

transparent

“ Ours is a fiercely competitive industry where its easy to lose sight of the things that really matter in the effort to gain an advantage. But to protect the things we love, we need to always remember the rules by which we play.

Honouring the principles of insurance is something Asian Alliance has always prided itself in. Our instantly recognizable professionalism in sticking to fundamentals has enabled us to be recognized for our reliability, stability and security.

All because we are **transparent** in protecting the things you love... ”

Asian Alliance Insurance. We are in the business of protection

VISION

To be the benchmark provider of quality financial solutions

MISSION

To provide quality products and services through quality people and processes

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Key Figures

In Rs. '000	2010	2009	2008	2007	2006
Revenue	2,081,853	1,621,741	1,360,763	1,187,643	973,218
Gross Written Premium - Life	1,242,608	1,009,031	970,077	890,793	747,934
Gross Written Premium - Non Life	430,666	496,749	459,771	383,590	417,679
Profit Before Tax - Life	253,610	195,000	160,000	115,241	66,091
Profit Before Tax - Non Life	114,398	(47,893)	(28,854)	(807)	2,109
Total Assets	4,317,809	2,732,163	2,140,725	1,939,293	1,617,914
Total Net Assets	1,560,860	517,540	404,060	268,656	167,860
Life Fund	1,929,352	1,560,395	1,203,968	888,391	575,030
Earnings per Share (Rs.)	13.73	5.73	5.36	4.49	2.80
Dividend per Share (Rs.)	3.00	1.30	1.25	0.50	-
Dividend Cover	4.58	4.41	4.28	8.97	-
Net Assets per Share (Rs)	41.62	20.70	16.16	10.75	6.71
Return on Capital Employed	55%	32%	32%	42%	41%
Solvency - Life	1.16	2.21	2.93	3.15	2.34
Solvency - Non Life	17.43	5.67	5.76	4.10	2.94

Ram Rating
BBB-

Net Profit After Tax
Rs 368 Million

Total Investments
Rs 3.8 Billion

Market Capitalization
Rs 3.0 Billion

On behalf of the Board of Asian Alliance, it is my pleasure to welcome you to the 11th Annual General Meeting, and to present to you the audited Financial Statements for the year ended December 31, 2010.

The economy showed many positive signs of recovery with the government investing heavily in infrastructure projects, and the Central Bank curbing inflation to single digits and effecting a steady reduction in interest rates. The reading of the Budget in November showed a commitment on the part of the government to support the growth of the private sector, with a reduction in taxes across the board. The Colombo Stock Exchange was one of the highest performing stock markets in the world, with its benchmark index the All Share Price Index reaching 6635.9, a further 96% growth over the already soaring 3385.6 at the close of last year. The increased opening up of the Northern and Eastern provinces provided access to hitherto untapped markets, and investor and corporate sentiment was at an all time high.

Asian Alliance mirrored the country's optimism. The year ended 31st December 2010 completed our tenth year in the business of protection, and it was a hallmark year in many ways. We have moved from strength to strength in the last ten years, and have seen incremental growths in the key indicators of the business. We now have the highest Retention Rates in the industry of 70%, and in the year ended we recorded our highest ever Net Profit of Rs 368million, a 154% growth from the previous year.

In addition to this RAM Ratings upgraded us from a BB+ to a BBB- on the basis of the soundness of your Company's operations and financial strength. Asian Alliance continued to maintain healthy Solvency Margins in both the Life and Non-Life businesses, well above the stipulated requirements, adding further confidence to the security of all policyholders.

The Oracle Smart Suite product was successfully integrated with Asian Alliance's own in-house product iSYS, and has improved efficacy levels tremendously with real time online data integration. Our branch expansion programme continued during the year, with three new branches compounding Asian Alliance's already well structured distribution network. Asian Alliance continues to comply with all the regulations stipulated by the Insurance Board of Sri Lanka (IBSL); the regulatory body for Sri Lanka's insurance industry, and is already prepared to comply with the new accounting standards dictated by the International Financial Reporting Standards (IFRS) effective from FY2012.

Gross Written Premiums (GWP) reached Rs 1,673 million for the year ended, and the Net Profit after Tax attributable to shareholders of Rs 368 million. A substantial contribution towards the Net Profit came from Investment Income from both the Life and General Funds, with a growth of 77% to Rs 693million. Reserves reached Rs 498 million, an impressive growth of 86% from the previous year and testament to the sound management of your company.

The Life Division contributed 69% to your Company's bottom line, exhibiting an excellent performance with GWP of Rs 1,243 and Underwriting Profit of Rs 318 million. In view of this performance the Actuarial Consultant recommended an interim bonus to the policy holders of Rs 90 million. In the coming year the Life Division will be looking to product innovation and improvement in customer service to increase customer Retention Rates, and aims to increase its Annualised New Business Premiums (ANBP) by 25%, supported by the proposed opening of a further 10 branches.

The Non-Life Division will focus this year on restructuring and streamlining processes, as well as on training of staff to increase standards of professionalism and productivity.

Our maxim this year is 'Asian Alliance is in the business of protection'. The industry has seen a lot of other insurance companies packaging investment products in the guise of insurance. We however firmly believe in sticking to the principles of insurance, and continue to offer pure insurance products, focusing instead on capitalising on our stability and risk averseness. We believe this will stand us in good stead and sustain us through many more years.

In conclusion I would like to extend my sincere appreciation to my colleagues on the Board for their support in taking Asian Alliance forward, all members of the staff for their dedication and commitment and our stakeholders for their continued faith in the company.

(Sgd.)
J H Paul Ratnayake
Chairman

14 February 2011



Chairman's message

A man with dark hair, wearing a dark pinstriped suit jacket over a light blue and white striped shirt, is seated in a black office chair. He is smiling slightly and looking directly at the camera. His hands are clasped together on a desk in front of him. The desk is cluttered with various papers, folders, and a pen. The background consists of horizontal window blinds, with light filtering through them, creating a pattern of light and shadow. The overall tone of the image is professional and approachable.

managing
director's
message



I take great pleasure in presenting the Managing Director's Review for your company's 11th year of operations. I took up the reins of Managing Director in 01st January 2010 and in my capacity both as Group Managing Director and Group Chairman, implemented two major changes during the year under review, namely to the Budgetary Process and the Investment Management Process.

Enhancement of Budgetary Process

The management was guided to move towards a more formal and structured budgeting process to achieve an improved levels of communication between the Company and the Board of Directors, and to enable adequately informed strategic decisions at the Board level. An executive Budgetary Committee was appointed comprising of key managers, who met on a weekly basis with the CEO and myself to work through a logical, goal-driven budgetary process prior to presenting it to the Board. This was used as a foundation for all key decisions and key controls using a process of analysis and synergy.

The 'Gap Bridging Analysis Method' was performing, where a baseline scenario was compared to an ideal scenario and analysis carried out on how to bridge the gaps using strategies, milestones, objectives and the impact of each on the bottom line. Emphasis was placed on top line and bottom line growth, rather than only top line.

Importance was also placed on maximising shareholder benefits. As a result we have seen a growth in Shareholder Reserves which is directly attributable to the budgetary process enabling managers to focus their energies on things that directly impact shareholder returns.

Going forward we are currently preparing a budget with a five year time-frames. With a five year focus, long term vision and plans are possible and we expect exponential benefits as a result of this.

Capitalising on Stock Market Returns

I sought to align Insurance Fund Management of Asian Alliance with companies like Berkshire-Hathway, and to adopt a similar investment process to the eminent Mr. Warren Buffett. The mix of investment allocations was changed, with a very bullish focus on quoted equity for both the General and the Life Funds. 2010 was a providential year to move further into the share market, and Asian Alliance was fortunate to have the backing of the highly skilled Asia Wealth Management (a fully owned subsidiary of Asia Capital) to carefully manage their equity investment portfolio.

Asia Wealth Management was chosen not on the basis of being a group company, but on the strength of their outstanding analysts. The team consists of following i.e. Chulani Perera, Nuwan Kumara, Saminda Weerasinghe, Tharindu Amunugama, Stefan Abeyesinghe and myself. I lead the Portfolio Management Team.

My financial background stems from my earlier experiences of being the former Chief Operating Officer/Director of Asian Hotels and Properties Limited, previously known as Crescat, former General Manager of the Bureau for Infrastructure Investment (BII), Chief Executive Officer/Managing Director of CF Venture Fund and acted as a Director of Pradana Limited, an Investment Management Company.

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

I played an integral part in designing and managing the Capital Market Project of USAID which provided assistance for the privatisation and establishment of the Securities and Exchange Commission of Sri Lanka (SEC), and the development of the Colombo Stock Exchange (CSE).

Chulani carries out applied research, performance measurement and attribution analysis whilst Nuwan undertakes quantitative analysis together with IT development necessary for Portfolio management. This makes both of them key members to our team.

Saminda overlooks the research department of Asia Wealth and his teams input helps Tharindu and I with our strategic decision making. Saminda is involved in the fundamental analysis carried out for portfolio management.

Tharindu essentially brings together the work of Chulani, Nuwan and Saminda ensuring that the summation of aforesaid different aspects of portfolio management is synergetic. Asian Alliance therefore enjoys Industry Standard practices on management of their Investment Portfolio, which supports to provide exceptional returns.

Stefan trades on behalf of Asian Alliance in tandem with the advice of the portfolio manager. Stefan is a leading broker at Asia Securities, the number one stock broking firm in Sri Lanka. He is involved in all of the major Asia Securities transactions, and brings to your company the benefit of being at the apex of all the market information with unparalleled institutional and retail reach.

Managing Director's Message

The process of investment management was broken down to three elements.

The optimum allocation of investment funds for equities was modeled keeping in view the complex nature of insurance industry.

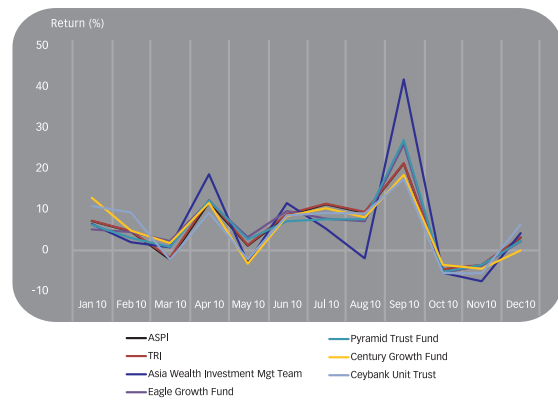
Secondly, stock picking aspects focused on companies with sustainable growth potential in earnings, showcasing sound management practices coupled with strong business acumen and that are in industries benefitting from favourable macro economic factors whilst giving a wide berth to speculative stock with a high degree of volatility. And irrational market dynamics paved way to increased returns by way of timing and pricing.

Final element was the portfolio management and this was done by adopting an overall strategy of share buying based on low-impact trading and value investing. Investment management process was two pronged as investments to the Life Fund was made with a view on long term growth in capital gains and dividend income whilst the General Fund was the actively managed portfolio with greater fund allocation and higher expected returns on the short run. Thus the strategy adopted to manage Life Fund was buying and holding while General Fund was managed by aggressive trading.

Colombo is a very shallow market, and the sharp upwards movement of the benchmark index the ASPI is not necessarily reflected in share returns. Therefore to achieve the difficult task of beating the market, intelligent analysis was carried out on the portfolio, coupled with fine-tuning the asset allocation and aggressive investing in stocks that had value and future earnings growth were carried out.

As mentioned, Stocks were specifically picked with the ambitious goal of beating market returns with a portfolio of stocks not exceeding the market risks. I am proud to say that we achieved this goal, with an average return of 72.5% for the actively managed portfolio which was 5.2% in excess of the market return of ASPI of CSE. The Total Investment Income for 2010 from equity portfolio was Rs 414 million, where returns from General fund and Life fund contributed Rs 226 million and Rs 188 million respectively.

Performance Summary of Investment Management Industry - 2010



	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec	Total
ASPI Returns													
- Market Return	7.15%	4.61%	(2.21%)	11.75%	1.15%	8.49%	11.24%	9.19%	21.24%	(4.67%)	(3.71%)	3.08%	67.3%
TRI Returns													
- Market Return	7.24%	4.66%	(1.86%)	12.27%	1.26%	8.81%	11.37%	9.39%	21.31%	(4.64%)	(3.54%)	3.17%	69.43%
Actively Managed Fund Return													
- General Fund	6.44%	1.98%	0.76%	18.61%	(3.07%)	11.52%	5.32%	(1.97%)	41.79%	(5.49%)	(7.57%)	4.22%	72.53%
Excess Return compared with TRI													
- General Fund	(0.81%)	(2.68%)	2.61%	6.34%	(4.33%)	2.71%	(6.05%)	(11.37%)	20.49%	(0.85%)	(4.02%)	1.06%	3.10%
Excess Return compared with ASPI													
- General Fund	(0.71%)	(2.63%)	2.97%	6.86%	(4.22%)	3.03%	(5.92%)	(11.16%)	20.55%	(0.82%)	(3.86%)	1.15%	5.23%

Investment management Industry performance 2010 (%)

Fund	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Eagle Growth Fund	5.08	4.47	2.25	11.94	3.20	9.61	7.75	7.08	25.95	-5.47	-3.79	2.17	70.24
Pyramid Trust	6.27	3.04	0.78	12.24	2.64	7.10	7.61	7.61	26.97	-5.32	-3.58	2.25	67.60
Century Growth Fund	12.85	4.85	1.76	11.63	-3.26	8.33	10.28	8.06	18.47	-3.55	-4.51	0.00	64.91
Ceybank Unit Trust	10.84	9.22	-2.34	9.19	-2.15	8.59	9.12	9.01	17.45	-5.54	-5.62	6.33	64.11
Namal Growth Fund	9.10	4.73	1.30	12.77	0.36	6.71	4.87	5.17	23.84	-9.70	-2.82	3.00	59.32
Comtrust	4.45	3.20	-5.15	9.50	-0.31	8.84	7.87	5.86	18.89	-2.58	-3.69	3.34	50.23
Ceylon Index Fund	2.60	-2.12	-0.34	7.26	0.69	9.54	8.89	7.27	22.24	-5.40	-2.93	0.97	48.66
National Equity Fund	7.00	3.17	-8.94	13.00	1.97	2.64	6.13	6.27	24.73	-11.03	-1.02	1.14	45.04
Namal Amana Equity Fund	-2.32	9.26	2.72	4.21	-3.05	9.74	7.00	-1.35	7.75	-10.45	-2.67	12.83	33.67
Ceylon Income Fund	0.37	0.29	0.81	0.89	0.92	0.98	1.06	1.05	1.04	1.03	0.99	1.05	10.46
Savings Plus Money Market Fund	-3.63	0.74	0.76	0.77	0.77	0.77	-3.04	0.74	0.68	0.61	0.60	0.67	0.43
Namal Gilt Edged Fund	1.01	1.37	0.53	-8.19	2.24	0.84	1.05	1.85	0.85	-2.65	0.64	0.69	0.22
Namal Money Market Fund	-1.73	0.60	0.67	-1.15	0.66	3.38	-4.05	0.86	0.59	-1.26	0.51	0.61	-0.31
Eagle Gilt - Edged Fund	1.02	0.44	0.96	0.57	0.76	-4.13	0.98	1.06	0.58	-2.42	0.68	-1.40	-0.91
Eagle Income Fund	0.74	0.55	0.93	0.73	0.76	0.65	0.64	0.74	0.64	0.72	0.65	-8.72	-0.96
Ceybank Gilt - Edged Fund	-7.48	0.68	0.95	-0.28	1.63	0.74	-2.55	1.30	0.83	1.01	0.60	0.59	-1.97
Namal Income Fund	-5.91	0.80	0.69	0.60	1.08	0.83	-5.50	1.07	0.74	0.81	0.55	0.63	-3.62

Source: *The Unit Trust Association of Sri Lanka*

Our prognosis for next year is a more moderate return on investments than was seen during the year under review. The market has grown systematically and is now appears pricy at relatively high PE multiples of 22X. This will be partially negated by continued GDP growth and increase in earnings; however we are investing in state-of-the-art investment management systems to enable us in taking better decisions utilising real time information. Our focus will continue to be on a better knowledge base and systems to optimise returns on your company's funds and therefore benefit you, the shareholder.

(Sgd.)

H L L Manohan Nanayakkara

Managing Director/Deputy Chairman

14 February 2011

Continuing a positive trend of consistently improving results it gives me great pleasure to once again present to you the performance of your Company, which is indeed significant. Posting a Profit before tax of Rs 371 million in the year 2010, the highest ever at Asian Alliance to date. The Life insurance business contributed Rs 254 million, whilst Non Life recorded a profit of Rs 117 million towards this outstanding performance.

The Company recorded a Gross Written Premium (GWP) from both Life and Non Life businesses of Rs 1,673 million, a growth of 11%. Life recorded a GWP of Rs 1,242 million with its Annualized new Business Premium growth of 35% reaching a value of Rs 600 million, maintaining the highest levels in the industry. The Company also took the pioneering step in carrying out an Actuarial valuation of the Life fund initially at the half year, and thereafter at the end of the last two quarters of the year, giving our policyholders the benefit of a bonus, accruing to them on a quarterly basis. This exercise also provided the opportunity to obtain interim audit covering these periods, thus keeping a firm track of the Company's performance quarterly.

Cautious underwriting and pricing, of Non Life insurance recorded a GWP of Rs 431 million. The reduction of the premiums of the Terrorism Cover, and the changing weather patterns as well as the unpredictable nature of Natural Perils that the whole industry faced, in 2010, had an impact on the Non Life business results. Prudent management of underwriting standards, claims processing, and structuring of reinsurance arrangements, brought about a positive turnaround in the performance of the Non Life business portfolio, by achieving healthy solvency levels, far in excess of the required margin.

The Profit Before Tax of Rs 371 million has been arrived at subsequent to providing adequate reserves in both Life and Non Life business as per the recommendations of the Life and Non Life Actuaries. A Reversionary Bonus of Rs 90 million to Life Policyholders, providing maximum possible value was allocated in arriving at the Company's profit.

The Earnings Per Share (EPS) increased to Rs 13.73, a growth of 140%, from the previous year. This serves as one of the key indicators of the Company's profitability. Return of Equity of the Company has increased to 55%, an increase of 23% over last year, which indicates the focus of the management to maximize the shareholder return.

The Company earned an Investment Income of Rs 692 million, the highest ever recorded at Asian Alliance to date. Prudent investment decisions, and the Equity Portfolio, which was well managed by Asia Wealth Management, were taken in accordance to the Insurance Board of Sri Lanka (IBSL) guidelines.

During the year your Company successfully completed a Rights Issue of Rs 812.5 million in December 2010 which has strengthened the company's Balance Sheet significantly. RAM Ratings Lanka upgraded the Company's claims paying ability rating from BB+ to BBB-reinforcing the stable outlook of the Company. The upgrade in Rating follows the successful completion of the Company's Rights Issue of December 2010.

The Company invested Rs 25 million in the Oracle Financial E – Business Suite during the year in preview. This system is successfully integrated with the homegrown iSYS front end operational system, which put the processing capabilities of the Company no second to any state of the art ICT systems that the local insurance industry has to offer. This will enable the Company to meet with the changes and challenges of the industry in a timely and efficient manner.

Company / Regulator interaction

Your Company continues to work very closely with the Regulator, the Insurance Board of Sri Lanka (IBSL) as well as with the Insurance Ombudsman, to ensure guidance and compliance in all our activities. The Company continues to enjoy a very meaningful relationship with the Insurance Ombudsman, and avails itself of his useful counsel at times to resolve doubts and issues relating to policyholders. The National Insurance Trust Fund (NITF) too works closely with your Company, as an important resource in servicing claims.

Your Company has at all times been alive to the regulatory changes and makes every effort to meet with regulatory requirements as a measure of prudence as well as development. We keep abreast of the improvements, in the legal, fiscal and monetary changes that would have an impact on the insurance industry, and proactively respond to such changes. These steps serve your Company well, to nurture trust in this highly confidence based industry.





chief
executive
officer's
message

Chief Executive Officer's Message

The Future of the Insurance Industry and the Company's role

Your Company has at all times been alive to the constant changes in the Regulatory and the business environment, is ever vigilant and prepared to adapt to these changes successfully.

The Parliamentary debate on the amendments to the Regulation of the Insurance Industry (RII) Act of 2000, passed the proposed amendments to the Act, which awaits approval. The major amendments to the Act include, compulsory listing of all insurance companies, compulsory rating by a recognized rating agency, and the splitting of Life and Non Life insurance businesses to be carried out by two separate commercial entities. It is proposed that insurance companies be given four years' time to make these changes. The introduction of Risk Based Capital (RBC) to determine the Capital Adequacy of insurance companies too was proposed.

The conversion to International Financial Reporting Standards (IFRS) has posed significant challenges for companies worldwide. International Financial Reporting Standards is much more than just a technical issue and, based on the current proposals, will result in fundamental changes to the way in which the industry does business. Recognising this, the Finance team of the company is focused on understanding the key commercial and technical challenges, and delivering the information the industry needs to respond to the IFRS revolution.

Regulator is now emphasizing on Risk Based Capital as the basis for Capital Adequacy. In this approach the minimum acceptable capital depends upon how risks the underwriting and investment operation of the company.

Growth Initiatives

Leaders in the industry have recognized that maintaining the investment strategies of the past are not likely to produce the desired results going forward. Therefore, our prognosis for next year is a more moderate return on investments than was seen during the year under review. Therefore it is imperative that strategies are focused towards the growth and strength of the operational returns, through product and service innovation.

Your Company is cognizant of the reality of changing times, trends, markets and market dynamics. The Company has carved its market within a value driven segment, that has ensured sustained growth within the market space we service, in the decade gone by. The management of your company is poised to meet the reality of change, and seek to exploit the opportunities in the prevailing economic environment, as well as to reap the benefits of an emerging consumer. Whilst complementing the market within which Asian Alliance caters to and nurtures; plans are afoot to reach out to the greater base of the Sri Lankan consumer, providing the same quality and value of services to a wider market segment.

The Non Life insurance technical operations of the Company are awake to the greater challenges in terms of the changing risk environment. The traditional risk profiles such as motor, medical, property, commercial and marine, has changed drastically. Global economic and climatic changes have had a dramatic impact on the Insurance industry over the year in

review. This has further changed the manner in which reinsurers view the market, hence challenging the beliefs and practices held in the past and present. Your company is happy to present its reinsurance programs in both Life and Non Life as adaptive and innovative to underwrite the changing risk environment, as well as to whet the Company's risk appetite, in line with its business objectives for the next year.

As a result of the regulatory changes in terms of splitting the Life and Non Life insurance business into separate commercial entities, the Company recognizes the fact that professional technical insurance personnel are required to sustain both the Company as well as the industry, going into the future. Your Company has in place an initiative to encourage and nurture staff members to follow the Chartered Insurance exams as well as exams leading to this proficiency. The results of this Human Resource initiative is indeed encouraging, with both young aspirant staff members as well as those of other professions showing interest in this growing profession that offers much promise.

The Company will leverage the synergies of its shareholders its major shareholder the Asia Capital Group in particular to reach out to the financial service needs, providing protection, security and value through innovative products and services. The Company will further complement its geographical expansion strategically synergizing on the shareholder group strength catering to a much larger customer base, hence changing the complexion of your Company, whilst retaining its core values and strengths, in the immediate future.

It is with confidence that the Board of Directors and the Management of your Company step into the next decade taking your company to greater heights of achievement, innovation and growth.

Acknowledgements

The close support and engagement of the Board of Directors, the Chairman, Deputy Chairman / Managing Director, in particular with the Management has contributed immensely to the positive results reported herein. The process driven culture is strengthened through this engagement, which involves the policymaking machinery, working in tandem with the operations of the Company that builds the harmony which has resulted in a positive outcome.

The diversity of professional experience, expertise, knowledge and talent that the Board of Directors bring, has merged very well with the strengths of the management to create a unique blend of forces to sustain the growth and robustness of your Company to meet the present and future challenges of the insurance marketplace.

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

I take this opportunity to thank our loyal staff and field staff members, who chose to place their faith and confidence in the

Company despite the lure of lucrative offers for alternate placements being made to them. It is with gratitude that I value their support and contribution towards the achievements and performance recorded within the year in review. The Management at all levels, with proven track records, talent, skill, character and experience which cumulatively add up to a millennium or 1300 years, enrich our culture of professionalism; investing their career progress with us, they have indeed contributed effectively within their period of partnership at Asian Alliance.

