
| (2) Mr. Asoka K. Pathirage, | or failing him | (6) Mr. T.M. Iftikar Ahamed,  | or failing him |
| (3) Mr. J.H.P. Ratnayeke,   | or failing him | (7) Mr. Ranil P. Pathirana,   | or failing him |
| (4) Mr. Ramal G. Jasinghe,  | or failing him | (8) Mr. Suraj N. Fernando,    | or failing him |
| (5) Mr. Sujewa Rajapakse,   | or failing him | (9) Mr. Mohan Ray Abeywardena |                |

as my/ our Proxy to represent me/ us and to speak and to vote on my/ our behalf at the 13th Annual General Meeting of the Company to be held on 26th March, 2012 at 10.00 a.m. at 4th Floor, Central Hospital (Pvt) Ltd, 114, Norris Canal Road, Colombo 10. and at every poll which may be taken in consequence of the aforesaid meeting 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 on the State of Affairs of the Company and the Statement of Audited Accounts for the year ended 31st December, 2011 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 Mr. J.H.P. Ratnayeke 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. Asoka K. Pathirage who retires 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. Sujewa Rajapakse, who retires 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. T.M Iftikar Ahamed who retires 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-elect Mr. Suraj N. Fernando who retires 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"/>
8.) To re-elect Mr. Ranil P. Pathirana who retires 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"/>
9.) To re-elect Mr. Mohan Ray Abeywardene who retires 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"/>
10.) To re-appoint Messrs KPMG Ford, Rhodes, Thornton & Co., Chartered Accountants as Auditors of the Company for the ensuing year and to authorize the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>

Signed this ..... day of ..... 2012.

.....  
 Signature of Shareholder

**Note :**

- Please delete the inappropriate words.
- Instructions for completion of proxy are noted below.
- A proxy need not be a member of the Company.
- Please mark “X” in appropriate cages, to indicate your instructions as to voting

### **INSTRUCTIONS FOR THE COMPLETION OF PROXY**

1. Kindly perfect the Form of Proxy by filling in legibly your full name, National Identity Card / Passport/Company Registration number, your address and your instructions as to voting and by signing in the space provided and filling in the date of signature. Please ensure that all details are legible.
2. 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.
3. To be valid, the completed Form of Proxy must be deposited at the Registered Office of the Company, 7th Floor, Millennium House, 46/58, Navam Mawatha, Colombo 02, by 10.00 a.m. on 24th March, 2012.
4. 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.
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/Act of Incorporation.
6. In the case of a Proxy signed by an Attorney, the Power of Attorney should accompany the completed Form of Proxy 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, Millennium 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 Ltd  
Pan Asia Banking Corporation PLC  
Commercial Bank PLC  
Nations Trust Bank PLC  
Deutsche Bank AG

### Secretaries

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

### Directorates

#### Chairman

Ashok Pathirage

#### Deputy Chairman

J. H. Paul Ratnayake

#### Director/Chief Executive Officer

Ramal G. Jasinghe

T.M.Ifthikar Ahamed, Director  
Sujeewa Rajapakse, Director  
Ranil P. Pathirana, Director  
Suraj N. Fernando, Director  
Mohan Ray Abeywardene - Director

#### Executive Committee

Ramal G. Jasinghe  
Chula Hettiarachchi  
Saliya Wickramasinghe  
Udeni Kiridena  
Asaf Khan

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