It is with pride that we report 49 years of unbroken service in any industry, by Mr. Victor Colombage, our Deputy General Manager Non Life, for his contribution, sane counsel and development of the Non Life insurance business of the Company. It is his long experience, wisdom and foresight, that has propelled the progress of the Company's phenomenal success. It is with much gratitude that we look upon his guidance to sustain the fortunes and interests of the Company's performance. The close and tight working relationship of Siri, whose tenacity is a tower of strength to all of us, Chula, Saliya, Udeni, Asaf, as well as Victor, Sena, Hashra, and Nadi, Amal, Annesly has seen the Company through many changes and challenges, making each of us as individuals as well as the Company resilient and robust for the long haul, and the future in store. Asian Alliance has as a result record probably one of the lowest staff turnover figures, both in terms of its permanent and field staff cadres. The Company has been successful in attracting professionals from within and outside the industry whose aspirations and career progression, we strive to nurture and develop.

We thank our Life re insurers Munich Re, which has been very supportive and has engaged with us very closely keeping us continually abreast of innovations and developments with keen interest to uphold the strength and sustainability of our Life insurance business. Munich Re has even gone to the extent of continuously offering our Life team much needed technical training both in Sri Lanka and abroad.

We also thank the Oriental Life Insurance Cultural Development Center (OLIS) and Foundation for the Advancement of Life Insurance around the World (FALIA) for giving an opportunity to undergo sales and technical training and seminars in Sri Lanka and Japan.

The warm and friendly ties that bind us to our Non life re insurance broker, Messrs. Interlink Insurance and Re insurance Brokers, Bombay, India and particularly the support of our non Life lead reinsurer Messrs. General Insurance Corporation of India, has been a very valuable partner in handling the interests of the Company to the highest levels of proficiency, at all times. They are indeed a source of great strength to us at all times.

Our Consultant Life Actuary, Mr. M. Poopalanthan, whose services and input is an essential ingredient to our success; and has through the years understood the nature of our credo of professionalism and adaptability to the dynamics of the changing marketplace. The professional approach taken by him to understand and value our business portfolio is greatly appreciated.

Mr. Akshay Pandit of M/s K. A. Pandit, Consultants and Actuaries for the timely services rendered and for their guidance on compliance and reserving which is the cornerstone of the strength of our Non Life Business.

I thank all our stakeholders, including our policyholders, brokers, intermediaries, clients and most importantly you, our shareholders who have placed your trust and confidence in us to manage your investment and interests in your Company.

In closing the Board of Directors, the Management and the entire machinery of Asian Alliance is geared to and committed to protecting your interests, investment, returns, and those who and which you hold dear to in the true spirit and confident declaration that we are in the business of protection.

(Sgd.)

Ramal G Jasinghe

Chief Executive Officer / Director

14 February 2011

Mr. J. H. Paul Ratnayeke - Chairman

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

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

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

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

Mr. H. L. L. Manohan Nanayakkara

Mr. Manohan Nanayakkara is the Chairman/Managing Director of Asia Capital PLC and the Managing Director of Asia Securities (Pvt) Ltd. He is a Director of Capital Reach Holdings and its subsidiaries, and also sits on the boards of all associate and subsidiary companies of Asia Capital PLC.

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

He holds the following academic qualifications and experience: Fellow Member of the Institute of Chartered Management Accountants (FCMA); Master of Science in Accounting (MSA) from James Maddison University of Virginia, USA; Masters in Applied Finance (MAF) and Masters in Business Administration (MBA) from Queensland University of Technology, Queensland, Australia.

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

Prof. Lakshman R. Watawala - Director

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

Mr. Ramal G. Jasinghe - Director

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

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

Mr. Chanaka De Silva – Director

Mr. De Silva presently sits as the Chairman of Kelani Tyres PLC, Union Commodities Group, Silverstock Limited & CEAT Kelani Associated Holdings Limited. He is also a Director of Delmege Forsyth (Shipping) Limited. Mr. Chanaka De Silva was the Chairman of the Insurance Corporation of Sri Lanka – ICSL (1981-1989) and a Director of Asian-Re during the same period and a former Director of Sri Lankan Airlines.

Mr. Ranjith J. Wickremasinghe – Director

Mr. Ranjith J. Wickremasinghe is a Fellow of the Chartered Institute of Management Accountants, London (FCMA) and the Chartered Association of Certified Accountants, London (FCCA). He was as former Chairman of the Ports Authority and the Ceylon Shipping Corporation Limited. Mr. Wickremasinghe has over 30 years of experience in the fields of Finance, Operations Accounting, Corporate Planning, Financial Analysis and Treasury Management, both locally and internationally.



the board of directors



*From Left to Right
Prof. Lakshman R. Watawala, Chanaka De Silva, J. H. Paul Ratnayeke,
H. L. L. Manohan Nanayakkara, Ramal G. Jasinghe, Ranjith J. Wickremasinghe*



Mr. Ramal G. Jasinghe
Chief Executive Officer

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

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

Mr. Siri Jayasinghe
General Manager - Life Technical

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

Mr. Saliya Wickremasinghe
General Manager - Finance

He is a Fellow of the Chartered Institute of Management Accountants (FCMA) and a member of the Certified Practising Accountants (CPA), and has a BSC degree from the University of Colombo. His career spans a period of 28 years which includes a stint abroad. Saliya's varied experience brings a wider perspective to the finance operations of the Company.

Mr. Udeni Kiridena
General Manager - Non Life

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

the executive committee



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.

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.

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.

Hashra WeerawardenaDeputy 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.

Nadi Dharmasiri

Assistant General Manager - Marketing

She holds an MBA (Merit) from the University of Sri Jayewardenepura, and is a Chartered marketer of the Chartered Institute of Marketing UK. Is a full member of the CIM UK, (MCIM). Her career in marketing and branding spans a period of 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.

Amal Dharmapriya

Assistant General Manager - Information & Communication Technology

He is a BSC in Applied Sciences from the University of Sri Jayewardenepura. His career in the insurance industry spans a period of 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.

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.



From Left to Right
Hashra Weerawardena, Nadi Dharmasiri, Leelaratne Piyasena,
Annesley Arsakulasuriya, Victor Colombage, Amal Dharmapriya,

the management team



transforming leadership

Management Discussion

Economic Review

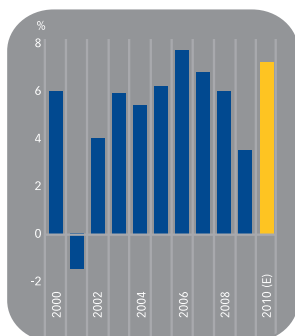
Economic Indicators 2008-2010

Economic Indicators	2008	2009	2010 (latest)
GDP (Rs million) Q1	591,426	601,084	643,539
Q1 GDP Growth (%)	6.20	1.60	7.10
Q2 GDP Growth (%)	6.99	2.12	8.49
Inflation (AA)	22.60	3.50	7.00
Treasury Bill Yield Rate (%)			
91 days (3 months)	17.33	7.73	6.95
364 days (12 months)	19.12	9.33	7.10
Capital Market Indices			
All Share Price Index (1985 = 100)	1,503.0	3,385.6	7,147.8
Milanka Price Index (1998 Dec = 1,000)	1,631.3	3,849.4	7,829.1
Market Capitalisation (RS billion)	488.8	1,092.1	2,358.5

A year on from the end of Sri Lanka's 30 year insurgency, 2010 witnessed an undivided focus on growth and development, with access to areas that were previously inaccessible due to war. This marked a significant turnaround for the Sri Lankan economy, defying the global economic trend which was yet to show tangible signs of recovery in the aftermath of the European debt crisis.

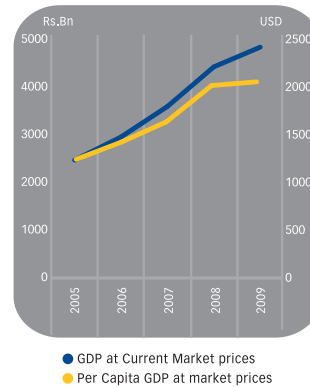
Gross Domestic Product (GDP) is estimated to have grown by 7.2% y-o-y in 2010 driven mainly by above average growth in the Tourism, Construction and Banking sectors, comparable to a growth in the World economy of 4.8%. It is projected to grow by a further 7% in 2011 and 6.9% in 2012, with the Services sector been the dominant contributor. As a result of the increase in GDP in 2010, and correlated growth in Disposable Income, the Banking, Insurance & Real Estate Sector grew by 7.6% in 2010. This was reflected in Asian Alliance's top line (Gross Written Premiums) which grew by 11% in the corresponding year.

GDP Real Percentage Change



Source: Central Bank of Sri Lanka Annual Report 2009

Nominal GDP growth (2005 - 2010)

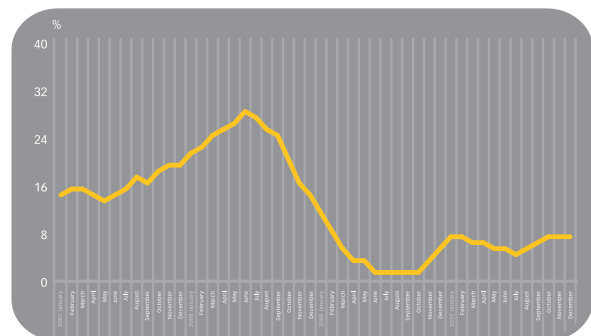


Source: Central Bank of Sri Lanka Annual Report 2009

The reading of the Budget in November 2010 showed a commitment by the Government on opening up Sri Lanka to foreign exchange as well as support to the private sector in the form of reductions in many taxes including Personal Income Tax, Withholding Tax, Corporate Tax, Value Added Tax, Nation Building Tax, as well as Import Taxes on many key items. These tax reductions were specifically earmarked in order to provide an impetus to private sector growth, through increase in disposable income resulting in growing demand for goods and services. It is envisaged that this rise in disposable income will result in a positively correlated growth in the Insurance Industry.

The Inflation rate, as measured by the Colombo Consumer Price Index (CCPI), has continued to ease due to revisions in monetary policy and favorable supply and demand conditions. The annual average inflation as at December 2010 stood at 5.9%, increasing from 4.5% recorded in August due to supply side constraints in respect of several commodities. The CCPI has drawn much criticism with allegations that it understates inflation, and steps were taken to remedy this in 2010 with a re-basing to reflect consumption patterns based on a newer (2006/7) survey.

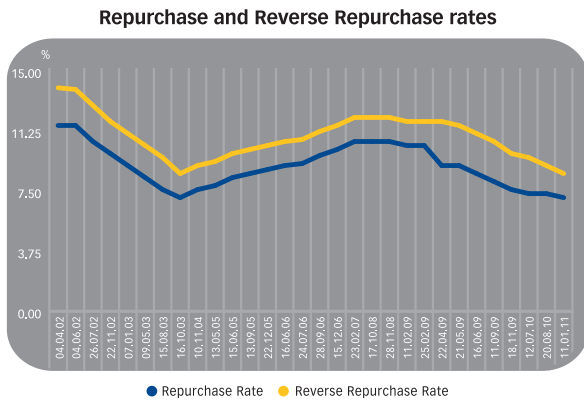
CCPI movement (2007 - 2010)



Source: Central Bank of Sri Lanka Annual Report 2009

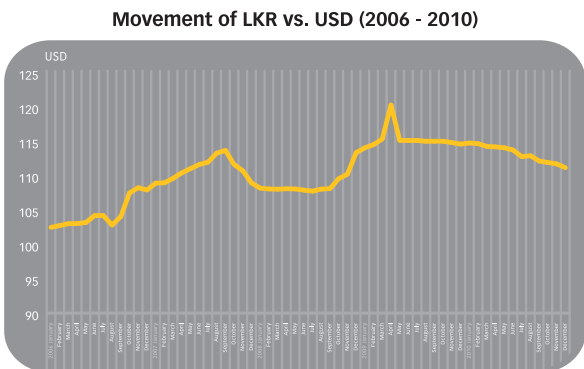
Taking into consideration the recent and forecasted economic developments, the Monetary Board relaxed their stance and took a decision in December 2010 to maintain the policy

interest rates of the Central Bank unchanged, with the Repurchase rate and the Reverse Repurchase rate at 7.25% and 9.00%, respectively. The inflationary pressure is expected to ease off in the coming year, though natural perils may have an impact on the agricultural sector.



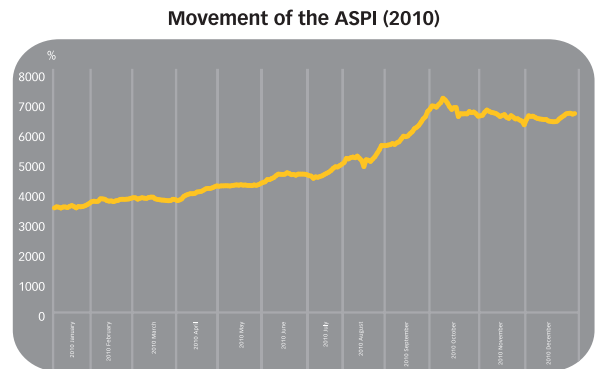
Source: Central Bank of Sri Lanka Annual Report 2009

The Rupee appreciated against the US Dollar by 3.1% in 2010 with foreign exchange inflows exerting pressure on the rupee to appreciate. Given the strong prospects for more capital inflows, with the IMF releasing the fourth tranche of USD 212.5 million under the USD 2.6 billion standby facility; the soaring demand for the current USD 1 billion sovereign bond indicating positive investor sentiments, this trend should continue in the medium term. Central Bank of Sri Lanka's (CBSL's) foreign exchange (forex) reserves of Rs 751 billion, boosted by the aforesaid IMF tranche are at its highest level in history. To maintain the levels witnessed, the government has taken steps to relax regulations on forex movements as well as allow nationals the option of investing overseas'.



Source: Central Bank of Sri Lanka Annual Report 2009

Investors were bullish on the positive sentiment pervading the economy, as a result of which the Colombo Stock Exchange (CSE) continued to soar, appreciating by 96% as measured by its benchmark All Share Price Index (ASPI) and following on the growth of 125% the previous year. This ranks it among the fastest growing indices in the world. In 2010 the CSE reached another milestone, with its market capitalisation surpassing the RS 2 trillion mark for the first time in the history of the stock exchange.



Source: Colombo Stock Exchange

Industry Overview

The insurance industry is monitored and regulated by the Insurance Board of Sri Lanka (IBSL) which was established through the provisions of the Regulation of Insurance Industry Act No. 43 of 2000. There were eighteen Insurance Companies registered with the IBSL as at 31st December 2010. In addition to this there were forty-one Insurance Broking Companies existing as at the same date, and approximately 37,000 Insurance Agents.

In 2009 IBSL took a decision to upgrade their supervisory system with the assistance of the World Bank, to a Risk Sensitive Capital Model for insurance industry supervision, in line with international best practices and emerging standards of the International Association of Insurance Supervisors (IAIS). This new model was introduced during 2010, and strengthened the risk management system of insurance companies.

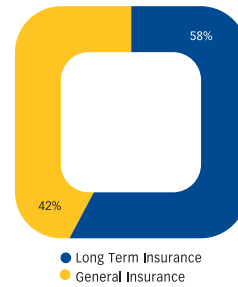
From April 2010, Sri Lankan authorities slashed the premium on terrorism cover by 75% as a result of the end of war, a decision which affected all classes of General Insurance, and is expected to encourage, amongst other sectors, the construction industry to insure their business and properties. Further to this, in June 2010 Sri Lanka was removed from the Marine Hull War Risk insurance list by the Joint War Committee in London, and in July of the same year Sri Lanka was delisted from the Cargo War insurance list by the Lloyds Market Association Joint Cargo Committee (JCC). These de-listings were preceded by lobbying at elevated levels in London by the Government of Sri Lanka.

Legislation was passed on the 6th January 2011 mandating all composite insurance companies to split between Life and Non-Life operations, within four years of said legislation been gazetted. In addition these new entities need to be listed on the Colombo Stock Exchange within a five year timeline. At present there are only seven public quoted insurance companies, namely Ceylinco Insurance PLC (Symbol: CINS), AVIVA NDB Insurance PLC (formerly known as Eagle Insurance PLC) (Symbol: CTCE), Union Assurance PLC (Symbol: UAL), Asian Alliance Insurance PLC (Symbol: AAIC), HNB Assurance PLC (Symbol: HASU), Amāna Takaful PLC (Symbol: ATL) and Janashakthi Insurance PLC (Symbol: JINS).

Industry Growth

The total Premium Income from long term and general insurance has shown a negative growth of 1.57% to RS 57,252 million in 2009 when compared to a positive growth of 12.11% in the preceding year. From 2008 to 2009, the premium income from general insurance has declined by 3%, while the premium income from long term insurance has grown slightly by 0.65%. The decline in the premium income growth during 2009 has resulted in a lower contribution to GDP of 1.19% when compared with the preceding six years. This is mainly due to the lag effects of the global and domestic recession, with consumerism in 2009 at a low ebb despite the economic growth expected due to the end of the civil conflict.

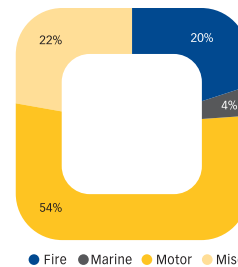
Contribution of Insurance Classes to Total Premium Income



Source: Insurance Board of Sri Lanka Annual Report 2009

Motor Insurance continues to make up a significant proportion of the industry's Gross Written Premiums, contributing to 54% of the total. Miscellaneous contributes 22%, Fire Insurance 20% and Marine 4%.

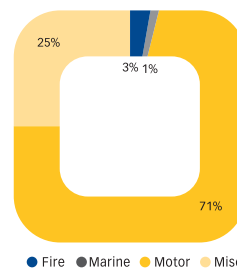
Class-wise Analysis of Gross Written Premium - General Insurance (2009)



Source: Insurance Board of Sri Lanka Annual Report 2009

The industry saw a disproportionate weightage of claims being made amongst the different classes of General Insurance. Motor Insurance is understandably the highest, with 71% of claims made being from this class (as opposed to a 54% of GWP).

Class-wise Analysis of Claims - General Insurance (%)

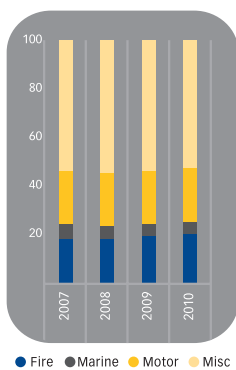


Source: Insurance Board of Sri Lanka Annual Report 2009

Historical figures show that Motor Insurance and Miscellaneous Insurance have remained fairly consistent in their percentage-wise contributions to the Industry's GWP, with Marine Insurance showing a decreasing trend whilst Fire Insurance portraying an increasing trend. At Asian Alliance however the product mix has changed substantially in the last four years, with Fire and Marine Insurance decreasing in their contribution to GWP.

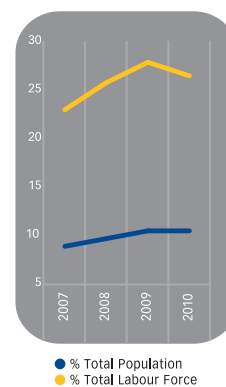
Long term insurance is a major contributor towards channelling savings into national development and industrial investment. However, from 2008 to 2009, penetration of life insurance as a percentage of total population remains unchanged at a low 10.4%, and penetration as a percentage of the labour force has increased just marginally from 27.8% to 28.0%.

Industry Class-wise Analysis of GWP – Non Life (2006-2009)



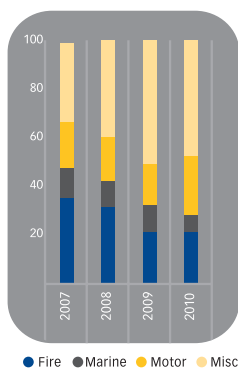
Source: Insurance Board of Sri Lanka Annual Report 2009

Life Insurance Penetration (2006-2009)



Source: Insurance Board of Sri Lanka Annual Report 2009

AAI Class-wise Analysis of GWP – Non Life (2006-2009)

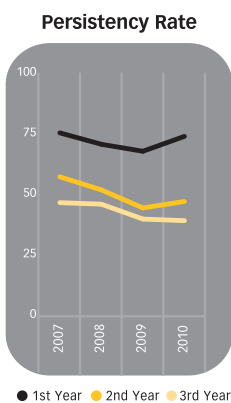
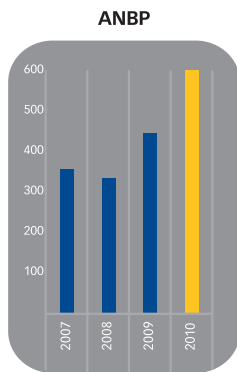


Operational Review - Life

This year 2010 was an exceptional year for Life, a true testimony not only to the vision, determination and passion of each individual member of our team, but also to the ever-increasing trust placed in us by our customers.

Performance and Stability

Thanks to stringent forecasting and careful control on a continuous basis within a qualitative and quantitative measurement framework, the Life division recorded their highest ever profit, a milestone in the 10 year history of Asian Alliance, increasing 30% y-o-y to RS 254 million. As added laurels we witnessed a 23% y-o-y growth in business with GWP reaching RS 1,243 million, ANBP reaching Rs 600 million, and a 9% y-o-y increase in customer retention to 74%. Retention rates are the best indicator of customer satisfaction levels, it is with great pride that your company states that it has the highest retention rates in the industry.



We have always tried to stand true to the fundamentals of insurance – that of the true value of insurance with optimum balance of risk and return so that the specific needs of our customers are met not only today, but throughout their lifetime. We have a very healthy Life Fund of Rs 1,929 million and a Solvency Margin of Rs 90 million, ensuring the stability and claims paying ability of your company.

As further tribute to our stability RAM Ratings, an independent ratings body, increased our rating from BB+ to BBB- in 2010. This rise in ratings will propel us further forward in the coming

year, with improved treaty terms expected from our reinsurance partners, a benefit which will be passed on to policyholders and shareholders alike.

The backbone of Life profits has been further enhanced by our investment portfolio which has surpassed expected results. Investment income shot up to Rs 406 million, a 32% increase from last year. We are grateful to our Equity Portfolio Managers at Asia Wealth Management for carefully managing our funds and providing a welcome boost to our profits.

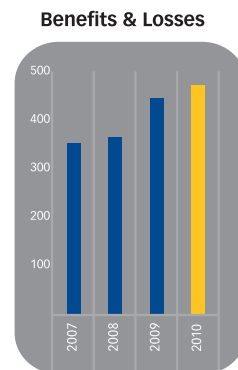
Innovative Products

Asian Alliance caters to a vertical niche segment, made up of families with a monthly income exceeding Rs 100,000/-; approximately 10% of the total population. The Life division has over 50% of this market of the highest policy rates, with the average policy rate for the year ended being Rs 54,000/-

In 2009 we launched our novel product the Premium Relief Plan (PRP) under the protection based Life product, where customers decide upon the Total Term and the Premium Paying Term of the policy and are offered a partial refund of their premium at maturity. This year we took it one step forward, introducing Premium Relief Plan 2 (PRP2) to give our valued customers a full refund of their premium upon reaching maturity. The average policy rate of these products is Rs 70,000/-.

We also continue to tailor make our packages, customising them to the needs of our clients, something that sets us apart from the rest. Our products are extremely flexible, so our customers are guaranteed of buying an insurance package that they are completely satisfied with.

We are also looking at settling all claims within two working days. To facilitate this, we have implemented a new streamlined claims system to minimise time lags and increase efficiency. This intense focus on speedy claim settlement also differentiates us from other industry players.



Most Productive Sales Team

Our sales team of Advisors spread across the country is fairly lean with only 600 members generating a GWP of Rs 1,242 million – a staggering Rs 2 million per advisor. Similarly, they merit an ANBP of Rs 1 million per advisor making them possibly the most productive team in the industry.

Our focus continues to be on grooming them in professionalism and efficiency, as well as rewarding performance. Our annual awards event is a highlight in the industry, and this year was no exception with our 9th annual Quality Awards aptly themed 'Voyage of Discovery - Navigating the tides of a new decade'. On a separate occasion we also honoured our top 200 Advisors with a specialised IT facility in order to further nurture and develop their talents.

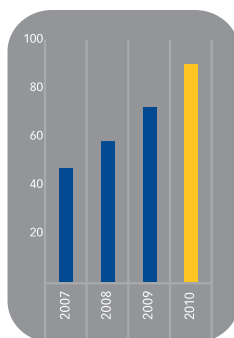
Reinsurance

Prudent claims management and good fundamentals of underwriting has always been our forte, something which is valued by our reinsurance partners. In recognition of this, we received a net reinsurance reduction from our reinsurers for 2010, and we also enjoy high automatic acceptance limits of Rs 10 million. We continue to work with Munich RE Group, one of the largest global reinsurance companies with a network of 5,000 insurance companies across 160 countries, and their stability ensures risk tolerance for your company as well as unmatched premium rates.

Increased Value to Our Policyholders

Our focus is on distributing greater value amongst our shareholders and customers. We took the bold initiative to carry out an Interim Audit and a Statutory Valuation of the Life fund and to award generous bonuses to our policyholders. This year we awarded a total of Rs 90 million in bonuses to our customers and a further Rs 254 million to our shareholders. Going forward, profits will be declared on a quarterly basis to both policyholders and shareholders starting in 2011, again a first in the industry.

Policyholder Bonus



Branch Expansion Programme

We sustained our proposed country-wide branch expansion plan throughout the year under review, with new branches opened in Piliyandala, Wennappuwa and Minuwangoda raising the number of branches to 25. We consider this programme to be a success, with approximately 25% of Life's profit coming from these branches. This expansion drive will continue in 2011, with 10 new branches planned for the coming year. We are confident that this will see your company better equipped to extend the Asian Alliance promise to more of the population across the island.

Outlook for 2011

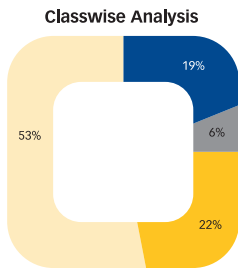
Looking to the year ahead we are determined to elevate the Life division on to even greater heights. We have set ourselves an ambitious target of increasing ANBP by a further 25% to an average policy value of Rs 60,000/-, and to take customer Retention Rates up to 80% with an increased quality of business. To assist in this progress we hope to add 300 new Advisors to our sales cadre, and will not cease in our focus on the professional development of all our employees.

Our vision for the future is encapsulated in a five year plan (2011-2015) through which we envision rapid organic and geographic expansion especially to cover the North and East provinces. We look forward with eager anticipation to the coming year, and to becoming the 'diamond' of the insurance industry – highly valued and almost impossible to break.

Operational Review - Non Life

During the year under review, the Non-Life division focused primarily on refining the quality of their portfolio, shifting from an emphasis on growth in Gross Written Premium (GWP) to having fewer but more profitable policies. Accordingly GWP for the year reduced from Rs 497 in 2009 to Rs 431 in 2010 with conscious shedding of non profitable classes of Insurance coupled with the loss of substantial volumes of government related business following a directive that all state business insurance should vest with the Sri Lanka Insurance Corporation. However, the division recorded a Rs 112 million growth in net profit for the year ended 2010, primarily due to the prudent underwriting measures taken along with the significant returns from the investment portfolio.

As in previous years, Motor continued to be the largest contributor to Non-Life with premiums of Rs 229 million, or 53% of the total premiums. The other sectors, namely Fire, Marine and Miscellaneous, consisted of the remaining 47%.

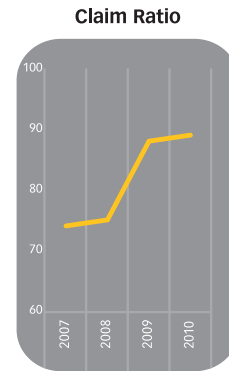


Although the Marine sector holds only circa one per cent of the market at present, we believe that this is a growth sector. Interestingly, it has proven to be a high margin business, having made a Profit of Rs 2.3 million from a GWP of only Rs 24.7 million.

Focus on Portfolio Quality

As part of our drive to reduce claims ratios, the profitability of different accounts was studied, and painstaking steps taken to shed loss-making accounts worth approximately 14% of the previous year's GWP. For the selection of accounts going forward, psychographic and demographic data was collected and careful statistical analysis carried out to determine the most profitable classes, the results of which were handed over to the sales team to allow them to focus on the target markets.

Risk analysis methods were also concentrated upon in order to more effectively and accurately determine the risk of a policy. Geo-mapping was carried out to determine property risk, with different areas being more prone to natural catastrophes such as floods, landslides, lightning etc. A not entirely altruistic drive on education in Risk Minimisation Skills was carried out for clients by AAI, in the form of Fire Safety and Factory Safety Programmes.



Strengthening Reinsurance Capabilities

Reinsurance is the core of an insurance company, and much of our vigour depends on our re-insurers. We strengthened our relationships with our partners – all fundamentally strong reinsurers - taking prudent steps in tandem with them to guarantee stability to the customer. Our internationally acclaimed reinsurers are reputed players in the global scenario with AM Best 'A' rating, and through this partnership we will ensure the sustainability of your company.

Strengthening Our Relationships

Insurance is a relationship game. It is imperative that we foster healthy relationships with our Clientele, Agents and of course the Broking fraternity.

Just as importance was placed on determining the most profitable products to be sold and which target segments to sell to, equal if not greater importance was placed on the training of the sales force, paying close attention to the 6P's – Product, Price, Promotion, Place, People and Passion. Through a structured development platform, sales Staff are guided towards effective one-on-one marketing and high levels of customer care.

To motivate and incentivise performance by Sales Staff, it was proposed that GWP and Net Contribution or Productivity of Sales Staff be critically looked at on a yearly basis, and high performers be recognised at the annual Life Awards ceremony. Through this we hope to garner the best from our sales team, and by keeping them motivated, see a positive effect on both our top and bottom line.

Brokers are an untapped source, due to a deterioration of relationships in the past. Brokers currently contribute to 26% of the whole industry; however in the past year the GWP attained by Brokers on behalf of AAI was less than 1%. This is something we are striving hard to rectify and to have a closer working relationship in the future.

In addition to this we have taken steps to reinforce bonds with our fellow Group companies. Richard Pieris, as in years past, continues to support us with approximately Rs 40 million in premiums coming from them. We are also seriously working towards reviving synergies with Asia Asset Finance to auger in a new epoch of a mutually beneficial and symbiotic

relationship. More than 75% of the industry's motor policies come from leasing companies, we too hope to piggyback on Asia Asset Finance's core leasing ties in order to promote our motor insurance products, in particular to the three-wheeler segment which is Asia Asset's forte.

Restructuring of Business Processes to Increase Productivity

Our Technical Manual, the font of knowledge on which our sales staff are dependent upon, was updated in 2010, ensuring that it was in keeping with internationally accepted principles. Staying up-to-date with current trends and statistics is vital to the effective profiling and targeting of prospective clients. Another manual of equal importance – the Manual of Financial Authority (MOFA) detailing acceptance level limits per staff member based on competencies – is also in the process of being revised.

Following the update of manuals, we standardised and streamlined our delivery process, so that staff are now pressured to deliver policies to customers within a certain timeframe, pre-defined per product. This can even be in the range of minutes for products such as travel insurance.

Another big step undertaken was with regards to Monthly Statistics, which were previously computed manually, a tedious and time-consuming procedure undertaken by employees. The process was streamlined and modernised to be automatically updated on a central system, resulting in a more efficient use of time. Therefore time saved from such automation allows our staff to focus on the core business, and in turn increases productivity.

In addition to the above, the office layout at headquarters was restructured to give rise to a more efficient workflow and customer friendly area.

Effective Communication Across All Levels

It is essential that all levels of the insurance chain are kept abreast on what is happening. A monthly Underwriting Results Review is conducted with the participation of Underwriting and Claims Managers, Sales Managers, Finance, Marketing, IT, HR and the CEO; this imbues a culture of answerability by employees and hence responsibility, as well as enabling managers to keep staff motivated. Moreover, by tracking figures and KPIs it is possible to correct anomalies as they happen.

The main KPIs are as follows:

- Gross Written Premiums (GWPs)
- Claims Ratios
- Net Acquisition Cost
- Direct Expense Ratio
- Underwriting Profits
- Sales and Other Expenses
- Operational Contributions

Expansion of Our Reach

We are constantly striving to attain the optimum product mix in our portfolio, and to innovate new products to maximise returns and profitability to the shareholders. Looking forward we are studying alternate channels of connecting with clients; such as tying up with banks, microfinance institutions and other affinity groups in order to expand our reach.

We are also looking at expanding our presence across the island by making use of the 22 Asian Alliance branches which have been predominantly Life offices. In particular we look forward to expanding our brand into the North and East of the country.

Looking Forward

Insurance is a growth business, and no more so than now with the post-peace economic boom. However, we are yet to see an increase in market size as a result of the opening up of the North and East, and have concerns about the insurance industry being saturated with too many players. This being said, we have faith in the quality of our products and the abilities of our sales staff, and await a golden era for insurance which we are confident of in the immediate future.

Financial Review

Profitability

Overview

- Net Income to Shareholders of Rs 368 million, more than double the previous year's income.
- Underwriting Results in 2010 has grown by 21% to Rs 333 million
- Gross Written Premium increased to Rs 1.67 Billion, a growth of 11%
- Income from Investment increased to Rs 693 Million, a growth of 77%
- Net Profit to GWP has doubled in year 2010 to 22%
- Earnings per Share of Rs 13.73, a growth of 140%
- Dividend per Share of Rs 3.00, a growth of 130%

During the year under review the Company reinforced its sales distribution channels by way of heavy investment into training and knowledge management, as well as refined its tailor made products in both Life and Non Life segments. This contributed towards an overall growth in revenue of 28%. With its historically prudent underwriting principles, combined with the careful culling of unprofitable products and portfolios, the Company continued to improve upon the quality of its insurance portfolio to achieve a stable low Loss Ratio.

The Company also benefitted immensely from steps taken to maximise returns on its Investment Funds (both Life and General). A heavier weightage was given to the share market, and funds allocated and entrusted to the professional portfolio management services of Asia Wealth Management (Pvt) Ltd invested within the Insurance board guidelines.

As a result of all of this, the Company achieved a significant increase in Net Income to Shareholders in the financial year 2010. Our financial results confirm that performance has improved in all lines of business. The Life insurance business grew in terms of both Gross Written Premiums and Underwriting Profits. The Non-Life segment continued to build momentum around its new strategy and to make a very strong contribution to overall performance.

The Company also carried out statutory valuations and interim audits of the Life Division during the year under review. This process enabled your Company to be the only insurance company to declare interim bonuses to policy holders and transfer profits to the shareholders.

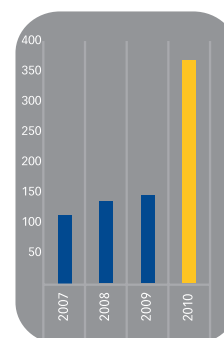
Another strategic investment made by the Company was in the Oracle Financial E-Business Suite, at a cost of Rs 25 million. This system was fully integrated with the two front end operational systems, allowing real time online integration and hence increasing the efficiency of our business processes whilst lowering the expense ratio

Profit after Tax

Company recorded a significant growth in Profit before Tax amounting to Rs. 370.5 million during the year 2010. The Life division contributed Rs 253.6 million and Non Life division contributed Rs 116.9 million for this outstanding performance. In arriving at the Earning per share the company has taken into consideration the impact of the Rights Issue carried out in December 2010.

The profit figure of Rs 370.5 million has been arrived after providing adequate reserves in both the 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.

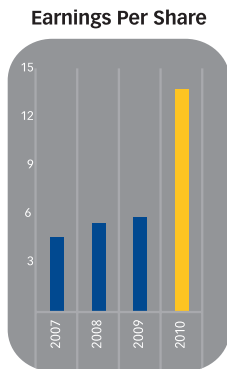
Net Profit After Tax



	2010	2009	2008	2007	2006
Gross Written Premium (Rs'000)	1,673,274	1,505,780	1,429,848	1,274,383	1,165,613
Underwriting Results (Rs'000)	332,891	279,083	361,558	309,895	281,491
Income from Investments(Rs'000)	692,573	391,695	229,769	153,659	69,880
Net Profit after Tax (Rs'000)	368,008	144,778	135,404	113,296	70,768
Earnings per Share (Rs)	13.73	5.73	5.42	4.53	2.83
Dividend per Share (Rs)	3.00	1.30	1.25	0.50	-
Return on Equity	55%	32%	32%	42%	41%

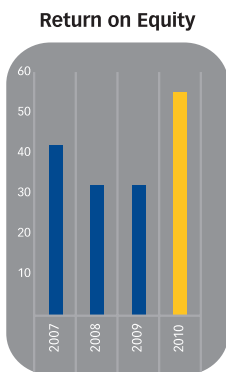
Earnings per Share

The Earnings per share of the company has increased to Rs 13.73, a 140% growth over last year, which serves as one of the key indicators of the company’s profitability. In arriving at the Earning per share the company has taken into consideration the impact of the Rights Issue carried out in December 2010.



Return on Equity

Return on Equity of the Company has increased to 55%, an increase of 23% over last year, which indicates the focus of the management to maximize the shareholder return. The Return on Equity has taken in to consideration the impact of the Rights issue carried out in December 2010.



Strength and Stability

Overview

- RAM Rating improved Company claims-paying ability rating from BB+ to BBB-
- This followed the completion of a fully-subscribed Rights Issue for a value of Rs 812.5 million.
- This capital raising exercise has increased the Investment Base by 62% y-o-y from Rs 2,314 million to Rs 3,751 million.
- Net Asset Value has increased by over 3 times to Rs 1,561 million.
- Also of great significance is the company meeting the required level of Solvency Ratio in both Life and Non Life segments
- As a reflection of the Company’s stability the share price increased by 43% during the year and was Rs 80.20 on 31 December 2010 (following Rs 55.75 a year ago).
- Market capitalization has also more than doubled during the year to Rs 3.007 billion, a growth of 115% y-o-y.

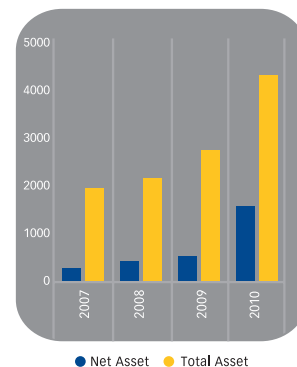
Capitalization

During the year the Company successfully completed a Rights Issue of Rs 812.5 million in December 2010 which has strengthened the company’s Balance Sheet significantly. The Investment Base increased from Rs 2,314 million to Rs 3,751 million, a 62% increase y-o-y.

As a result of the growth in Stated Capital and internally generated funds, the Total Assets of the Company have increased by 58% y-o-y from Rs 2,740 million to Rs 4,318 million. Adding to this, the Company’s operational results have further strengthened the Net Asset Value of the Company to Rs 1,561 million, a 202% increase y-o-y. The above solid financial base is essential in order to support our customers in their times of need.

Based on the successful completion of the Company’s Rights Issue, RAM Ratings Lanka upgraded the Company’s claims-paying ability rating, from BB+ to BBB-; the rating outlook remains stable.

Net Asset & Total Asset



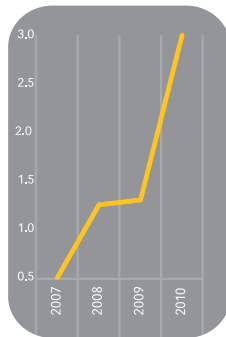
● Net Asset ● Total Asset

Financial Review

Dividend

The Company's healthy financial position enabled it to maintain its Dividend pay-out to shareholders in 2010. The Company proposed a Dividend of Rs 3.00 per share, significantly higher than the dividend of Rs 1.30 per share paid out in 2009. In total, the Company has proposed Rs 112.5 million in Dividend to Shareholders in FY2010 compared to Rs 32.5 million the previous year. This translates into a Dividend Pay-Out Ratio of 31% of the Net Income Available to Common Shareholders for 2010.

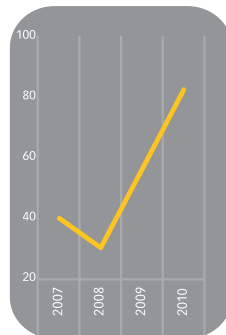
Dividend per Share



Stock Price and Market Capitalization

On December 31, 2010, the Asian Alliance Insurance PLC (Symbol: AAIC) stock closed at Rs 80.20, a price increase of 43% y-o-y. The Company's market capitalization amounted to Rs 3.094 billion on the same date, also up 115% over the previous year. This is a good indication of the market sentiment regarding the Company, and the continued trust our Shareholders place in us.

Share Price - Market



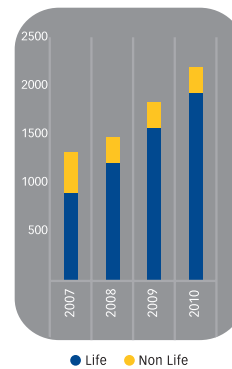
Insurance Provision

The Insurance Provision for Life increased to Rs 1.929 billion, a growth of 24% y-o-y. This is a reflection of growth in new business combined with improved retention rates. The above provision includes the Bonus to Policyholders, required Solvency and other Contingencies as certified by the consultant Actuary.

Conversely the Insurance Provision for Non-Life has dropped to Rs 261 million, a decline of 5% y-o-y. This negative growth

is a result of the Non-Life's strategy to concentrate on the long-term quality of the portfolio at the short-term cost of its Gross Written Premiums. 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.

Insurance Provision



Solvency

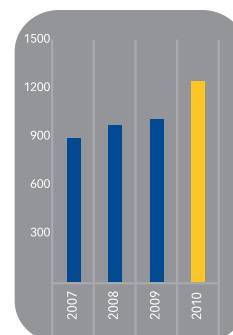
The Company commendably continued to maintain its Solvency margins well above the statutory minimum solvency margins in both the Life and Non-Life divisions. The Statement of Solvency and Approved Assets covering both Life and Non-Life divisions are presented on page 32 of this Annual Report.

Segmental Performance

Life

In year under review, Gross Written Premium In Life reached Rs 1,242 million, a 23% growth over the previous year. The growth in premium was a direct result of a 35% growth in new business while improving the retention rates to 74%. Annualized New Business Premiums (ANBP) for FY2010 was Rs 600 million, a 35% growth y-o-y. In tandem with this, the Company increased its Average Policy Value to Rs 55,000 demonstrating its dominance in the high income bracket niche market. Due to a concerted effort by the Life Sales Advisors and the Policy Conservation Unit to continually improve upon the standards of customer service, the retention rates improved dramatically in FY 2010.

GWP Life



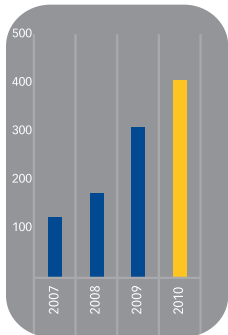
Underwriting Practices

The Life division's Underwriting Profit reached an all-time high of Rs 318 million. There are three components of the Underwriting Profit; Revenue Growth, Expense Savings and Morality Gain. The sum of Expense Savings and Mortality Gain continued to be stable, supported by growth in Premium Income.

Investment Performances

During the year under review, the Life Division's Return On Investment (ROI) was 24%. This was achieved as a result of locking in the Fixed Income Securities at a higher interest rate while also placing a greater weightage on investments into the equity market to benefit from the Bullish sentiment seen in the market in FY2010.

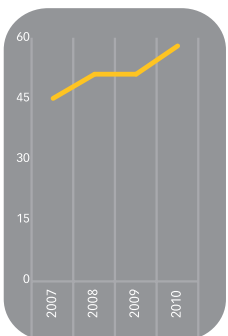
Investment Income Life



Expense Management

During year 2010 as a result of an organic expansion in the life segment the Operating & Administration Expenses to GWP was 38% in FY2010, against 34% in FY2009. Along with the branch expansion the 35% growth in new business had a strain on the expense ratio. However, these strategies are expected to reap dividend in future years in terms of more market penetration and future economies of scale.

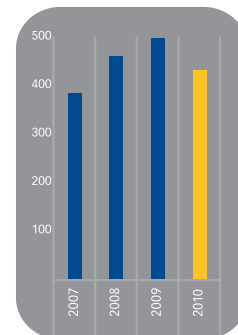
Expense Ratio Life



Non-Life

During the year under review the Company's focus was on refining the quality of its Non-Life portfolio by taking a cautious stance on underwriting at the expense of dropping its market share in the short-term, as well as culling unprofitable portfolios. The Company recognizes that growth in premium income is essential to overall profitability and is strenuously moving towards this with its medium to long term strategy. However, despite a slight improvement in the business climate for Non-Life insurance, conditions still remain harsh.

GWP Non-Life



As in previous years the highest contribution to Premiums came from the Motor segment, which brought in Rs 229 million representing 53% of Total Premiums. The Non-Motor Premiums written during the year stood at Rs 202 million and accounted for 47% of total Non-Life business.

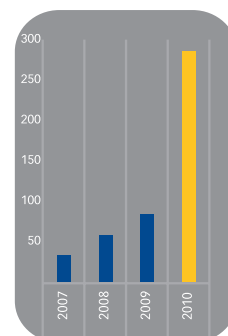
Underwriting Practices

The Net Losses paid declined by 11% in FY2010 due to improved underwriting discipline and sound reinsurance arrangements. However, the floods that affected most parts of the country this year had a major impact on the loss ratio. As a result of the drop in Net Premium written, the overall Claims Ratio for all four lines of business rose to 89%.

Investment Performances

During the financial year, the Non-Life division's Return on Investment (ROI) was 47%. As with the Life fund, this was due in large part to profit taking on the bull run witnessed in the equity market.

Investment Income Non-Life

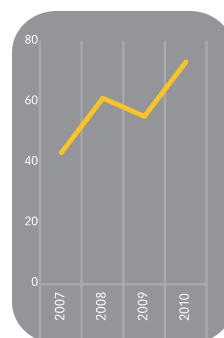


Financial Review

Expense Management

Despite a marginal increase in both Operating and Administration Expenses of 4%, the net effect of the decline in Net Premiums earned caused the Expense Ratio to rise by 20 percentage points to 75%. The Company continually strives to improve its expense management process, one of the priorities highlighted in its medium-term plan.

Expense Ratio Non-Life



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 the Solvency Margin (General Insurance) Rules - 2004 and Solvency Margin (Life Insurance) Rules - 2002 respectively and is in line with the formats stipulated by the Insurance Board of Sri Lanka (IBSL).

	2010 Rs. '000	2009 Rs. '000
General Insurance Business		
1. Value of Admissible Assets	1,481,226	715,779
2. Amount of Total Liabilities	495,765	356,908
3. Available Solvency Margin (Line 1 minus Line 2)	985,461	358,871
4. Required Solvency Margin	56,548	63,290
5. Solvency Ratio (Line 3 divided by Line 4)	17.43	5.67
Life Insurance Business		
1. Value of Admissible Assets	2,130,837	1,731,565
2. Amount of Total Liabilities	2,013,043	1,587,045
3. Available Solvency Margin (Line 1 minus Line 2)	117,794	144,520
4. Required Solvency Margin	89,738	65,481
5. Solvency Ratio (Line 3 divided by Line 4)	1.16	2.21

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.

	2010 Rs. '000	2009 Rs. '000
General Insurance Business		
1. Approved assets maintained in General Insurance Business	1,452,400	632,260
2. Technical Reserve	198,120	264,868
3. Approved assets in Excess of the Technical Reserve	1,254,280	367,392
4. Approved Assets as a % of the Technical Reserve	733%	239%
5. Required Ratio	100%	100%
Life Insurance Business		
1. Approved assets maintained in Life Insurance Business	2,027,219	1,731,565
2. Life Insurance Fund	1,929,352	1,560,395
3. Approved assets in Excess of the Life Insurance Fund	97,867	171,170
4. Approved Assets as a % of Life Insurance Fund	105%	111%
5. Required Ratio	100%	100%

Investment Review

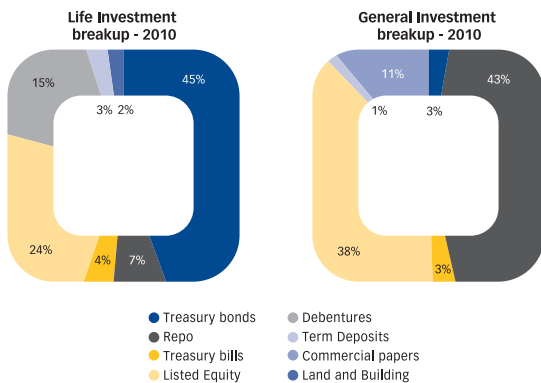
The year under review was optimistic in nature and robust in strategies and action, and this was reflected in both the macro and micro sectors and amplified through the performance of the Colombo Stock Exchange.

Highlights

- Impressive return from investment in equity.
- Larger portion of funds invested in listed equity.
- Reduction in fixed return rates, shifting towards corporate debt versus treasury investments.
- Shifting focus to mid/short-term end of yield curve.

Description of Funds

The company's investments are conducted through two funds, namely the Life Fund which invests premiums received on Life policies, and the General Fund which utilises funds received by the General Insurance business.



The company increased their exposure to short-term instruments such as listed equity and corporate debt in a paradigm shift away from government securities, in order to maximise returns on investments and take advantage of the market movements. In tandem, care was taken to maintain reasonable levels of risk through a diversified spread of investments into investment classes including government securities that met IBSL regulatory requirements, and to retain a healthy solvency margin over and above what is required.

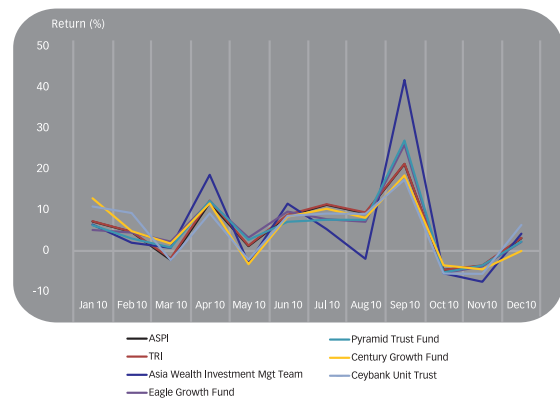
Management of the equity portfolios of both the Life and General Funds were ably undertaken by Asia Wealth Management (a fully owned subsidiary of Asia Capital PLC), which has an inbuilt sound and professional mechanism to conduct research and receive up to date information on markets and movements. This combined with a formidable team of experienced brokers has resulted in Asian Alliance Insurance PLC recording the highest ever income from investments to date, with income from equity increasing by 335% and contribution to total income rising to 247 million as compared to 73 million in 2009.

Mr. Manohan Nanayakkara, Managing Director of AAI, headed the investment team, comprising of professionals with expertise in various instruments ranging from treasury assets to corporate debt, bank deposits and listed equity, which included a team from Asian Alliance Insurance PLC and Asia Wealth Management Company (Private) Limited. Synergies available at Asia Capital Group in the form of latest research

and management information on equity were taken advantage of, and the resultant exposure to the various elements and study of market forces resulted in record levels of investment income that has significantly boosted your company's bottom line in its tenth year of operations.

The funds managed by Asia Wealth Management on behalf of Asian Alliance out-performed the market (as measured by the ASPI) by 5.23% with returns in excess of 72%, a note-worthy achievement unmatched by any of the other players in the investment management industry.

Performance Summary of Investment Management Industry - 2010



General Fund

Asian Alliance Insurance's General Fund performed extremely well in 2010 to record an investment income of 286 million, a 241% increase from 2009. A considerable portion of these profits have arisen from investments into equity whilst investments into corporate debt and government securities contributed to the final tally.

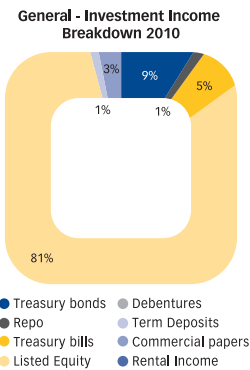
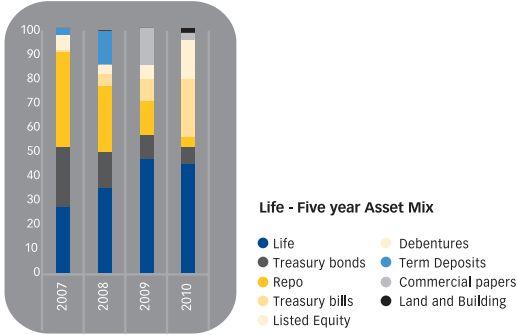
The trend of reducing rates on government securities was noted through forecasting carried out in 2009, and accordingly the investment committee took steps to tilt the balance in investments from mid to short term investments in government securities towards short term investments in equity and commercial papers, which was expected to give a higher yield. This resulted in more funds being made available for equity and corporate debt, which in turn allowed the company to maximise utilisation of solvent assets in the General Fund for this purpose.

The shift paid off handsomely, as returns from investments in equity in the majority, and commercial papers resulted in the highest ever investment income recorded by the General fund in its history of operations.

During the course of the year, investments into equity accounted for a major part of investments in the General fund; although due to the funds received from the Rights issue held in December 2010 the weightage of equity was reduced. Accordingly, as at 31st December 2010 the government securities component was 50%, equity component 38%, corporate debt component 11% and term deposits component of 1%.

An indication of the returns gained from equity could be measured through the graphical form presented below.

Investment Review



Forecast

The Company does not foresee the same levels of returns from equity in year 2010 to continue. Nevertheless, investment into equity still appears more attractive when compared to returns from other asset categories. As such, emphasis will be given to equity investments which will be combined with a study of fundamentals. We expect the interest rates to be stable through the year in question. Therefore we will strive to divide available funds to maximise utilisation of the solvency margin as well as maintain liquidity levels to meet commitments in claims as well as reinsurance payments and administration expenses.

Life Fund

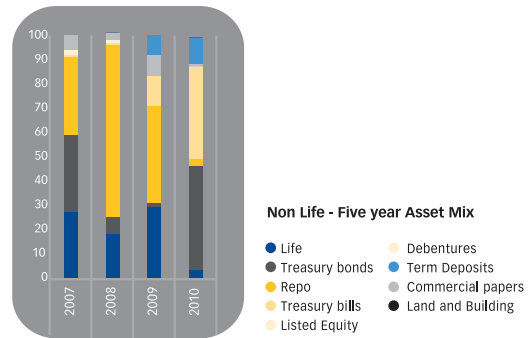
The composition of assets under management in the life fund witnessed a shift from investments in long term government securities to investments in long term corporate debt, namely listed debentures; it also witnessed a maximisation of investment in listed equity, thereby allowing the Life fund to cash in on the bull run in 2010. However the Life fund, been long term in nature, still essentially focuses on stable long term investments and therefore investments in government securities still constitute the larger slice of the pie. The Life Fund results record an investment income of Rs 406 million which is 32% higher than that which was recorded in 2009. Returns are divided between investments into equity, corporate debt and government securities.

As stated earlier, the trend of reducing rates on government securities was noted as per research carried out in 2009, and steps were taken to lock funds in high yielding government debt in the long end of the yield curve in late 2009. Therefore the company was able to safeguard a satisfactory guaranteed return on government securities investment before branching

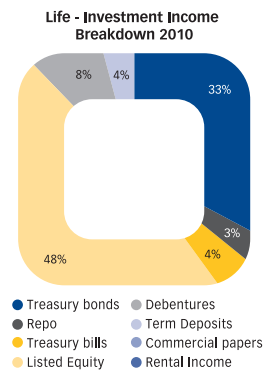
out to other asset categories. Due to these steps taken at the start of 2010, the fund was able to accommodate more risk in the form of higher investments in listed equity and corporate debt.

The additional investment resulted in returns over and above the market returns, as returns from investments in equity and corporate debentures resulted in a substantial increase in investment income.

The weightage of the Life fund as at 31st December 2010 shows the break up of investments in the government securities component which was 57%, an equity component of 24%, corporate debt component of 16% and term deposit component of 3%.



An indication of the returns gained from equity could be measured through the graphical form presented below.



Forecast

Due to the long-term nature of the fund it is envisaged that a continued focus be given to long-term assets, whilst not compromising on any short-term assets that will allow for significant gains. The Central Bank has taken into consideration the request of Insurance Companies in that there is a lack of long term securities which hamper administration of ALM. Therefore it is expected that Central Bank would issue long term tenors Government Bonds targeting insurance companies and therefore allow better allocation based on ALM.

Further, in order to continue to obtain best returns whilst maintaining ALM, it is the view of the Investment committee that additional investments be conducted in equity and corporate debt which fall in line with company policies on risk/return ratios.

Investor Information

Highlights

Credit Rating upgraded to Investment Grade

Your company is proud to announce that, due to higher capitalisation as a result of the Rights Issue towards the end of the year, as well as improved operational efficiencies, particularly in the Non Life Division; the rating has been improved to investment grade of BBB- from the previous BB+.

Rights Issue of 1 for 2

Your company announced a Rights Issue of one share for every two existing shares of the company at a Rights issue price of Rs. 65. The purpose was to raise funds to restructure group financial assets as well as improve capitalisation and solvency levels.

Increase in Market capitalisation

Your company's share saw a marked increase in its value through the year, closing the year at Rs. 80.20, an increase of 43%. Market capitalisation therefore increased to Rs. 3,007,500,000 from Rs. 1,400,000,000 as at 31st December 2009.

Your investment in AAI PLC

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

Stated Capital – Rs. 1,062,500,000

Class of share – Ordinary shares

Shares held by the public before rights issue – 2.11%

Shares held by the public after rights issue – 1.70%

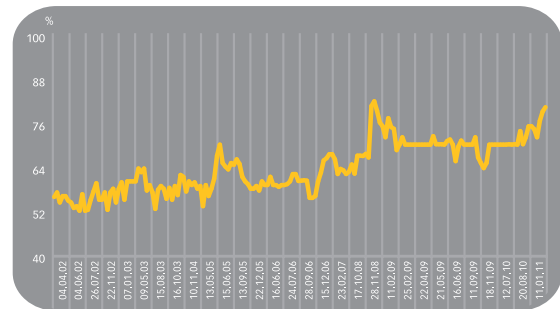
The Colombo Stock Exchange notched up another historic year by been the best performing stock exchange in Asia and second best in the world for the year 2010. With improved investor sentiment both locally and globally, increased capital expenditure on infrastructure, opening up of the North and East for trade and improved fiscal controls, the country witnessed a significant increase in Gross Domestic Product for the year at an estimated 7.2%. Growth was witnessed in all segments from banking and financial performance to tourism sector and services. It is forecasted, not taking in to consideration any natural perils, that growth in these sectors will continue at pace for the medium term as well.

Shares of your company increase significantly in the year under review with the market price of the share closing at Rs. 80.20 as compared with Rs. 56 in 2010. Further details on this performance can be found in the following statistics.

Trading Statistics	2010	Q4	Q3	Q2	Q1	2009
Highest	95.00	80.50	95.00	70.00	64.50	55.75
Lowest	50.00	60.50	54.50	53.25	50.00	25.50
Period End	80.20	80.20	77.20	59.25	55.25	55.75

Further, your company recorded a 154% increase in profits attributable to shareholders for 2010. The impact that this increase in performance has had on key performance indicators are as follows.

AAI share price movement during 2010



	2010	2009	2008	2007	2006
EPS	13.73	5.73	5.42	4.53	2.83
PER	5.84	9.73	5.53	8.77	5.03
Price to Book Value	1.93	2.71	1.85	3.70	2.12
ROCE (%)	55.23	31.92	32.45	42.17	42.16
Net Assets Per Share	41.62	20.70	16.16	10.75	6.71

Additional information relating to shareholder breakdown is given below. Registered shareholders for the year ended 31st December 2010 was 513.

Trading Statistics	2010	Q4	Q3	Q2	Q1	2009
Market price per share	80.20	80.20	77.20	59.25	55.25	55.75
Existing shares	37,500,000	37,500,000	25,000,000	25,000,000	25,000,000	25,000,000
Number of transactions	2,123	609	836	443	235	724
Shares traded	14,574,100	528,800	8,022,900	716,800	5,305,600	3,010,820
Value of shares traded (Rs)	821,003,320	37,573,920	470,488,800	45,296,200	267,644,400	149,489,055
Market Capitalisation (Rs)	3,007,500,000	3,007,500,000	1,930,000,000	1,481,250,000	1,381,250,000	1,400,000,000

Investor Information

Resident	As at 31st December 2010			As at 31st December 2009			
	Number of Shares	No. of Shareholders	No. of Shares	% of Total	No. of Shareholders	No. of Shares	% of Total
1 - 1000		422	122,133	0.49	292	75,133	0.34
1001 - 10000		76	235,200	0.94	66	242,100	1.08
10001 - 100000		8	202,700	0.81	8	298,500	1.33
100001 - 1000000		1	625,000	2.50	4	2,041,700	9.08
1000001 & Over		6	23,814,967	95.26	6	19,814,467	88.17
Total		513	25,000,000	100.00	376	22,471,900	100.00

Resident / Non Resident

	As at 31 December 2010			As at 31 December 2009		
	No. of Shareholders	No. of Shares	% of Total	No. of Shareholders	No. of Shares	% of Total
Resident	508	24,981,800	99.93	376	22,471,900	89.89
Non Resident	5	18,200	0.07	5	2,528,100	10.11
Total	513	25,000,000	100.00	381	25,000,000	100.00

Individual/Institution

	As at 31 December 2010			As at 31 December 2009		
	No. of Shareholders	No. of Shares	% of Total	No. of Shareholders	No. of Shares	% of Total
Individual	474	424,264	1.70	347	3,658,874	14.64
Institutional	39	24,575,736	98.30	34	21,341,126	85.36
Total	513	25,000,000	100.00	381	25,000,000	100.00

Major Shareholder List

Share Holder	After Rights Issue As at 6 January 2011			Before Rights Issue As at 31 December 2010		
	No. of Shares	%	Rank	No. of Shares	%	Rank
Fast Gain International Limited	9,096,000	24.26	1	-	-	-
Pan Asia Banking Corporation PLC/Asia Capital PLC	8,399,853	22.40	2	8,230,300	32.92	1
Seylan Bank PLC/ Asia Fort Sri Lanka Direct Invest	4,900,000	13.07	3	4,900,000	19.60	2
Richard Pieris and Co. Ltd - Account No. 01	4,691,500	12.51	4	3,128,000	12.51	4
Richard Pieris Distributors Limited	3,750,937	10.00	5	2,500,625	10.00	5
Asia Fort Sri Lanka Direct Investment Fund Limited	3,712,200	9.90	6	3,712,200	14.85	3
Asia Capital PLC	1,343,863	3.58	7	1,343,842	5.38	6
Waldock Mackenzie Ltd / Richard Pieris & Company PLC	937,500	2.50	8	625,000	2.50	7
Mr. G C Goonetilleke	76,550	0.20	9	76,500	0.31	8
Merchant Bank of Sri Lanka Limited / Union Investment	34,650	0.09	10	23,100	0.09	10
Asia Asset Finance Limited	31,400	0.08	11	31,400	0.13	9
Sea Consortium Lanka (Private) Limited	23,550	0.06	12	15,700	0.06	12
Mrs. E M Dias Bandaranaike	20,000	0.05	13	20,000	0.08	11
Pershing LLC S/A Averbach Grauson & Co.	15,100	0.04	14	15,100	0.06	13
Seylan Bank Limited/James Henry Paul Ratnayake	15,000	0.04	15	10,000	0.04	16
Mr. D W G Ponweera	14,000	0.04	16	9,000	0.04	19
Mr. P T Chinniah	12,750	0.03	17	8,500	0.03	20
Mrs. S C R Thambimuttu	10,700	0.03	18	10,700	0.04	14
First Capital Markets Limited / Mr. W A K Perera	10,200	0.03	19	10,200	0.04	15
Mr. G R D Alwis	10,000	0.03	20	10,000	0.04	18
Mr. S B Hewage	10,000	0.03	21	10,000	0.04	17

Information Communication Technology Review

Information Communication Technology (ICT) plays a pivotal role in the Insurance industry as it enables unified communication and the integration of modern technology in order to enhance efficiencies and productivity. The management of Asian Alliance perceives investment into ICT as providing a strategic advantage over our competitors, and a few key initiatives have been undertaken in 2010 to strengthen this advantage. There has also been a continued focus on training and knowledge management, and on developing a comprehensive IT Policy framework.

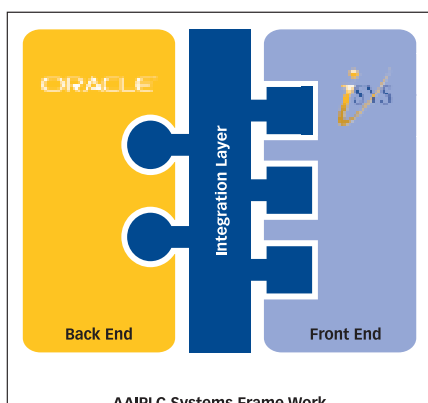
Own Disaster Recovery Centre (DRC)

During the year under review we opened our own data Disaster Recovery Centre (DRC) in Panadura, with continual replication on a real time basis of the entire system onto a secondary system. This allows for the complete offsite backup and hence security of all information as collected by AAI, with the objective that in the event of a system failure, data will not be lost and the seamless continuance of the business can be maintained. This procedure has ensured the resilience of your company under any circumstances.

Increased Investment into ICT

In 2010 the Management took a strategic decision to invest Rs 25 million towards purchasing the Oracle E-Business Suite product. The modules purchased were General Ledger, Inventory, Purchasing, Accounts Payable, Accounts Receivable, Fixed Assets and Cash Management, and this product was successfully integrated with the assistance of implementation partner DMS Solutions. A Steering Committee made up of the CEO/Executive Director of AAI, Partner and Director of Ernst & Young, Country Manager of Oracle and other key members from AAI and DMS was set up in order to chart progress and ensure a seamless transition to Oracle. Monthly reports were prepared which were used to track progress by the Steering Committee along with the Audit Committee of AAI.

The online real time integration of Oracle E Business Suite and the front end system of your company was a challenging task of this project which was successfully completed by the in house systems development team with the assistance of the vendor, and this seamless integration brought about many benefits to your company.



Our business processes across the board are benefitted by this new backend product, with improved lag times resulting in quicker claim payment, seamless information flow from operations to finance, and reduction in data duplication, as well as assistance in MIS and Business Intelligence. Financial reporting has also been made more efficient by the presence of existing accountancy templates, thus avoiding manual creation of same.

In-House Systems Development Laboratory

We have always engaged the services of technically qualified personnel of very high standard, even employing some of the ICT industry leaders. In addition to this we provide professional training for our staff, including training on Oracle products for IT professionals. Our in-house systems development laboratory is a frontrunner in the industry, and continued focus on the development of this will be taken going forward.

iSYS

The steps taken above have resulted in an industry first with the development of our very own frontend system 'iSYS' by the in house IT team. This system has been vigorously audited and tested by our consultants Ernst & Young and found to be foolproof and en par with international standards. This was evidenced by its smooth integration with the Oracle E-Business Suite, indicating an ability to integrate with any standard ERP solution.

In the year under review, the iSYS product was submitted for 'In house applications' category of the Quality Awards conducted by the British Computer Society and achieved recognition as being fully compliant with the stringent criteria for this segment.



Plans for 2011

Looking forward, we intend for 2011 to be the 'Year of Management Information Systems (MIS) and Business Intelligence'. Our system, having the support of SQL Database solutions, holds large amounts of historical data as recorded over the past ten years and we will look to collating this information for business intelligence gathering. This will enhance the business intelligence gathering process by facilitating the creation of dashboards by management, thereby allowing for a more timely and effective process for crucial decision making in order to support business objectives and the achievement of targets in a competitive industry. Asian Alliance ICT looks forward to taking the company to greater heights through the increased efficiency possible with the further advancement of their specialist knowledge.

transcending obligations

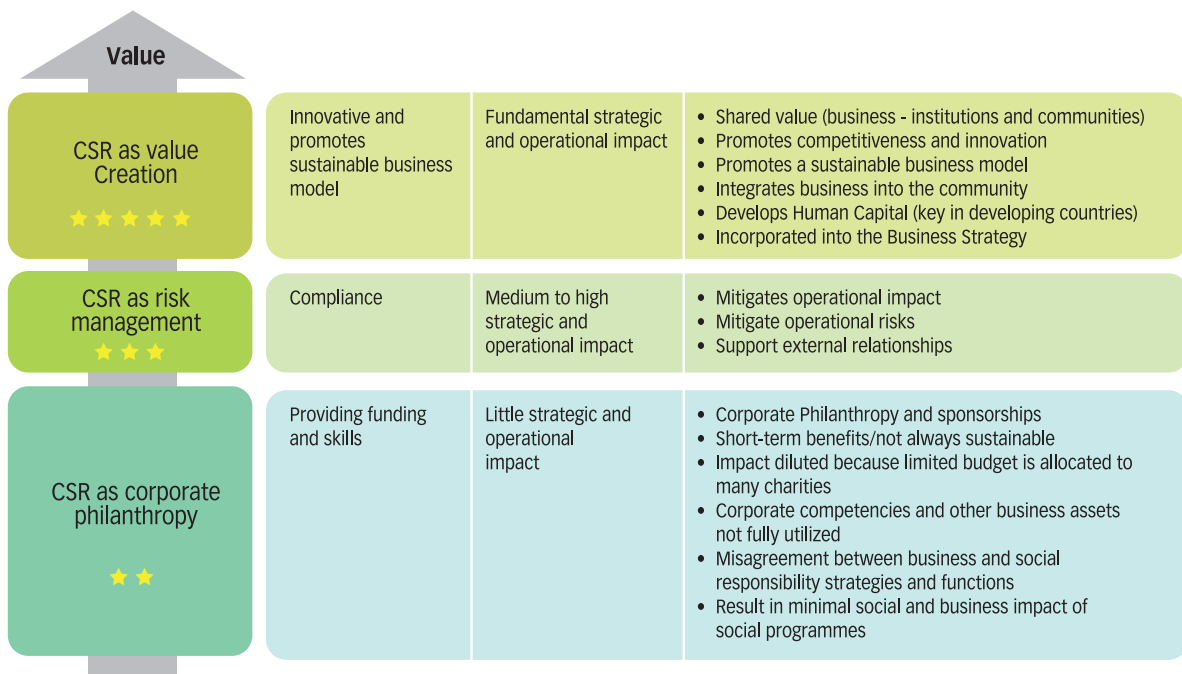
Sustainability Report

Sustainability Report

The Feel Good Factor

Asian Alliance Insurance believes that the responsibility of a company is to its stakeholders, defined as an entity influenced, either directly or indirectly, by the actions of the firm. We recognise and value the support of our stakeholders and strive to protect the interest of our stakeholders whilst maximising their returns. Our CSR policy is built into our business model, and ensures active compliance with the spirit of the law, ethical standards and international norms. This is achieved by means of a positive impact on the environment, consumers, employees, and all other members of the public sphere, as well as through promoting public interest.

AAI's CSR strategy is consistent, thereby ensuring continuity; it is transparent with a long-term vision. We understand that CSR in the form of value creation is more sustainable than corporate philanthropy (as explained in the illustration below).



FLAGSHIP PROGRAMME

A fundamental hallmark of a developed society is plentiful access to quality health care. Unfortunately, although Sri Lanka has a wealth of skilled doctors, the government sector hospitals suffer from under-funding, as well as a lack of training and overall strategy in the management of health care services. World class health services and standards can be achieved by merging modern management techniques with the already advanced capabilities of the medical profession; AAI embarked on a programme by partnering Colombo South Teaching Hospital, with the objective of achieving the above vision.

Kalubowila Hospital - Productivity and Quality Improvement Programme

This two year programme - the Productivity and Quality Improvement Programme - was launched in January 2010 with the Colombo South Teaching Hospital (CSTH), Kalubowila. Director of CSTH, Dr. Anil Jasinghe had previously spearheaded a similar programme at the Castle Street Maternity Hospital which is widely accepted as a successful initiative. The aim of

this programme is to provide a facelift to the hospital by focusing on the building blocks of the system; namely Service Delivery, Human Resources, Infrastructure, Medical Technology, Health Financing and Stewardship. The lauded 5-Sigma system is introduced, together with training and development of hospital staff in best practices and customer service.

A Quality Assurance Team is being appointed onsite to monitor the progress of the programme over the two year scheduled period along the framework and KPIs. As an extension of this partnership, AAI supported the conducting of training programmes carried out by the Kalubowila Hospital for all levels of staff. All related costs such as fees for the resource personnel, refreshments, stationery, etc. were funded by AAI. A computer and printer were donated to the hospital, with a view to improving efficiency through the use of technology. Further, in order to facilitate and support this partnership, AAI stepped forward to sponsor a public Dengue Awareness campaign during the year along with CSTH.

The company is of the view that this program will continue to strengthen the quality of the health services whilst uplifting the living standards of the public and the nation in return.

Staff Training Programmes



Computer Donation

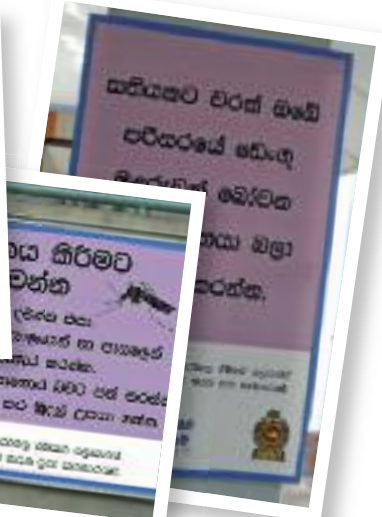


Launch Programme



- 1. Dr. Anil Jasinghe lighting the oil lamp
- 2. Mr. Ramal Jasinghe addressing the gathering

Dengue Awareness Programme



Sustainability Report

KEY PROGRAMMES

AAI places a steadfast and abiding value in nurturing and developing the next generation. We have contributed to this task through external programmes and the educational system itself. Two key programmes were launched this year; one targeted at improving the educational facilities of underprivileged schools and the other at grooming young minds in corporate and entrepreneurial skills.

School Project



1. Giving away the stationery items to students
2. Renovating the school main hall

Before Renovations



After Renovations



Two deserving underprivileged schools were carefully selected in the Kalutara and Kurunegala districts. Funds and provisions were collected from the employees themselves through the AAI Sports Club and owing to the efforts and eagerness of the staff the collections exceeded the targeted budget.

In September, seventy-five staff members from the Head Office as well as Panadura, Kalutara and Horana Regional Offices visited 'Palapitiyagoda Kusalagnana Kanishta Vidyalaya'. The parents and teachers, the Zonal Education Director and Assistant Director of Kalutara District joined the team to witness this significant event. Students in the school were presented with packages containing stationery, food items and books. Additionally, AAI took the initiative to donate a computer and many items of furniture to the school opening the path for the new technology for students. Time was taken to enjoy a meal and fellowship with the students. As a long-term initiative, the company organised the complete renovation of the main hall and the construction of toilets. The school was able to enjoy the luxury of electricity thanks to the efforts of AAI.

A similar programme is expected to be carried out for the second school, i.e., 'Kurunegala Kuda Kowana Kanishta Vidyalaya' in March 2011.

Product Launch - Musaeus College

Young Entrepreneurs Sri Lanka (YESL)

Young Entrepreneurs Sri Lanka (YESL) is a non-profit entity which is a franchise of Junior Achievement Worldwide (USA), the world's largest and fastest emerging organisation focused on grooming and educating children on business, economics and entrepreneurship. With our focus on moulding future professionals, AAI sponsored two schools under the YESL programme in 2010; Ananda College and Musaeus College. This 15-week programme is targeted at GCE O/L and A/L students and aims to simulate the tasks and complexities associated with the incorporation, organisation and management of a company. Students are guided to form a company and elect officers, produce and market products/services, maintain records, conduct shareholder meetings, and finally liquidate the company. This experience is invaluable in introducing students to the corporate world, and nurtures their inherent entrepreneurial skills and capabilities. AAI not only sponsored this unique programme of these two schools but also provided guidance and shared experience with the students on the marketing of their products, by way of lectures and discussions related to other functional areas such as Finance, HR, ICT and Administration. Under this programme, Musaeus College launched three companies – 'Alpha Lyrae', 'Tristan' and 'Fylfots'; Ananda College launched 'Apex'.

The companies formed by the students, as well as their product lines, are detailed below:

School	Company	Products
Musaeus College, Colombo 7	Tristan JA/YESL Company	Recycled wrapping papers
		Pencil cases
		Pen holders
		Sri Lanka badges
	Alpha Lyrae JA/YESL Company	Sea shell bracelet
		Recycled paper files
Fylfots JA/YESL Company	Badges	
	Rubber slippers	
Ananda College, Colombo 10	Apex JA/YESL Company	Learning Materials (CD + Booklet)

All four of these companies were awarded multiple Gold and Silver awards at the end of the YESL programme. Please refer Table (A) for more details.



Product Launch - Ananda College



Sustainability Report

		School	Company	Award	Name of the Student
National Level	Ml	Tristan JA/YESL Company		Outstanding Young Entrepreneur Girl of the Year	Medhavi Jayaratne
				President of the Year	Medhavi Jayaratne
				Marketing Director of the Year (Silver Award)	Dilhani Weerasekara
				Production Director of the Year (Silver Award)	Vinuri Chandrasekara
				Human Resource Director of the Year (Silver Award)	Harindi Hettigamage
				CSR Project of the Year (Merit Certificate)	
				Company of the Year (Silver Award)	
				Annual Report (Merit Certificate)	
				Logo of the Year (Silver Award)	
				An	Apex JA/YESL Company
			Spirit of Entrepreneurship	Dhananjaya Weerawansa	
Regional Level	Ml	Tristan JA/YESL Company		President of the Year (Gold Award)	Medhavi Jayaratne
				Marketing Director of the Year (Silver Award)	Dilhani Weerasekara
				Finance Director of the Year (Merit Certificate)	Nishani Fernando
				Production Director of the Year (Gold Award)	Vinuri Chandrasekara
				Human Resource Director of the Year (Silver Award)	Harindi Hettigamage
				Secretary of the Year (Silver Award)	Rashmi Fernando
				Special Award of the Year (PR)	Anukshi Pamuniwa
				CSR Project of the Year (Silver Award)	
				Company of the Year (Silver Award)	
				Annual Report of the Year (Silver Award)	
				Business Plan of the Year (Silver Award)	
				Logo of the Year (Gold Award)	
		Alpha Lyrae JA/YESL Company		President of the Year (Silver Award)	Madhushi Perera
			Marketing Director of the Year (Gold Award)	Chapa Perera	
			Finance Director of the Year (Gold Award)	Chamika Maddumarachchi	
			Human Resource Director of the Year (Gold Award)	Samurdi Jayamaha	
			Secretary of the Year (Gold Award)	Kaushi Perera	
			CSR Project of the Year (Silver Award)		
			Company of the Year (Gold Award)		
			Annual Report of the Year (Gold Award)		
		Logo of the Year (Merit Certificate)			
		Fylfots JA/YESL Company		President of the Year (Merit Certificate)	Shashini De Silva
			Finance Director of the Year (Silver Award)	Charuni Jayasinghe	
			Production Director of the Year (Silver Award)	Varunika Samarakoon	
			Human Resource Director of the Year (Merit Certificate)	Vimanthi Chandima	
			Secretary of the Year (Merit Certificate)	Yaharshi Deeyagahage	
			CSR Project of the Year (Silver Award)		
			Company of the Year (Merit Certificate)		
		An.	Apex JA/YESL Company	Special Award of the Year (IT)	Amiththa Bandara
				Product of the Year (Gold year)	
				Annual Report of the Year (Merit Award)	
				Logo of the Year (Silver Award)	

Table (A)

ONGOING ACTIVITIES

AAI's ongoing programmes are testament to the importance we place on partnership and continuity. The certificate project, sponsorship of the Annual National Chamber of Exporters Award Ceremony, Symphony Orchestra Concert, White Cane Day, key CIM programmes are sustainable events that AAI plan to be a part of in years to come.

Certificate Project

With a view to moulding future professionals, the certificate project was launched in 2007. This project seeks to bear the cost of certificates for school events across the island such as Prize Givings, Sports Meets, Prefects' Days other inter school events. 36 schools island wide were assisted in over 74 events during the year 2010.

Details of the certificates printed during 2010 is included in the Table (B).

Under this CSR umbrella themed "Contributing towards moulding future professionals" AAI sponsored the annual launch of Nalandasara; the radio station of Nalanda College for the first time. This initiative was organized by the Communication Unit of the school and the ceremonial launch of Nalandasara 2010 took place on 26th February at the school premises. AAI partnered Communication Unit of Nalanda College and sponsored their certificates which were awarded to the students.

Ceremonial Launch of Nalandasara



Certificates printed for school events



Sustainability Report

School	Event	Certificates	Invitations	Trophies/Files	Books
Christ King College	Computer Training Programme	300			
D.S.Senarayake College	Under 13,Hockey Tournament	1200			
	Inter School Aeronautical Quiz Competition.	300			
	Media Competition - All Island	900			
	Media Competition - Announcing	100			
Vidyalankara Dharma Vidyalaya	Debate Competition	750			
Mahanama College	Band Festival	500			
	Scout Troop	500			
Mary Immaculate Convent	Sinhala Literature competition	150			
Gothami Balika	School Announcing Competition	100			
	School Astronomy Quiz Competition	150		250	
	Drama Society	150			
Musaeus College	Language Workshop	70			
	Scienci Day	100			
	ICT Day	135			
	Commerce Day			500	
	Prefects Day	200		100	
	"EVOKE"	400			
	Wild Life Conservation Project			200	
Kokuvil Hindu College	Annual Prize Giving	600			
	District Level Competition	525			
	District Level Competition-Tamil	300			
Sri Lanka Scout Association	District Scout Rally	1200			
Rawathawatta Methodist College				160	
	Annual Prize Giving	500		150	
	Sports Meet	800			
Royal College	Annual Stamp Exhibition	250	100		
	Annual Stamp Exhibition - Polonnaruwa	60			
	Oriental Music Society		250		
	Astronomical Society				
Vihara Maha Devi Balika	Annual Prize Giving	440		500	
	Debate Competition	300		300	
Prince of Wales	Art Society	100			
	Colours Awards	155			
	English Literary Day	250			
	English Competitions	350			
	Chess Tournament	400			
	Teen Talent Show 2009	150			
	Sports Meet	2500			
	Prefects Guild	60			
	Festival of Choirs	1020			
Ananda Balika Vidyalaya	Intra School Science Exhibition	300		500	
Shilpa Children's Trust	Shilpa Art Festival	750			
Zonal Education Office - Pliyandala	Zonal School Games	2500			
	Zonal School Games	1500			
Dharmaloka College	Science Day	180			
	Astronomical Workshop & Camp			700	
	Astronomical Workshop	400			
Ananda College	Science Day			1000	
	Young Inventors Socity			1000	
	Commerce Day	500			
	Colors Nite 2009	100			
Regent International College	Nirmanjali 2010	50			
Hiyare East K.V	Prefects Day	1200			
	Sports Meet	1200			
Thurstan College	Astronomical Society		100		
	Astronomical Society	400		600	
Vishaka Vidyalaya	Hostel Day	180			400
	Arts & Commerce Day	30			
Princes of Wales	Sinhala Day	280			
Zonal Education Office - Galle	Scholarship Examination 2009	3500			
	Scholarship Examination 2010	1500			
Sripali Vidyalaya	Arts Day			500	
Janadhipathi Balika Vidyalaya	Commerce Day	200		400	
Interact Club	Interact District Conference			2000	
Educational Division - Moratuwa	School Games	1300			
Colombo Model United Nations	C M U N Conference 2010	677			
Yasodara BV	Prefects Day	300			
Nalanda College	All Island Inter School Announcing Competition	60			
	Inter School Science Quiz Competition	80			
Kurawalana College	Sports Meet	400			
Taxila Central College	Chess Tournament	500			
Kelaniya Presidents College	Sports Meet	325			
	Swimming Club	150			
Bandaranayake College	All Island Debating and Oratory Competition	350			

Table (B)

CIM Talking Point

AAI partnered The Chartered Institute of Marketing Sri Lanka Region through sponsoring selected programmes conducted by them for the past five years.

The CIM Talking Point Series focuses on topical subject areas, and topics of interest are carefully selected for the meetings. The topics focus on emergent business issues & trends with a combination of local & foreign resources to deliver the presentations. CIM takes the initiative to enhance & enrich these programmes by incorporating wider subject areas relevant to business.

AAI partnered two Talking Point programmes in 2010 (as detailed below):

Theme	Resource Personnel	Date & Venue
Developing Strategy through Brand Valuation	Mr. David Haigh – Chief Executive, Brand Finance PLC, UK	04th May 2010 Galle Face Hotel
Product Vs Services – The Evolution of Strategies	Mr. Imal Fonseka – Managing Director, Hemas Consumer Brands, Sri Lanka Mr. Chandula Abeywickrema – Deputy General Manager – Marketing & Retail Branding, Hatton National Bank	06th December 2010 Galadari Hotel

CIM CEO's Breakfast Forum

This is an annual event organized by CIM with the participation of CEOs and top level decision makers of organisations spanning many industries. The programme was themed "Business value creation through brands"; the Guest speaker was the eminent Mr. David Haigh, Chief Executive of Brand Finance PLC, UK. The forum experienced a participation of approximately 70 CEOs, well known in their respective industries. AAI joined hands with the institute as the exclusive Event Sponsor held on the 5th May 2010 at the Cinnamon Grand Hotel.

CIM Talking Point



CIM CEO's Breakfast Forum



Sustainability Report

Symphony Orchestra Concert

As a patron of the fine arts, we were proud to sponsor the annual concert organised by the Symphony Orchestra of Sri Lanka (SOSL) for the fifth year in a row. The Symphony Orchestra of Sri Lanka is one of the oldest orchestras in South Asia. Its first concert was held on the 13th September 1958 under the baton of Hussain S. Mohamed, and the repertoire was Geminiani's Second Concerto Grosso, Haydn's Symphony no. 92 "Oxford" and Beethoven's Fourth Piano Concerto with Malini Jayasinghe-Pieris as soloist.

The SOSL takes special interest in fostering young Sri Lankan talent, and dedicates one of its annual subscription concerts to feature Young Soloists. This is part of its commitment to develop young musicians, and provides an opportunity for them to appear with a full Symphony Orchestra at a public concert.

The concert was held on 31st October 2010 at the Ladies College Auditorium and featured two prominent Japanese musicians, Ms. Keiko Kobayashi and Mr. Ado Kihara.

National Chamber of Exporters Awards (NCE)

Asian Alliance Insurance partnered the National Chamber of Exporters (NCE) awards for the third consecutive year as a Principal Sponsor. The awards ceremony, held on 17th September 2010 at the Hilton, felicitated the entrepreneurs who have made significant contributions to the development of the country's economy. National Exporters Association (NEA) the forerunner to the National Chamber of Exporters of Sri Lanka (NCE) was established in late 1986 by a small band of dedicated exporters. The NCE was inaugurated by the National Exporters Association (NEA) & was established in late 1986 with the intention of creating a forum for the exporter fraternity, who previously had no organisation to represent them. We believe this project holds value as it recognises the Sri Lankan exporters who have striven to make a global brand of excellence for Sri Lankan products.

White Cane Day

For the sixth year in a row, AAI stepped forward with the Sri Lanka Welfare Society of the Visually Handicapped to organise the White Cane Day. This event was held on 23rd October 2010 in Seeduwa, where white canes and dry rations were distributed to over 350 visually handicapped persons.

Symphony Orchestra



Annual Exporter Awards



White Cane Day

OTHER EVENTS

In addition to AAI's unhindered commitment to the continuity of the programmes mentioned above, the company took the initiative to support several new projects in 2010; projects that AAI believed added value to our stakeholders and aligned to our CSR policy.

'New Business Opportunities in Sri Lanka' Programme

Asian Alliance Insurance together with Art Television Broadcasting Company conducted a programme to educate the local entrepreneurs and investors on how to make the best use of the post-peace investment climate prevailing in the country. This programme was held on 07th September 2010 at the Cinnamon Lakeside and had fifty participants. The distinguished resource personnel for the programme were Mr. Malik Cader (Director General – Securities & Exchange Commission), Mr. A. M. C. Kulasekara (Deputy General-Promotions & Mega Products – BOI) and Dr. Wickrama Weerasooria (Insurance Ombudsman of Sri Lanka). The programme was well received by the professionals present at the programme.

19th Commonwealth Games

The Commonwealth Games is a multi-sport event held every four years. In 2010 it was attended by a contingent of 93 elite athletes from Sri Lanka, participating in 14 disciplines. We were proud to be the official travel insurer for the Sri Lankan team, sports being a fundamental factor in holistic development. Our very own multi-faceted Non-Life GM, Mr. Udeni Kiridena, accompanied the team as their General Manager in his capacity as a reputed international Boxing referee.

Blood Donation Campaign

The Company's Regional Distribution Network aligned itself by supporting and strengthening the overall CSR policy, by carrying out activities at their respective regions via branch offices.

The Jaffna branch organized a blood donation campaign to mark their 1st Anniversary on the 28th of September 2010.

Mr. A. M. C. Kulasekara



Dr. Wickrama Weerasooria



Mr. Malik Cader

Blood Donation



Sustainability Report

Employees are our Assets

At Asian Alliance we believe that our employees are the secret to our success. Their professionalism and loyalty have been the proverbial backbone that supported us through the difficulties of the past two years in the backdrop of the global recession and negative investor sentiment. Our focus continues to be on grooming our employees to reach the zenith of their potential, as well as supporting them and rewarding them for their performance. We also take employee well-being one step forward, seeking a holistic development of mind and body, conscience and camaraderie.

We have always maintained an open-door policy, where staff members are encouraged to come to us at any time with their issues and suggestions. We want our organisation to have a shared vision, and look to input from our employees relating to new products, processes and procedures. This year we are looking towards rewarding the best ideas as a means of encouraging those suggestions which directly affect the profitability and performance of your company.

Nurturing Our Young Professionals

We have actively supported our staff members in the furtherment of their knowledge and skills. We have provided financial support encompassing tuition fees and exam costs for professional exams such as CII – Chartered Insurance Institute (UK), III – Insurance Institute of India (India) and CIP – Certificate of Insurance Practice (SLII, Sri Lanka). We have also provided encouragement to partake in qualifications in the form of incentives. Successful candidates are rewarded with a pre-specified increase in salary for each paper they pass. We encourage qualifications in our employees both to give them discipline and better theoretical knowledge, but also as part of our quest to develop them as professionals in the business.

In addition to professional qualifications, we have fostered our employees with quality training both locally and internationally to further their acquired skill set. These programmes are outlined below:

Local Training Programmes

Type	Name of Programme
Financial	Be an Achiever
	Seminar series on Financial Instruments & International Financial Reporting Standards (IFRS)
	Regional Conference on Derivatives
	2nd CMA Summit 2010
	Seminar on Sustainable Business
HR & Legal	Telephone Etiquette & Customer Service
	ICLP Seminar on Insurance Law
Non - Life Technical	General Insurance Reserving and an Introduction to Risk Based Capital
	Post War Sri Lanka's Insurance Industry Future
	Product Liability Law
	Dispute Resolution in Relation to Construction Contractors & Related Activities
Life Technical	Actuarial Seminar
IT	ASP Training
Marketing	10th CIM Annual Conference
	MTI Brand Forum
	Sri Lanka Tourism in the New Economy
	Mark Brown
National Insurance Congress	

Foreign Training Programmes

Type	Name of Programme
HR & Legal	04th International - Re-Insurance Summit 2010 – Switzerland
	Munich Re Life Executive Forum
Non - Life Technical	25th East Asian Insurance Congress
Life Sales	OLIS Spring - 2010 – Japan
	18th Annual Strategic Issues Conference
	OLIS Autumn - 2010 – Japan
Life Technical	Intensive Life Underwriting Course
	FALIA - Product Development Strategy Course - Japan
Marketing	05th Annual Corporate Communication Forum 2010 - India
	FALIA - Product Development Strategy Course - Japan

Giving Back to Our Employees

Our staff are the force behind our success. In recognition of this, we have always endeavoured to go above and beyond what is required of us when it comes to taking care of our staff. An example of this is the unique personal accident insurance, where we go one step forward - providing our employees with twenty-four hour coverage as well as claim limits well beyond the statutory requirements. We have also introduced an innovative Income Support Scheme for all staff who has been with us for more than 2 years. This support scheme gives employees the security of knowing that even in the event something should occur to them, their families will be taken care of by their employer, your company.

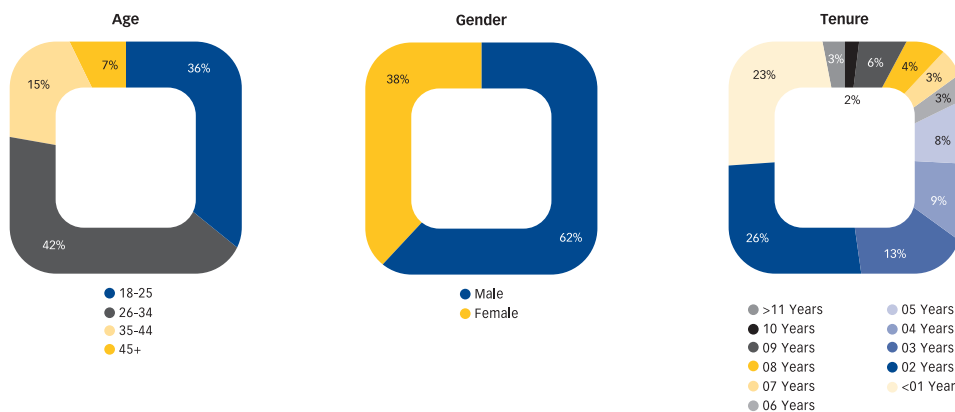
We also want our employees to have fun. As much as employees are part of the Asian Alliance family, it is important for staff members to include and interact with each other's families. To this end, we organised the fully sponsored and

very glamorous Asian Alliance Ball 2010 held at the Ceylon Continental Hotel for all our staff as well as their spouses. We also held a Christmas party for the children of our employees at Excel World, where much fun was had by all young and old.

Encouraging Diversity

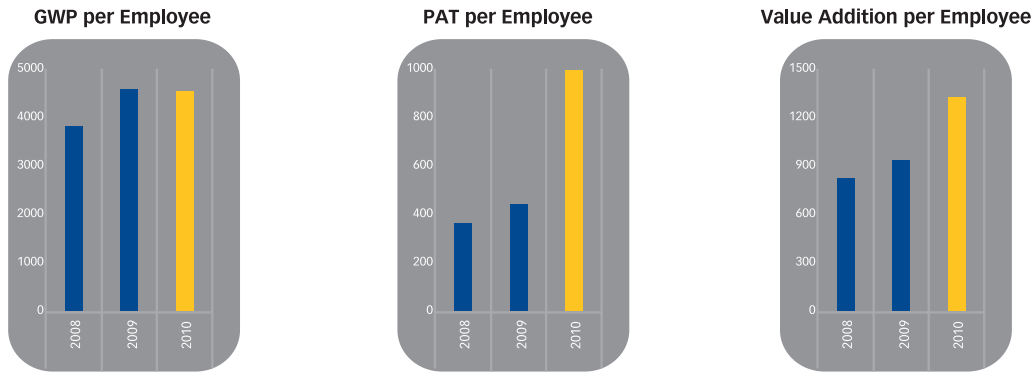
Traditionally staff members who have been attracted to your company have come from an Insurance background. This year we have seen a marked trend of staff members being hired from diverse disciplines, such as Mathematics, Actuarial Sciences and Finance backgrounds. This has been a point of interest to management as it indicates your company's attractiveness as an employer.

(Pie chart on percentage of employees from what disciplines plus blurb from selected employees from diverse backgrounds on what attracted them to Asian Alliance)



Sustainability Report

Employee Productivity



Knowledge Empowers

Your company has the highest customer retention rates in the industry, an impressive 74% compared to the Industry average of 48%. This is in no small part due to the training and knowledge management offered to each and every one of the 600+ Advisors over the 25 regional and branch offices.

In the past year there has been a refinement of the knowledge management process for Advisors, with a unique structured development platform called the Advisor Effectiveness Model (as shown below) being laid out.

A curriculum was developed to be followed by each Advisor who have to attend training on a monthly basis. This curriculum adheres to a structured modular approach with a drive towards professionalism. Advisors are trained with an emphasis on promoting the basics of insurance in order to form a stable and sustainable sales approach.

The Advisor Effectiveness Model broadly encompasses the Purpose and Process of insurance. Insurance is an intangible product, and advisors are trained on why they are selling it, and what the different products are. Customers are becoming increasingly more insurance savvy and comparing plans across the industry. Where we feel that we have a distinct differentiation from our competitors is that we are in the business of protection. This means that the point of our

products is purely on the transference of risk and delivering the safest and most stable protection to our clients.

Once Advisors are fully versed in what they are selling and why, the focus turns to how they should sell it. Your company engenders a 'Farming Culture' as opposed to a 'Hunting Culture'. This means that there is no door-to-door mass approach, but rather a careful profiling of clients followed by a targeted approach culminating in a tailor-made product. Advisors are taught the 'PROcess approach' to customer service concentrating on resolving issues: PROblems → PROcess → PROfessionalism.

A sales management model has also been prepared for the Field Sales Managers, called the Field Sales Management Effectiveness Model (as shown below). Managers have all successfully completed the Advisor Effectiveness Model and their focus turns to the development of Sales Advisors rather than Sales.

These structured Training models for the attraction, development and retention of insurance advisors and field sales managers has paid off with Retention rates touching 74% and New Business Growth increasing to 36%. This training model therefore is a key business strategy adopted by Asian Alliance for the attraction and retention of customers, and hence the sustainability of your company.



Experience our **expertise**

At Asian Alliance, you will find a team diverse in many ways... the energy of youth, the wisdom of maturity and a combined wealth of over a thousand years of experience. We have brought together a unique group of industry experts whose diversity of talent, skill and character gives you transparency, reliability and a competitive advantage matched by no other. In the business of protection, where we accept risk with responsibility, this is our most valuable resource – driving and powering Asian Alliance Insurance.

Experience our Expertise



Chula Hettiarachchi
General Manager - Marketing & Sales



**Visvanatha Sarma
Vithyaashanhar**
Regional Distribution
Manager



Chaminda Dias
Business Manager



Harsha Rambukwella
Sales Administration &
Compliance Manager



R M Dissanayake
Head - Regional Operation
& Compliance



Mahinda Perera
Regional Distribution
Manager



Mihilal Nishantha
Zonal Manager



Seethawaka Devapriya
Regional Distribution
Manager



Soma Hettiarachchi
Zonal Manager



Shokman Fernando
Senior Regional
Distribution Manager



H M G Jayasinghe
Regional Distribution Manager



Annesly Arsakulasuriya
AGM - Corporate Business



S M L Subasinghe
Senior Regional
Distribution Manager



Amal Dharmapriya
AGM - ICT



Leelarathne Piyasena
DGM - Training &
Knowledge Management



Nayani Fernando
Manager - Motor



**Priyarshi Subhashini
Hewavitharana**
Manager - Marine



Ananda Gunawardena
Manager - Risk
Management



Shamendra Thushan
Project Manager



Dhammika Gunatilake
Regional Distribution Manager



Hashra Weerawardena
DGM - Human Resources,
Legal & Administration



Kapila Suriyarachchi
Provincial Sales Manager



Lalith Kanchana
Business Manager



**Sithumina Daharisi
Jayasundara**
Manager - Reinsurance



Victor Colombage
DGM - Claims



Parakrama Balasuriya
Senior Regional
Distribution Manager



Anjana Jayasooriya
Head of Sales -
Broker Business



Nishantha Kuruwitige
Manager - Fire & Marine
Claims



Neville Dalugoda
Senior Manager - Claims



Lasantha de Alwis
Senior Manager



Dilan Christostom
Finance Planning Manager



Shiroma Gunathilake
Accounting Manager



Dayan Ranasinghe
Fund Manager



Arjuna Herath
Regional Distribution
Manager



Saliya Wickremasinghe
General Manager - Finance



Saranga Wijayarathne
Project Manager



Sumith Jayaweera
Regional Distribution
Manager



Saman Rajakaruna
Regional Distribution
Manager



Viranga Gunathilaka
Regional Distribution
Manager



Lucky Gamage
Regional Distribution Manager



Nilanga Karunaratne
Sales Competency
Development Manager



Siri Jayasinghe
General Manager -
Life Technical



Chintha Wijerathne
Zonal Manager



Rasika Lashan Ratnasekera
Sales Manager - RBU -
Panadura



Uvini Sellahewa
Manager - Legal



**Bathiya Sanjeeva
Ekanayake**
Senior Sales Manager



Padama Warnasooriya
Manager - Miscellenious
Claims



Ramal Jasinghe
Director/CEO



Malith Ranasinghe
Manager - Policy
Conservation



**Suranga Sudith Prasan
Waduge**
Manager - Life



Chaminda Weerakkody
Regional Distribution
Manager



Nadi Dharmasiri
AGM - Marketing



Udeni Kirdena
General Manager - Non Life



Asaf Khan
General Manager -
Operations (Non Life)



Lal Hettige
Head of Customer
Relationship
Development



Rohana Bandara
Senior Manager
Operations - Regional
Business Unit



Hemakumara Dissanayake
Zonal Manager



Mahesh Kalinga Silva
Sales Manager - RBU - CCU



**Prasanna Sanjeeva
Wijesinghe**
Sales Manager - RBU -
Negombo



Kapila Jayarathne
Regional Distribution
Manager

Corporate Governance

In the recent years, the main stakeholders such as shareholders, potential investors, regulators, customers have intensified their focus on how business being run i.e. how the company is directed and controlled via adopting best corporate governance practices. As such, AAI adopts best corporate governance practices with an emphasis of "true professionalism" for the long term sustainability of the company. Indeed, good governance is pivotal to the development process. It is important to understand that providing the people with good governance is an essential precondition for sustainable development.

AAI 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.

Our corporate governance practices are a 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 62 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).

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.

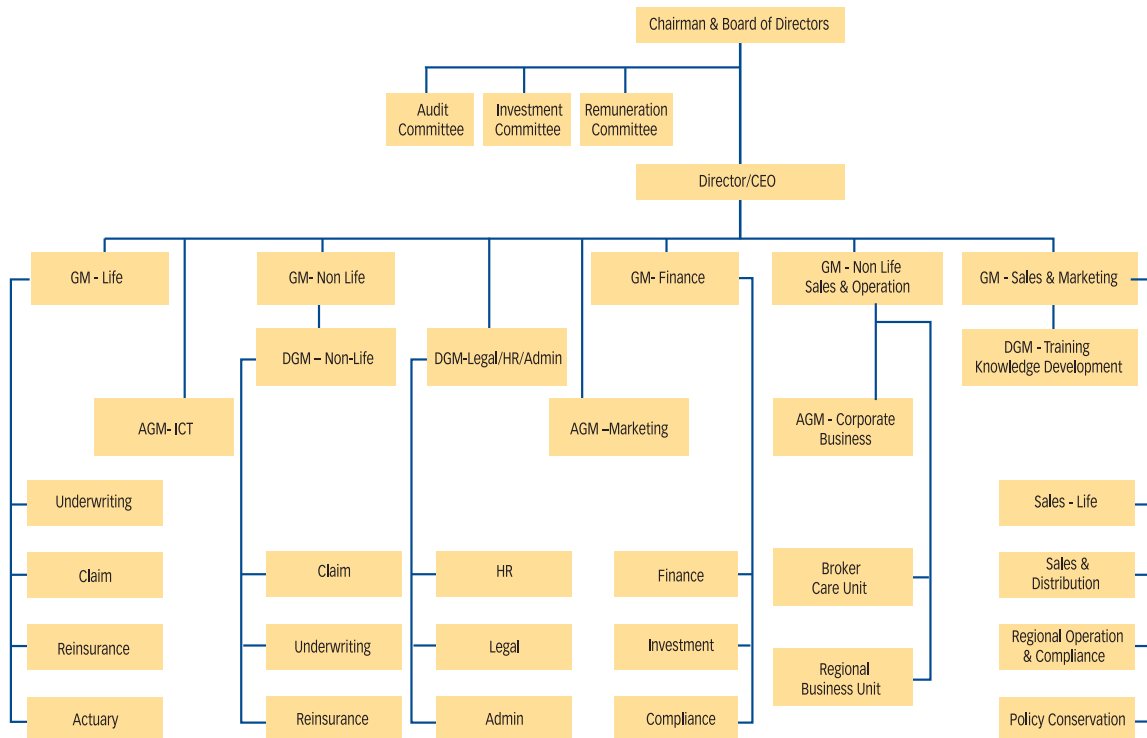
The employee code of conduct issued by AAI requires all employees to:

- 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 maintain the true professionalism credo of AAI
- Provide the best financial solution to the policy holders that considering the requirements of the policy holders and the Company

AAI's governance structure is presented below:



Our best practices on Corporate Governance are as follows:		
Corporate Governance Principle	Compliant Status	AAI's Compliance
<p>The Board</p> <p>Effective Board of Directors – which should direct, lead and control the company</p>	Compliant	<p>The Board of Directors of AAI comprises of Six Directors. The Deputy Chairman and CEO are Executive directors and other directors hold office in a Non-Executive capacity.</p> <div style="text-align: center;"> <p>Board Composition</p> <p>● Executive Directors ● Independent Directors ● Non Executive Directors</p> </div> <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 by the Board of Directors.</p> <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 strategic direction, to review the Company's operating and financial performance and to provide oversight that the Company is adequately resourced and effectively controlled. The specific duties of the Board are clearly set out in its terms of reference that address wide range of corporate governance issues and list those items that are specifically reserved for decision by the Board. Some of the important matters requiring Board approval include :</p> <ul style="list-style-type: none"> • Company objectives, strategies and business plans; • Transactions outside delegated limits of the management; • Financial reporting and internal controls; • Capital structure; • Dividend policy; • Investment decisions • The constitution of management sub- committees; and • Key business policies, including the remuneration policy.
<p>Frequency of Board meetings</p>	Compliant	<p>The board meeting is held once in two months to review financial performance and to consider other matters such as strategic and operational plans.</p>
<p>Board responsibilities</p>	Compliant	<p>The entire Board of Directors is collectively responsible for formulation, implementation and monitoring of business strategies of AAI. 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"> • Setting, reviewing, directing, approving and monitoring the corporate strategies

Corporate Governance

Our best practices on Corporate Governance are as follows:		
Corporate Governance Principle	Compliant Status	AAI's Compliance
		<ul style="list-style-type: none"> • Providing guidance to CEO and senior management and ensuring they possess the relevant skills, experience and knowledge to implement the strategies. • Setting strategic targets and implementation plans and evaluate its effectiveness via periodic board meetings with the management • Ensuring the effectiveness of internal controls and risk management via review of internal audit reports, compliance reports and management letter(external auditors) • Appointing CEO and succession planning of senior management • Board discharges its duties through various of sub committees of the main board • Monitoring performance against budgets on a regular basis via monthly review of financial performance reports • Compliance with laws, regulation (IBSL) and statutory payments via review of compliance reports • Reporting to shareholders on their stewardship • Reviewing the effectiveness of annual and interim financial statements for reporting purpose • Reviewing company's values and standards that are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations • Ensuring the integrity of financial information, internal controls, risk management and financial statements
Independent Non -Executive Directors	Compliant	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)
Chief Executive Officer(CEO)	Compliant	CEO is responsible for the day-to-day operations of AAI and accountable to the Board of Directors.
Chairman	Compliant	<p>Chairman is responsible for leading the Board and for its effectiveness :</p> <ul style="list-style-type: none"> • maintains the balance of power between Executive and Non-Executive Directors • ensuring the appropriate composition of the Board • Supports the CEO to manage day-to-day operations of the company. • Ensuring that the Board is in full control of the Company's affairs • Sets agenda for the Board meeting with the support of company and Board secretary <p>The Chairman is also the ultimate point of contact for shareholders at the AGM.</p>
Provision of relevant, quality and timely information	Compliant	Board papers, agenda and board minutes (previous) to be tabled one week prior to board meeting.
Dedication of adequate time and effort to matters of the Board and the company.	Compliant	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.
Independent Professional Advice	Compliant	The Board is empowered to seek independent professional advice from external parties whilst performing their duties for their effective directorship functions at the Company's expense.

Our best practices on Corporate Governance are as follows:		
Corporate Governance Principle	Compliant Status	AAI's Compliance
Balance of the board - Executive and non executive directors	Compliant	Four of six Directors on the Board hold office in a Non –Executive capacity
Disclosure of new directors details	Compliant	New Directors details are disclosed to the relevant authorities (Insurance Board of Sri Lanka, Colombo Stock Exchange and Registrar of Companies) at the time of appointment. The existing as well as new directors to the Board are disclosed in the Directors' Report of the Annual Report on Page 79 of this Annual Report
Re-Election of Directors at regular intervals	Compliant	To comply with the Article of Association, the Directors who have been appointed to the Board during the year, hold office until the next AGM, and are required to retire and new director be re-elected by the shareholders.
Company Secretary	Compliant	The Company uses a Professional Services Company Viz PR Secretarial Services (Pvt) Ltd as the corporate secretaries for AAI.
Transaction with directors	Compliant	As per the disclosure requirement of Company's Act, No. 7 of 2007 of section 192, the Board of directors has to disclose all transactions that they have with AAI.
Relations with shareholders	Compliant	Board keeps informed of the developments of AAI to its shareholders via stock exchange, press release and dialogue with shareholders via AGM.
Annual General Meeting (AGM)	Compliant	Board uses the AGM to communicate with shareholders and encourage their participation. The Board members and company representatives, are available to answer queries by shareholders.
Notice for calling AGM	Compliant	As per section 167 of Companies Act, No. 7 of 2007, annual report together with notice of meeting, proxy form and other related documents (if any) are circulated to shareholders at least 15 working days prior to the date of the AGM.
Accountability and Audit	Compliant	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. As per Regulation of Insurance Industry Act, No. 43 of 2000 regulatory reports is filed with the IBSL within the due dates. All the price sensitive information is disseminated to Colombo Stock Exchange on time in accordance with section 8 of the Colombo Stock Exchange listing rules. All the statutory reporting to Registrar of Companies is complied as per the provisions of Companies Act, No. 7 of 2007.
Statutory and Regulatory Reporting		
Directors' Report		
Directors' responsibilities to financial reporting	Compliant	The statement of Directors' responsibility to financial reporting is set out on page 82 of this Annual report.
Auditors Report	Compliant	The Board of Directors maintains formal, transparent and appropriate relationship with auditors of AAI. The Statement of Auditor's Report is setout on page 89 of this Annual report.
CEO & CFO's responsibilities to financial reporting	Compliant	The statement of CEO & CFO's responsibilities to financial reporting is set out on page 83 of this Annual report.

Corporate Governance

Our best practices on Corporate Governance are as follows:		
Corporate Governance Principle	Compliant Status	AAI's Compliance
Management discussion	Compliant	The Management discussion of financial performance is set out on pages 20 to 37 of this Annual report.
Disclosure requirements	Compliant	AAI complies with disclosure requirements relating to Sri Lanka Accounting Standards, Colombo Stock Exchange, Insurance Board of Sri Lanka, Companies Act and Financial Transaction Reporting Act, No. 6 of 2006
Serious Loss of Capital	Compliant	As per section 220 of the Companies Act, No. 7 of 2007 if the net assets of the Company are less than half of its stated capital, the Board shall call for an EGM (such a situation has not arisen).
Declaration of going concern by Directors	Compliant	This information is set out in the Directors' Report on page 79 of this Annual report.
Remuneration Committee	Compliant	Remuneration Committee comprises of two independent Non-Executive Directors. R.C.D. De Silva is the Chairman of the Remuneration Committee. The details of the Remuneration Committee's composition, policies and responsibilities are set out on page 86 of this Annual Report.
Disclosure of remuneration	Compliant	The total remuneration of Directors' including their fees disclosed on page 116 of this Annual report.
Audit Committee	Compliant	Audit Committee comprises of two independent non-executive Directors and the Chairman of the Committee is a fellow member Chartered Institute of Management Accountants (UK) and Associate of Chartered Certified Accountants. The details of Audit Committee's composition and functions are set out on page 84 of this Annual report During the year five meetings were scheduled and held. The Director/ Chief Executive Officer, the General Manager's – Finance (CFO), Life, Non life and Sales & Marketing and Sales & Operation – Non-Life, Internal Auditors Ernst & Young Advisory Services (Pvt) Ltd and the Compliance Officer attended Audit Committee meetings by invitation.
Audit Committee report	Compliant	The Report of Audit Committee is set out on Page 84 of this Annual Report.
Board review of effectiveness of the internal control	Compliant	The Audit Committee regularly monitors the effectiveness of internal controls and the entire board is collectively responsible for sound establishment of internal controls. Assurance of this is achieved via meetings between the internal audit and management representatives with the Audit Committee.
Risk Management	Compliant	AAI has designed a risk management system to identify, assess and manage its existing and potential risks (Risk Management of AAI is set out on page 67 of this Annual report)
Internal control and Risk Assessment	Compliant	AAI's internal audit function has been outsourced to an independent auditor-Ernst & Young Advisory Services (Pvt) Ltd, which is permanently stationed at AAI and it, reports the audit findings with management responses to the Audit Committee. The Audit Committee contributes to the effectiveness of the internal audit function by: <ul style="list-style-type: none"> • Reviewing the internal audit budget, staffing and audit plan • Reviewing the material findings of internal audit reviews and management 's response • Reviewing the effectiveness of internal controls. Including IT controls and security, overall control environment and accounting and financial controls • Obtaining internal auditors recommendations regarding internal controls and accounting procedure • Reviewing internal auditors appointment, performance and replacement • Reviewing major financial exposures and review the process to monitor, control and reporting such exposures

Our best practices on Corporate Governance are as follows:		
Corporate Governance Principle	Compliant Status	AAI's Compliance
External audit and Audit Committee	Compliant	<p>The Audit Committee contributes for the assessment of the independence and performance of External auditors by:</p> <ul style="list-style-type: none"> • Reviewing the scope, plan, and audit procedures • Assessing the annual and interim financial audits • Reviewing any material differences or disputes with management encountered during the course of the audit • Reviewing the management letters content and appropriateness of management responses • Recommending to the Board the terms of engagement and remuneration of external auditors • Ensuring the objectivity and independence of external auditors • Carrying out an independent evaluation of external auditors performance
Executive Committee	Compliant	<p>This Committee is accountable to the Board of Directors and it comprises of Director/Chief Executive Officer who chairs it and General Managers namely Non Life, Life, Finance, Sales & Marketing-Life and Sales & Operation – Non -Life</p> <p>This Committee is responsible to assess the operational and strategic performance, and be the main decision making body for the operations of AAI, make appropriate recommendations to the Board, on policy, and implement such policies at operational level.</p>
IT governance	Compliant	Effectiveness of internal controls and IT security policy of AAI is regularly monitored by Audit Committee, as IT is the critical function of AAI. IT risk is considered as an important risk in the risk profile of AAI and more resources are allocated to mitigate the IT risk via our Business continuity plan.
Performance governance	Compliant	<p>AAI's performance governance has a framework to monitor the performance on a monthly basis by the Board on key areas such as financial and non-financial areas including capital adequacy, solvency and liquidity.</p> <p>Further, in order to assist the Board in monitoring the performance governance the AAI has formed various sub committees under the leadership of Director/CEO.</p>
Ethical Practice	Compliant	AAI has adopted a Code of conduct and professional conduct and this is communicated to all staff via Company's "Staff Hand book".

Corporate Governance

Compliance status of section 7 of the Listing rules of Colombo Stock exchange

Rule No.	Subject	Requirement	Compliance Status	Details
7.10.1(a)	Non- Executive Directors	Two or one third of total number of Directors, which ever is higher, shall be Non- Executive Directors	Compliant	Four out of six 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.	Compliant	The Board comprises of two 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	Compliant	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	Compliant	Please refer Annual Report under Board of Directors on page 80
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	Not Applicable	No such determination has been made by the Board
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.	Compliant	Please refer page 12 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	Compliant	Please refer page 12 of the Annual Report
7.10.5	Remuneration Committee	A listed company shall have a remuneration Committee	Compliant	Please refer page 86 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	Compliant	The remuneration Committee comprises of two independent 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	Compliant	Please refer page 86 of this Annual Report
7.10.5(c)	Disclosure in the Annual Report	The Annual Report shall set out : Name of the directors of the Remuneration Committee. The statement of remuneration policy. Aggregate remuneration paid to Executive and Non - Executive directors	Compliant Compliant Compliant	Please refer page 86 of this Annual Report Please refer page 86 of this Annual Report Please refer page 116 of this Annual Report
7.10.6	Audit Committee	A listed Company shall have an Audit Committee	Compliant	Please refer the Audit Committee Report on 84 of this Annual Report

Rule No.	Subject	Requirement	Compliance Status	Details
7. 10.6(a)	Composition of Audit Committee	<p>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</p> <p>One of the Non-Executive Directors shall be appointed as the Chairman of the committee by the board of directors</p> <p>The Chief Executive Director (CEO/ Director) and Chief Financial Officer(CFO) shall attend the Audit Committee meetings</p> <p>The Chairman or one member of the Audit Committee should be a member of a recognized professional accounting body</p>	<p>Compliant</p> <p>Compliant</p> <p>Compliant</p> <p>Compliant</p>	<p>The Audit Committee comprises of two independent Non-Executive Directors</p> <p>Mr. R. J. Wickramasinghe (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>Chairman is a fellow member of the Chartered Institute of Management Accountants and the Association of Chartered Certified Accountants</p>
7.10.6	Functions of Audit Committee	<p>The Audit Committee shall oversees :</p> <ul style="list-style-type: none"> - preparation, presentation and disclosure of the financial statements and ensuring they are in line with the Sri Lanka Accounting Standards - compliance with financial reporting, Companies Act and other financial reporting regulations and requirements - internal controls and risk management are adequate to meet the requirements of Sri Lanka Accounting Standards - independence and performance of external auditors - appointment, re-appointment and removal of external auditors and approve the terms of remuneration and terms of engagement 	Compliant	Please refer the Audit Committee Report on page 84 of this Annual Report
7.10.6(c)	Disclosure in the Annual Report	<p>The Annual Report should disclose :</p> <ul style="list-style-type: none"> - Names of the directors of the Audit Committee - How the Audit Committee determines the independence of the auditors and how such determination is made - A report by the Audit Committee setting out the manner of compliance with the listing rule 7.10 on Corporate Governance 	Compliant	Please refer the Audit Committee Report on page 84 of this Annual Report

Corporate Governance

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 AAI and apply relevant methodologies to manage the compliance risks.
Compliance Functions of AAI	<p>The main functions should include :</p> <ul style="list-style-type: none"> • Reviewing AAI’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 • Checking the Corporate Governance requirement of AAI (particularly section 7.10 of Colombo Stock Exchange Listing rules) • Reviewing the mandatory requirements of Companies Act, No. 7 of 2007, Financial Transaction Reporting Act, No. 6 of 2006, Prevention of Money Laundering Act, No 5 of 2006, and other statutory and requirements • Checking the solvency margin levels(life and general divisions) on a regular basis • Reviewing the effectiveness of Compliance controls via monthly compliance checklist, regular review of AAI’s procedure manuals and submitting quarterly compliance report to Audit Committee • Reviewing the audit findings of AAI’s external auditors compliance report and take appropriate action • Reviewing the audit findings of the AAI’s internal auditors compliance report and take appropriate action • Checking the compliance of all the statutory payments and report it to Board of Directors • To make recommendations to the Audit Committee in relation to any non compliance issues • To ensure that AAI’s risk management systems are more effective and efficient to identify, assess and manage the risks • Reviewing the effectiveness of legal (IBSL) and accounting compliance of Investment • Monthly mandatory report to Central bank (FIU- Financial Intelligence Unit)as per the requirements of Financial Transaction Reporting Act, No. 6 of 2006 and developing anti money laundering program for the company
Risk Assessment - Compliance	Risk assessment of compliance is based on the impact and likelihood of occurrence of risks and managing those risks via risk mitigating strategies.
Compliance Audit	Compliance audit is carried out on a monthly basis to check the effectiveness of Compliance controls and report the audit findings to Audit Committee with appropriate recommendations.
Solvency audit	<p>According to section 26(1) of the Regulations of Insurance Industry Act (RIIA), No. 43 of 2000, AAI has maintained in respect of each class of insurance business, a solvency margin as determined the IBSL throughout the year (2010).</p> <p>Statement of solvency for the Life and non-life is set out page 32 of this Annual Report.</p>

Prevention of Money Laundering activities	<p>To prevent and detect money laundering activities AAI 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"> • Clearly defined criteria for identification of different type of customers (KYC – Know Your Customer) • Clearly defined criteria for identifying suspicious transactions • Procedure for indentifying suspicious transactions • Considering the vulnerability of products to money laundering exposure • Designing of mitigating strategies for money laundering activities • Clearly defined record keeping procedure for verification and subsequent reference. • Mandatory reporting to FIU(Financial Intelligence Unit) on a monthly basis in respect of transactions over Rs. 1,000,000 (in cash) in relation to premium, claims and refunds • Clearly defined tracking process to follow up and monitoring of any suspected money launderer. • An automated system for notifying the FIU of relevant details in a professional manner.
Data base in respect of Insurance Agent	<p>AAI maintains a separate web page for its agents' information with direct access facility to IBSL for checking the agents' compliance with IBSL requirements.</p> <p>Further, our agents' meet the required qualifications as per section 78(4) of Regulations of Insurance Industry Act, No. 43 of 2000 and we pay the commission to our agents and brokers as per section 88 of Regulations of Insurance Industry Act</p>
Insurance Brokers	<p>AAI complies with the provision in relation to insurance brokers when accepting business from insurance brokers i.e. AAI does not accept business from brokers who are prohibited by the IBSL</p>
Complying with advertising provisions	<p>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.</p> <p>Further, as per Directive No.1 issued under section 99(1) of the Regulation of Insurance Industry Act, a certificate signed by the CEO sends to IBSL confirming that the advertisement is in conformity with the section 99(1) of the Regulation of Insurance Industry Act.</p> <p>Further, we follow the code of conduct implemented by IASL (Insurance Association of Sri Lanka) in relation to advertisement.</p>

Corporate Governance

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

	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 Management Accountant	CEO, GM- Life, Non life, Finance and Sales and Marketing.	CEO, GM- Life, Non life, Finance and Sales and Marketing, Assistant General Manager – IT	GM- Finance, Non Life and Marketing & Sales, DGM of Legal & HR & Administration, AGM Marketing and Management Accountant	CEO, Consultant Actuary, GM – life, Finance and Marketing & Sales Manager – Life (Actuarial) and Senior Assistant Manager (Actuarial)	GM- Sales & Marketing, Non Life, Non Life operation, Life and Finance, AGM- Marketing
Frequency of meeting planned & held	As and when need arises	As and when need arises	Quarterly	Quarterly	Monthly	Quarterly

Risk Management

“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 the AAI with clearly defined risk register, 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”

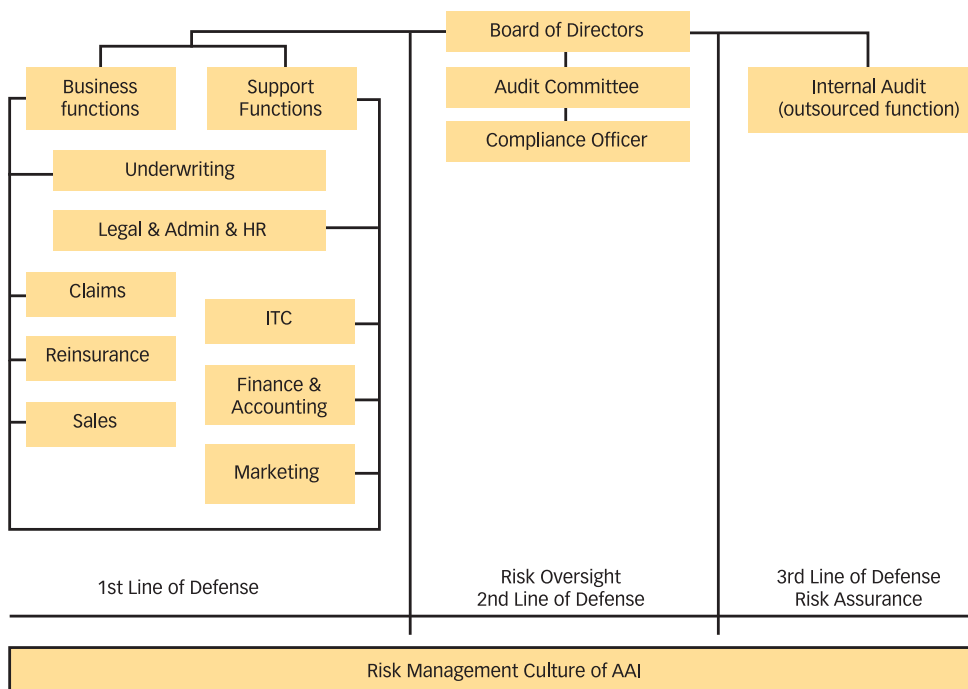
The Risk Management system of AAI helps it to comply with the corporate governance requirements of listing rule (section 7.10) of the Colombo Stock Exchange. Our risk management system is properly integrated with internal control systems, internal audit and corporate governance.

The Objectives of Risk Management at AAI

- Enable AAI 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 assess the scale of the risks in terms of likelihood and impact
- To apply appropriate risk response strategy for each category of risk(taking into account AAI’s risk appetite level)

- To provide appropriate system controls to mitigate the risks and for risk reporting
- Establishment of effective control systems to avoid or mitigate all types of risks
- Create awareness regarding risk management among staff and educate them on risk management process. Communicate risk assessment and risk response to persons concerned
- Obtaining quality, sufficient and accurate information in a timely manner for risk management
- Ensure the existence of expertise in understanding technical and complex information
- Establish risk appetite level of AAI
- To enable AAI to be successful in achieving its financial and non financial objectives
- Continuous improvement in the ability to respond and mitigate risks AAI is facing
- Maintains AAI’s reputation
- To help AAI to be socially responsible and be seen as a good corporate citizen
- To apply appropriate risk response strategy for each category of risk

AAI’s Risk Management Governance Structure is as follows;



Risk Management

Risk Management & Internal Control

Risk management is the process of understanding and managing the risks that AAI faces in attempting to achieve its objectives. The risk response strategy of AAI is determined for each category of risk that takes into account its risk appetite, and the system of controls 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 for managing the risk is effective internal control.

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

Internal control system includes all the policies and procedures necessary to ensure that AAI 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 control activities are determined that relate to 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 which examines and evaluates the risk management, internal control and governance processes. The core role of internal audit is to provide assurance that the main business risks are being managed and that the relevant internal controls are operating effectively.

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

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

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

- The internal audit charter is adequate
- 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

- Internal audit report's recommendations 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 sufficient

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 AAI and that the risks are reduced to risk appetite level. The risk based internal auditing provides assurance to the Audit Committee that the risk management processes are operating as intended. This is achieved by ensuring that our risk management system has a strong design, management responses to risks are adequate and effective in reducing the risks to 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. Risk management will inform the priorities for the internal audit plan i.e. internal audit should 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

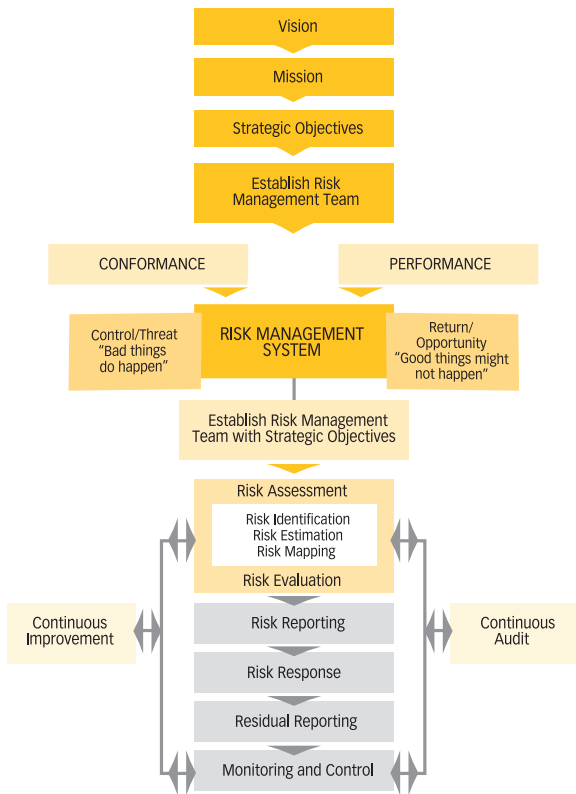
The Audit Committee is required to review the effectiveness of risk management via reviewing the internal control systems (whether internal controls are functioning as intended) and audit systems of AAI and assuring the implementation of the recommendations (if appropriate) made by the auditors. The Audit committee also given the 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 needs to be embedded into the policies and procedures in AAI this may still fail unless all workers in AAI accept the need for risk management. Therefore at AAI risk management is embedded in to the culture of AAI to ensure that it is part of the way we do business in the company. Further, this culture is nurtured by including risk management responsibilities within job descriptions, informing all staff in the organization of the need for risk management and establishing performance indicators that can monitor risks and a reward system that promotes the ideal risk management behavior.

Corporate governance therefore 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 AAI can be presented by way of diagram as given below:



Our current Risk Management system includes the information on how the risks are identified, prioritized and managed on a regular basis. Our conformance dimension of risk management is concerned with controlling the downside risks that may threaten the strategic objectives of AAI. Further, conformance take place through assurance, ensuring that the management understands and manages AAI’s risks effectively. Risk management in relation to performance is taking about the opportunities (upside risks) to achieve the objectives of AAI.

At a strategic level the board would determine the risk appetite and the level of risk that is acceptable for AAI to achieve its strategic objectives. Furthermore, the board would also be responsible for developing strategic objectives in congruence with AAI’s vision and mission.

The core elements of our risk management system are as follows:

- Risk Assessment
- Risk reporting
- Risk Response
- Residual risk reporting
- Risk Assessment: In order to achieve the strategic objectives, AAI continuously scanning the internal and external environment. The risk assessment process includes three main processes. The first of these is risk identification, which may be done via questionnaires,

surveys, brainstorming session, root cause analysis or a range of other techniques.

The aim is to use staff expertise to identify and describe all the potential risks to which AAI may be exposed and use this as the basis to for a risk register(prioritized list of main risks), which can then be formally monitored and controlled. Second step is to estimating the scale of each identified risks, using a mix of quantitative and qualitative techniques and the final stage of the assessment process involves mapping the estimated risks against the likelihood /impact matrix to identify the areas of highest risk using a grid (provides a useful tool for ranking of risks and determining the appropriate levels of monitoring and controls) type of system such as illustrated below.

In the above grid number 2 (competition risk) shows the anticipated likelihood as bordering on high - due to prevailing competitive business environment - and the impact is also high due to new entrants, meaning that the risk needs to be carefully managed to protect the shareholders’ interest.

- Risk Reporting: it is fundamental to ensuring that both senior management and external stakeholders remain well informed about the scale of risk exposure and appropriate measures being taken to mitigate the risks. 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. The starting point for risk reporting is the risk register, within which each risk will be allocated an “owner”. The owner takes the responsibility for forecasting the level of risk, selecting an appropriate response, evaluating the level of residual risk remaining after the response, and ongoing monitoring and reporting of current risk level. The frequency of risk reporting will usually reflect its significance to AAI.

Key risks which may have a high impact upon AAI may be reported on a daily basis (daily cash flow analysis), while less significant risks that have low impact may only be reviewed monthly (eg claims over one million) or quarterly (reviewing investment strategies). The decision to on the frequency of reporting and monitoring rests with management. A clear specification of duties and responsibilities within management is therefore fundamental to effective control. In order to ensure that risk reporting within AAI is effective, it is important that proper systems are installed to ensure that risk registers are maintained at head office and each branches (according to the requirement)

- Risk Response: The chosen risk response should reflect internal risk appetite, take into account its expected effect on the both risk impact and likelihood and the cost effectiveness of the option (i.e. cost of operating the internal controls compared with the benefits obtained in managing the risks). In the case of credit risk (premium debtors – Non life division), strictly following the Premium payment warranty (PPW) is the appropriate risk response strategy. Risk reporting ensures that the key pieces of information about risk exposure are made available to senior management, and it is assumed that their response will reflect AAI’s overall risk appetite.

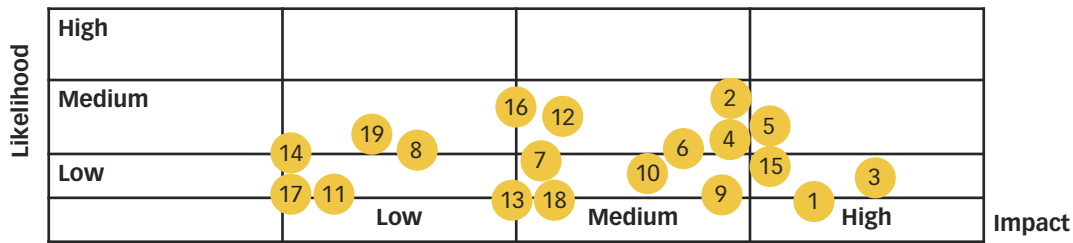
Risk Management

- Residual risk reporting: It is important for the management to identify the level of "gross risk" prior to the response, and the level of "net" risk post the response. The final component of the risk management system is therefore that of residual risk reporting. Further, management should know whether their risk responses have been effective and scale of the remaining net risk exposure. The likelihood/impact matrix can be complemented by more detailed reporting on risk by risk basis. Such reports are important in helping the Board of Directors and Audit Committee to evaluate the risk management control system of AAI.
- The environment would be continuously scanned to ensure that all risks are managed. Further, internal controls and

risk management strategies are monitored to validate that risks management strategies are carried out as planned. Report of key risk indicators alongside key performance indicators (E.g. monthly class wise claim ratio analysis is a good indicator for underwriting and claim management risks)

AAI categorizes (for the effective management of risks) the risks faced by the company in to four main areas.

- Strategic Risks
- Insurance Risks
- Investment Risks
- Operational Risks

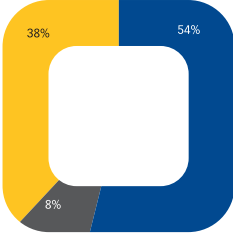
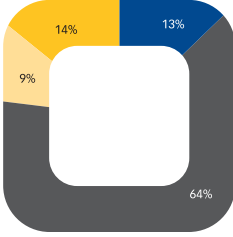
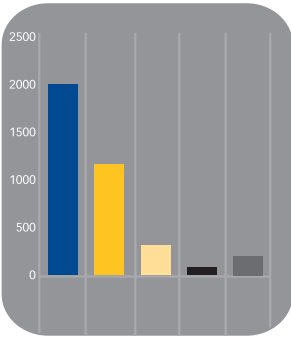


Types of Risk	Risk Response Strategies
Strategic Risk	
1. Corporate Risk Relates to the risk of the company failing to achieve its business objectives due to poor understanding of market, competitors, political and other factors affecting the company.	<ul style="list-style-type: none"> Board involvement to ensure comprehensive strategic plans and constant review of performance to ensure risks are managed and suitable action plans developed Doing market research to identify type of customer and their needs and develop innovative customer need oriented products Continuous scanning of environment (internal and external) and construct various scenarios and adopt strategies which are likely to support the most favorable scenario
2. Competition Risk Involves the threat to the margins enjoyed by AAI, 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.	<ul style="list-style-type: none"> Understand the competitors objectives, strategies and actions by doing competitors analysis in an ethical way (on a regular basis) Introducing customized products targeted at niche market segment with the special emphasis on true professionalism in all our business activities. Strictly complying with the code of ethics of AAI in carrying out business activities (professional and ethical way)
3. Regulatory Risk This refers to the risk of reputation, negative goodwill, penalty payments or even closure of the business that AAI would face by not complying with the regulations and statutory requirements.	<ul style="list-style-type: none"> Based on AAI's Compliance grid all the regulatory requirements (IBSL) are assigned to designated staff members in order to comply with the Circular # 18 (total compliance) issued by the IBSL The Compliance officer submits his audit findings by way of quarterly report to audit committee and the latter takes corrective actions via management AAI has obtained 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 Regular checking to ensure that all necessary laws, regulations and internal controls have been complied with Preparing an up-to-date compliance hand book and educating staff of relevant changes that have been made

Types of Risk	Risk Response Strategies
Insurance Risk	
<p>4 Underwriting Risk 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"> • Clearly defined underwriting procedure manual (life & general) that considers the underwriting risk, reinsurance risk, claim reserving risk and money laundering risk • For the effective and efficient underwriting (Life division) we have Munch Re Internet Risk Assessor (MIRA) • Providing appropriate training (in house and overseas) to underwriting staff to leverage their skills, knowledge and capabilities in underwriting • The profit testing of products under pricing assumptions and actual and monthly policy liability valuation helps AAI to monitor the Life Solvency level on a regular basis • The centralized underwriting(effective internal control) for life policies helps AAI to mitigate the money laundering risk exposure • The Manual of Financial Authority (MOFA) limits the authority level applicable to each underwriting staff in relation to underwriting risk • In the case of life insurance, all the new products are subject to Actuary consultant verification and subsequent IBSL approval • Regular review of reinsurance support where underwriting risk exceeds the risk retention limit
<p>5 Reinsurance Risk 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"> • Reinsurance arrangements with companies who have high credit ratings, financially sound and well known in the reinsurance industry • The Board with the help of management reviews our reinsurance arrangements and ratings to ensure adequate reinsurance support • Complying with regulatory provision in relation to reinsurance under section 31 of Regulation of Insurance Industry Act, No. 43 of 2000. Further, 20% of our reinsurance (General) are with National Insurance Trust Fund Board as per the requirement in the National Insurance Trust Fund Act, No. 28 of 2006 • Examine underwriting result of acceptance periodically and reflect the result in our reinsurance procedure • Monitor reinsurance market trends closely and respond to the changes of the market without delay • AAI avoids over-concentration of risk by establishing retention limits for each product and diversifying balance reinsurance risk through high credit rating reinsurers. • Reinsurer(for the Life division) has also incorporated new Auto acceptance limits for claims in the treaty
<p>6 Claim settlement Risk Refers to fraud, loss adjustments, litigation etc, when settling claims, the risk of falling short to meet future claims</p>	<ul style="list-style-type: none"> • Clearly defined claims settlement procedure which includes underwriting risk, reinsurance risk and money laundering risk • under claims settlement risk, authority limits given for approval of claims and the monitoring of loss ratios • 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 • Providing continuous training for claims management staff to enhance their skills and knowledge in claim settlement • Any claim in the nature of fraudulent may be subject to rejection and or litigation, if necessary

Risk Management

Types of Risk	Risk Response Strategies
Insurance Risk	
<p>7 Credit Risk- 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"> • Complying with the IBSL requirement (Circular # 25) of 60 days Premium Payment Warranty period • Regular meetings with sales team and relevant personnel in order to discuss the outstanding debtors' balance for appropriate action before it exceeds the Premium Payment Warranty period • Policy cancellation for the non-payment of premium with the agreed credit period of 90 days (Non- Life division) • Clearly defined provisioning policy for outstanding premium receivable • Clearly defined procedure for legal action for long outstanding debtors • In the case of life insurance, credit risk is low as the premium is accounted on cash basis and normally payment is made before the liability is assumed
<p>8 Reserving Risk Relates to inadequate provisioning of reserves for intimated claims and incurred but not reported claims.</p>	<ul style="list-style-type: none"> • Providing appropriate reserves at the time of intimation subject to subsequent verification • Clearly defined claim reserving procedure with frequent review • Clearly defined criterion for initial reserve at the time of the intimation of claim and further reserve adjustment when the claim is finalized • IBNR (Incurred But Not Reported) / IBNER (Incurred But Not Enough Reported) provision is made as per the suggestion of independent Consultant Actuary bi annual basis • We obtained advise from the Actuary Consultant for the Unearned Risk Reserve (URR) at the year end • Life fund is subject to bi-annual review by an independent Consultant Actuary and other quarters are reviewed by our in-house Assistant Actuary. Further, provisioning of reserves to meet the claims liability is reviewed by the Actuary on a regular basis • Providing continuous training for claims reserving staff to enhance their skills and knowledge in claim reserving procedure
Investment Risk	
<p>9 Credit on Investment- 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"> • Investments are made in less risky entities (as approved by the Investment Committee) • At the investment committee meeting, investment report provided by the fund manager is reviewed and suggestion will be made to improve the investment objectives and strategies • AAI's major portion of investment are in the form of government securities and other investments with institutions which have high credit rating and or are guaranteed banks which have high credit rating (complying with IBSL requirement in relation to investment) • Investments are limited to those carrying, in the least, an investment rating. However this is not applied for investments carried out in Group Companies

Types of Risk	Risk Response Strategies																														
Investment Risk																															
<p>10 Concentration Risk It refers to the lack of diversification of the investment portfolio.</p>	<ul style="list-style-type: none"> Investment Committee reviews the asset allocation of investment portfolio of Life and General division on a regular basis Investment portfolio of life and general are diversified based on the factors such as regulatory requirements, macro and micro economic environment, external opportunities and liquidity position of the company with the recommendation of Investment Committee Complying with IBSL requirements in relation to investment itself provides better diversification of investment strategy Our investment in government securities are well above the minimum requirement of IBSL regulation <div style="text-align: center;"> <p>Equity Portfolio Life</p>  <table border="1"> <caption>Equity Portfolio Life Allocation</caption> <thead> <tr> <th>Category</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Bank, Finance & Insurance</td> <td>54%</td> </tr> <tr> <td>Beverage, Food & Tobacco</td> <td>38%</td> </tr> <tr> <td>Manufacturing</td> <td>8%</td> </tr> </tbody> </table> <p>● Bank, Finance & Insurance ● Manufacturing ● Beverage, Food & Tobacco</p> <p>Equity Portfolio Non-Life</p>  <table border="1"> <caption>Equity Portfolio Non-Life Allocation</caption> <thead> <tr> <th>Category</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Manufacturing</td> <td>64%</td> </tr> <tr> <td>Bank, Finance & Insurance</td> <td>13%</td> </tr> <tr> <td>Beverage, Food & Tobacco</td> <td>14%</td> </tr> <tr> <td>Telecommunication</td> <td>9%</td> </tr> </tbody> </table> <p>● Bank, Finance & Insurance ● Manufacturing ● Telecommunication ● Beverage, Food & Tobacco</p> <p>Total Investment Allocation</p>  <table border="1"> <caption>Total Investment Allocation</caption> <thead> <tr> <th>Category</th> <th>Value</th> </tr> </thead> <tbody> <tr> <td>Government Securities</td> <td>2000</td> </tr> <tr> <td>Quoted shares</td> <td>1200</td> </tr> <tr> <td>Debentures</td> <td>300</td> </tr> <tr> <td>Term Deposit</td> <td>100</td> </tr> <tr> <td>Commercial Paper</td> <td>200</td> </tr> </tbody> </table> <p>● Government Securities ● Quoted shares ● Debentures ● Term Deposit ● Commercial Paper</p> </div>	Category	Percentage	Bank, Finance & Insurance	54%	Beverage, Food & Tobacco	38%	Manufacturing	8%	Category	Percentage	Manufacturing	64%	Bank, Finance & Insurance	13%	Beverage, Food & Tobacco	14%	Telecommunication	9%	Category	Value	Government Securities	2000	Quoted shares	1200	Debentures	300	Term Deposit	100	Commercial Paper	200
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Category	Value																														
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Risk Management

Types of Risk	Risk Response Strategies								
Investment Risk									
<p>11 Liquidity Risk It refers to insufficient availability of cash to make payment for claimants and reinsurers and delay in converting investment into cash</p>	<ul style="list-style-type: none"> 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 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 <div data-bbox="874 685 1099 1010" style="text-align: center;"> <p>Maturity Analysis of Investments</p> <table border="1" style="margin: 0 auto;"> <caption>Maturity Analysis of Investments</caption> <thead> <tr> <th>Maturity Category</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Less than 1 year</td> <td>65%</td> </tr> <tr> <td>1-5 years</td> <td>34%</td> </tr> <tr> <td>More than 5 years</td> <td>1%</td> </tr> </tbody> </table> </div>	Maturity Category	Percentage	Less than 1 year	65%	1-5 years	34%	More than 5 years	1%
Maturity Category	Percentage								
Less than 1 year	65%								
1-5 years	34%								
More than 5 years	1%								
<p>12 Asset and Liability management Risk It arises due to mismatch of duration of the maturity profile of assets and liabilities</p>	<ul style="list-style-type: none"> AAI has an investment policy of maintaining optimum levels of investment in long term instruments as percentage against life fund and minimum levels of investment in the long term instruments as a percentage against the general insurance technical reserve and complying with solvency margin rules while observing the market interest rates, inflation and external environmental factors. 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 								
<p>13 Market risk Due to direct hit of economic factors the prices of invested assets falling</p>	<ul style="list-style-type: none"> Monitoring market movements carefully to capitalize on opportunities Investment in instruments on a selective basis having considered the micro and macro economic environment and guide lines given by the Investment Committee This risk is reduced by investing in government securities, corporate debt and listed shares. 								
Operational Risks									
<p>14 Socio Economic & Political Risk 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"> Socio- economic and political risks are incorporated into financial planning of the Company and monitored on a regular basis Regular SWOT analysis considering the AAI's business strategies, internal and external environment 								
<p>15 IT Risk It refers to loss of data from the system due to lack of IT control, operational errors, break down of system due to disaster, virus and not providing right information at the right time.</p>	<ul style="list-style-type: none"> AAI has comprehensive IT Security policy and Business continuity plan and periodic awareness program on the same and strictly complying with the same Our Information technology system itself has proper internal controls to mitigate IT related risks 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 and stored it both on-site and off-site of AAI Internal and external auditors carry out IT System based audits on a regular basis and at the year end Replicate server at SLT – IDC for the back of Life and Non Life system 								

Types of Risk	Risk Response Strategies
Operational Risks	
<p>16 HR Risk 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"> • Providing continuous training (local and overseas) and relevant knowledge development and encouraging learning culture via effective knowledge management • 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 • Providing appropriate working environment with carrier development • Continuous staff development by providing financial assistance for education and other support • All confirmations, increments, salary revisions, promotion of senior management and succession planning for senior staff based on their contribution, experience and qualification.
<p>17 Fraud Risk The risk of internal control weaknesses leading to a fraudulent actions and mismanagement of assets.</p>	<ul style="list-style-type: none"> • 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 • Effective internal control system (Fraud management system) to prevent fraud • Monthly internal audit report by an independent Internal Auditor (M/S Ernst & Young Advisory Services (Pvt) Ltd (highlights the internal control weaknesses and suggestions to audit committee and subsequently audit committee monitors the implementation of that suggestions • 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 • 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
<p>18 Reputation Risk 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"> • AAI has an effective systems of internal controls which is regularly monitored by the Audit Committee, Internal auditors and the Compliance Officer • The company has the policy of fully compliant with all the laws, regulations and internal controls applicable to Company's operation • All the employees are trained to adopt the culture of AAI of "True Professionalism" in their operations • All the sensitive information are disseminated to public via Colombo stock Exchange • AAI evaluates its operation from the perspective of all stakeholders and taking appropriate actions if there is any shortcomings
<p>19 Money Laundering Risk The action of disguising the source of assets in order to avoid detection of the illegal activity from which they were derived.</p>	<p>AAI has designed an Anti Money Laundering Program which includes the following key features :</p> <ul style="list-style-type: none"> • Procedure for identification of different type of customers (KYC – Know Your Customer) • Procedure for identifying suspicious transaction • Analyzing the Vulnerability of products to money laundering activities • Designing mitigating strategies for money laundering activities • Record keeping procedure for verification and subsequent reference. • Mandatory reporting to FIU (Financial Intelligence Unit) in respect of transactions over Rs. 1,000,000 (in cash) in relation to premium, claims and refunds • Tracking process to follow up and monitoring of any suspected money launderer. • An automated notifying system to FIU of relevant details in a professional manner.

transparent results

Financial Analysis

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 at a meeting held on 14 February 2011.

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 2010 and the Auditors' Report thereon.

Review of Performance for the year ended 31st December 2010

The operations of the Company for the year ended 31st December 2010 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 Regulation of 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 share holder of the Company is Asia Capital PLC which has a direct holding of 5.38% and indirect holding of 32.92% which amounts to 44.3% in total as at 31 December 2010.

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 82.

The Financial Statements of the Company are given on pages 90 to 117.

Accounting Policies

The Accounting Policies adopted in preparation of Financial Statements are given on pages 97 to 103. There were no material changes in the Accounting Policies during the year.

Auditors

The Financial Statements for the year ended 31st December 2010 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 113 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 89.

Gross Written Premium

The Company has underwritten a total amount of Rs 1,673,274,144 during the year (2009 - Rs. 1,505,780,016) which is made up of Non Life Insurance amounting to Rs.430,665,748 (2009-Rs. 496,748,987) and Life Insurance amounting to Rs.1,242,608,396 (2009 - Rs. 1,009,031,029).

Financial Results

	2010 Rs' 000	2009 Rs' 000
Profit Before Taxation	370,576	147,107
Taxation	(2,568)	(2,329)
Profit After Taxation	368,008	144,778
Share Issue Expenses	(4,688)	-
Allocation for Life Solvency	(100,000)	-
Dividends Paid	(32,500)	(31,298)
Profit / (Loss) Brought Forward	267,540	154,060
Accumulated Profit At the End of the Year	498,360	267,540

Dividends

The Directors have proposed a final dividend of Rs. 3.00 per share for the year ended 31 December 2010, on 14 February 2011.

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 107.

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

Stated Capital

The Stated Capital of the Company as at 31 December 2010 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 balance Capital Expenditure Commitments approved by the Board for the purchase of Oracle Financial System as at 31 December 2010 is Rs. 6,250,000.

Provisions

The Directors have taken all responsible steps to ensure adequate provisioning has been made for unearned premiums, unexpired risks and claims, including claims incurred but not reported 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 page 100 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 111 and in the Statement of Changes in Equity on Page 92 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 114 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 82.

Contingent Liabilities

There were no material contingent liabilities outstanding as at 31st December 2010.

Post Balance Sheet Events

No circumstances have arisen since the balance sheet date, which require adjustments or disclosure in the Financial Statements, except for the dividend proposed, disclosed in Note No. 30 to the Financial Statements on Page 117.

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 57 to 65.

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

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

The Audit Committee Report is disclosed in Page 84.

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 2010 was 370 (2009 – 330)

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 stake holders

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:

J. H. Paul Ratnayake (Chairman)

H. L. L. Manohan Nanayakkara (Deputy Chairman)

Prof. Lakshman R. Watawala

Ramal G. Jasinghe

Chanaka De Silva (appointed with effect from 15.02.2010)

R. J. Wickramasinghe (appointed with effect from 15.02.2010)

Stefan Abeyesinghe (appointed with effect from 14.02.2011)

Valentine Siva Jr. (appointed with effect from 14.02.2011)

D. Priyanthi Pieris (Alternate Director to H. L. L. Manohan Nanayakkara, appointed with effect from 14.02.2011)

Note

Mr.Lalit .N.De S. Wijeyeratne resigned from the Board of Directors with effect from 15 February 2010.

Mr.K.D.Dammika Perera resigned from the Board of Directors with effect from 24 March 2010.

Directors' Report

Mr.W.D.Nimal H. Perera resigned from the Board of Directors with effect from 19 April 2010.

Mr.P.M.B. Fernando was appointed to the Board of Directors on 6 May 2010 and resigned from the Board of Directors with effect from 19 August 2010.

Mr.Asanga C.Seneviratne resigned from the Board of Directors with effect from 1 September 2010.

Rotation of Directors

Mr. J. H. Paul 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.

Independent Directors

During the Year Mr. R.J. Wickramasinghe and Mr. Chanaka De Silva were appointed as independent directors.

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

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

Directors Interest Register

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

Directors Interest in contracts

Directors interest in contracts both direct and indirect are as follows. The transactions entered with following companies during the year are disclosed in Note No. 28 on page 115.

Name of Director	Position	Company	Relationship
H.L.L Manohan Nanayakkara J. H. Paul Ratnayeke	Chairman Deputy Chairman	Asia Capital PLC	Asia Capital PLC holds 5.38% direct and 32.92% indirect of Asian Alliance Insurance PLC
J. H. Paul Ratnayeke H.L.L Manohan Nanayakkara	Chairman Director	Asia Fort Srilanka Direct Invetsment Fund Ltd	Asia Fort Srilanka Direct Investment Fund Ltd holds 34.45% of shares of Asian Alliance Insurance PLC
H.L.L Manohan Nanayakkara	Chairman	Asia Asset Finance Ltd	Group Company of Asia Capital PLC
J. H. Paul Ratnayeke H.L.L Manohan Nanayakkara	Chairman Managing Director	Asia Securities(Pvt) Ltd	Group Company of Asia Capital PLC
H.L.L Manohan Nanayakkara	Director	Asia Siyaka Commodities (Pvt) Ltd	Group Company of Asia Capital PLC
H.L.L Manohan Nanayakkara	Director	Investor Access Asia (Pvt) Ltd	Group Company of Asia Capital PLC
H.L.L Manohan Nanayakkara	Director	Asia Tea Packaging (Pvt) Ltd	Group Company of Asia Capital PLC
Prof. Lakshman R. Watawala J. H. Paul Ratnayeke	Director Director	Richard Pieris & Company PLC	Richard Pieris & Company PLC holds 15% of shares of Asian Alliance Insurance PLC
J. H. Paul Ratnayeke	Director	Richard Pieirs Distributors Ltd	Richard Pieris Distributors Ltd holds 10% of shares of Asian Alliance Insurance PLC
J. H. Paul Ratnayeke	Senior Partner	Paul Rathnayeke Associates	Director Related Entity
J. H. Paul Ratnayeke	Chairman	P.R.Secretarial Services (Pvt) Ltd	Director Related Entity
Chanaka De Silva	Chairman	Union Commodities (Pvt) Ltd	Director Related Entity
Chanaka De Silva	Chairman	Ceat Kelani Holdings Ltd	Director Related Entity

Directors' Interest in Shares

Name of The Director	As at 31 December 2010	As at 31 December 2009
Mr. J. H. Paul Ratnayeke	10,000	10,000
Mr. H.L.L Manohan Nanayakkara	Nil	Nil
Prof. Lakshman R. Watawala	Nil	Nil
Mr. Ramal G. Jasinghe	Nil	Nil
Mr. Chanaka De Silva	Nil	Nil
Mr. R.J.Wickramasinghe	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. 11,352,842

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 115.

Shareholders

The number of registered shareholders' of the Company as at 31st December 2010 was 512.

The distribution and analysis of shareholdings were as follows:

		As at 31 December 2010			As at 31 December 2009		
Number of Shares	No. of Share Holders	No. of Shares	% of Total	No. of Share Holders	No. of Shares	% of Total	
1 -1000	421	122,133	0.48	293	75,233	0.30	
1001 -10000	76	235,200	0.95	67	244,800	0.98	
10001 -100000	8	202,700	0.82	10	323,800	1.30	
100001 -1000000	1	625,000	2.50	4	2,041,700	8.17	
1000001 - & Over	6	23,814,967	95.25	7	22,314,467	89.25	
Total	512	25,000,000	100.00	381	25,000,000	100.00	

Resident / Non Resident

		As at 31 December 2010			As at 31 December 2009		
	No. of Share Holders	No. of Shares	% of Total	No. of Share Holders	No. of Shares	% of Total	
Resident	507	24,981,800	99.02	376	22,471,900	89.89	
Non Resident	5	18,200	0.98	5	2,528,100	10.11	
Total	512	25,000,000	100.00	381	25,000,000	100.00	

Individual/Institution

		As at 31 December 2010			As at 31 December 2009		
	No. of Share Holders	No. of Shares	% of Total	No. of Share Holders	No. of Shares	% of Total	
Individual	473	424,264	1.70	347	3,658,874	14.64	
Institutional	39	24,575,736	98.30	34	21,341,126	85.36	
Total	512	25,000,000	100.00	381	25,000,000	100.00	

Annual Report

The Board of Directors approved the Company Financial Statements together with the reviews which forms part of the Annual Report on 14 February 2011. The appropriate number of copies will be submitted to the Colombo Stock Exchange, Insurance Board of Sri Lanka, Sri Lanka Accounting and Auditing Standard Monitoring Board and the Registrar of Companies within the time frame.

Annual General Meeting

The Annual General Meeting will be held at level 26, East Tower, World Trade Centre, Echelon Square, Colombo 01 on 25th March 2011 at 9.30 a.m. The notice of Annual General Meeting is given on page 126.

(Sgd.)

P. R. Secretarial Services (Pvt) Ltd

Company Secretary

On behalf of the Board.

(Sgd.)

R. J. Wickramasinghe
Director

Colombo
14 February 2011

(Sgd.)

Chanaka De Silva
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 89.

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 90 to 117, 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.)
R. J. Wickramasinghe
Director

Colombo
14 February 2011

(Sgd.)
Chanaka De Silva
Director

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
14 February 2011

Audit Committee Report

Composition

The Audit Committee comprise Mr. R. J. Wickramasinghe (Chairman) and Mr. Chanaka De Silva both Non Executive Directors of the Company.

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

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

Objectives

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

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

Meetings

The Audit Committee conducted five meetings during the year under review. The Director/CEO, and the General Manager Finance, attended the meetings by invitation. Members of the Executive Committee, Senior Management, Compliance Officer, 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.

- Engaged the services of a firm of external consultants to carry out a comprehensive review of the company's IT systems, policies and controls.

Internal Audit

The Internal audit function is outsourced to 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 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 their 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 2010 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 2011 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 organization and to ensure

that the financial reporting system can be relied upon in preparation and presentation of Financial Statements. The Committee noted that a comprehensive Financial Review Report and Financial Statements are produced at month end highlighting all key performance criteria pertaining to the segments which is reviewed by the Executive Committee on a monthly basis.

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.)

R. J. Wickramasinghe

Chairman - Audit Committee

Colombo

14 February 2011

Remuneration Committee Report

Composition and Charter of the Remuneration Committee

The Remuneration Committee comprises Mr. Chanaka De Silva – Chairman and Mr. R. J. Wickramasinghe - Non Executive Directors of the Company.

The Chairman of the company, Director/CEO attends all meetings by invitation. The Deputy General Manager –Human Resources acts as the Secretary to the Committee and also assists the Committee by providing information required for its decision making process. The committee invited Mr. James Methar former Partner of Ernst & Young as an external independent Consultant for the professional advice in relation to remuneration.

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 over all 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
Traveling 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 pre determined 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. The Managing Director's and CEO's remunerations are 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 on page 116.

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 80.

Personal Loans for Directors

No Director is entitled for Company loans.

(Sgd.)

Chanaka De Silva

Chairman - Remuneration Committee

Colombo

14 February 2011

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, 2010

We have carried out an actuarial valuation of the Long Term Insurance Business as at 31 December, 2010. 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, 2010, 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, 2010, exceed the required actuarial reserves as at 31 December, 2010 by Rs. 411.084 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. 90.370 million, including the solvency margin for the new reversionary bonus allotted as at 31 December 2010, and is fully provided for.

M Poopalanathan
Actuary

14 February 2011

Report of the Actuary - Non Life

PARTNERS :

D. K. PANDIT

B.Sc., LL.B., A.I.A. (London), F.I.A.I.
APPROVED VALUER
REGD. NO. : CAT/X-3 OF 1988

AKSHAY PANDIT

B.Sc., A.I.A.I.

M. G. DIWAN

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

N. K. PARIKH

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

P. I. MAJMUDAR

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



Tel. : Fort (91-22) 2204 2231
Andheri (91-22) 6695 2119
A'bad : (91-79) 2646 0734
Website : www.ka-pandit.com

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

CERTIFICATE

As Consulting Actuaries to the Asian Alliance Insurance PLC, Colombo-02, Sri Lanka, we are required to estimate and certify the IBNR and IBNER Claims Reserves and AURR (Additional Unexpired Risk Reserve) of the Company's General Insurance Division as on 31st December, 2010.

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

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

We certify, on the above basis, that the IBNR and IBNER Claims Reserves as on 31-12-2010 to be provided by the Asian Alliance Insurance PLC in respect of its non-life business are estimated as Rs. 14,565,000 equal to 5.24% of the Net Earned Premium of Rs.277,860,595 as on 31-12-2010. They seem adequate and may be provided accordingly.

(II) Provision of AURR for the year ended 31-12-2010

- 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 31-12-2010, 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. 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 5% 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 31-12-2010.

(N. K. Parikh)

(Partner)

Mumbai, India,

24 January 2011

Independent Auditors' Report



KPMG Ford, Rhodes, Thornton & Co.
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300,
Sri Lanka.

Tel : +94 - 11 242 6426
+94 - 11 542 6426
Fax : +94 - 11 244 5872
+94 - 11 244 6058
+94 - 11 254 1249
+94 - 11 230 7345
Internet : www.lk.kpmg.com

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, 2010, 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 90 to 117 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, 2010 and the financial statements give a true and fair view of the Company's state of affairs as at December 31, 2010 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

These financial statements also comply with the requirements of Section 151(2) of the Companies Act No. 07 of 2007. 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
14 February 2011

Balance Sheet

As at 31st December	Notes	Company	
		2010 Rs. ' 000	2009 Rs. ' 000
Assets			
Investments	3	3,751,287	2,314,576
Investment Property	4	36,750	-
Property, Plant & Equipment	5	79,818	65,564
Policy Loans & Other Loans	6	45,879	31,453
Reinsurance Receivable		99,937	41,041
Premium Receivable	7	102,611	74,517
Other Assets	8	139,089	152,872
Cash & Cash Equivalents	9	62,438	52,140
		4,317,809	2,732,163
Total Assets			
Liabilities & Shareholders' Equity			
Liabilities			
Insurance Provision Life	10	1,929,352	1,560,395
Insurance Provision Non-Life	11	261,206	275,602
Provision for Life Solvency		100,000	-
Reinsurance Creditors	12	81,695	87,192
Other Liabilities	13	310,217	248,007
Amounts Due to Related Companies	14	47,499	12,362
Employee Benefits	15	22,738	14,653
Bank Overdraft		4,242	16,412
		2,756,949	2,214,623
Total Liabilities			
Shareholders' Equity			
Stated Capital	16	1,062,500	250,000
Revenue Reserve	17	498,360	267,540
		1,560,860	517,540
Total Shareholders' Equity			
Total Liabilities & Shareholders' Equity		4,317,809	2,732,163

The above Balance Sheet is to be read in conjunction with the Notes to the Financial Statements on Pages 97 to 117.

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.)

R. J. Wickramasinghe

Director

Colombo

14 February 2011

(Sgd.)

Chanaka De Silva

Director

Statement of Income

For the year ended 31st December	Notes	Company		
		2010 Rs. ' 000	2009 Rs. ' 000	Change %
Revenue	18.2	2,081,853	1,621,741	28%
Gross Written Premium		1,673,274	1,505,780	11%
Less : Reinsurance Premium		(352,599)	(345,833)	2%
Net Written Premium		1,320,675	1,159,947	14%
Net Change in Reserve for Unearned Premium	11.1	(4,879)	(3,896)	25%
Net Earned Premium	18	1,315,796	1,156,051	14%
Benefits, Losses and Expenses				
Increase in Insurance Provision -Life	10.1	(368,957)	(356,427)	4%
Net Insurance Claims & Benefits	19	(349,424)	(363,081)	(4%)
Net Acquisition Cost	20	(264,524)	(157,460)	68%
Underwriting Result		332,891	279,083	19%
Other Revenue				
Income from Investment	21.1	693,023	391,695	77%
Other Income	21.2	7,748	7,111	9%
Expenses				
Operating & Administration Expenses	22	(650,950)	(523,168)	24%
Profit/(Loss) from Operations	23	382,712	154,721	147%
Financial Expenses	24	(12,136)	(7,614)	59%
Profit/(Loss) before Taxation		370,576	147,107	152%
Income Tax (Expense)/Reversal	25	(2,568)	(2,329)	10%
Net Profit/ (Loss) for the Year		368,008	144,778	154%
Earnings per Share	26	13.73	5.73	
Dividends per Share - Proposed	27	3.00	1.30	

The above Statement of Income is to be read in conjunction with the Notes to the Financial Statements on pages 97 to 117.

Statement of Changes in Equity

	Stated Capital Rs.'000	Revenue Reserve Rs.'000	Total Rs. ' 000
Balance as at 1st January 2009	250,000	154,060	404,060
Net Profit for the Year	-	144,778	144,778
Dividend Paid	-	(31,298)	(31,298)
Balance as at 31st December 2009	250,000	267,540	517,540
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)
Balance as at 31st December 2010	1,062,500	498,360	1,560,860

The above Statement of Changes in Equity is to be read in conjunction with the Notes to the Financial Statements on pages 97 to 117.

Cash Flow Statement

For the Year Ended 31st December	Non Life Insurance		Life Insurance		Company	
	2010	2009	2010	2009	2010	2009
	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000
CASH FLOWS FROM OPERATING ACTIVITIES						
Premium Received from Customers	460,539	587,768	1,153,741	1,016,931	1,614,280	1,604,699
Reinsurance Premium Paid	(113,652)	(121,184)	(186,017)	(120,341)	(299,669)	(241,525)
Claims Paid	(477,580)	(306,134)	(172,472)	(124,062)	(650,052)	(430,196)
Reinsurance Receipt in respect of Claims	175,109	37,384	68,249	53,859	243,358	91,243
Cash paid to and on behalf of employees	(112,502)	(79,682)	(144,602)	(81,502)	(257,104)	(161,184)
Salvage income	14,911	7,259	-	-	14,911	7,259
Fund Transfer to Non Life division	253,610	195,000	(253,610)	(195,000)	-	-
Reimbursement of Overhead Expenditure from life	73,767	45,205	(73,767)	(45,205)	-	-
Operating Cash Payments	(183,664)	(256,419)	(412,197)	(373,649)	(595,861)	(630,068)
Cash Inflow/(Outflow) from Operating Activities (Note A)	90,538	109,197	(20,675)	131,031	69,863	240,228
Tax paid	(3,673)	(4,388)	-	-	(3,673)	(4,388)
Interest Paid	(1,247)	(1,409)	(48)	(28)	(1,295)	(1,437)
Net Cash flows from Operating Activities	85,618	103,400	(20,723)	131,003	64,895	234,403
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of Investments	(2,973,779)	(413,821)	(2,711,257)	(2,942,778)	(5,685,036)	(3,356,599)
Sale of Investments	2,089,325	267,661	2,540,810	2,633,491	4,630,135	2,901,152
Interest & Dividend income received	59,940	76,732	208,580	215,535	268,520	292,267
Purchase of Property, Plant & Equipment	(22,562)	(5,999)	(12,183)	(22,833)	(34,745)	(28,832)
Proceeds on Sale of Property, Plant & Equipment	3,387	4,308	-	-	3,387	4,308
Net Cash flows from Investing Activities	(843,689)	(71,119)	25,950	(116,585)	(817,739)	(187,704)
Net Cash Flow before Financing Activities	(758,071)	32,281	5,227	14,418	(752,844)	46,699
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from Issuance of Shares	812,500	-	-	-	812,500	-
Share Issue Expenses	(4,688)	-	-	-	(4,688)	-
Dividend Paid	(32,500)	(31,298)	-	-	(32,500)	(31,298)
Net Cash from/(used in) Financing Activities	775,312	(31,298)	-	-	775,312	(31,298)
Net Increase/(Decrease) in Cash and Cash Equivalents (Note B)	17,241	983	5,227	14,418	22,468	15,401

Cash Flow Statement

For the Year Ended 31st December	Non Life Insurance		Life Insurance		Company	
	2010	2009	2010	2009	2010	2009
	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000
A. Reconciliation of Operating Profit with Cash Flows from Operating Activities						
Profit/(Loss) before Taxation	370,576	147,107	-	-	370,576	147,107
Increase in Insurance Provision - Life	-	-	368,957	356,427	368,957	356,427
Depreciation Charges	5,883	5,291	13,524	11,157	19,407	16,448
Provision for Retirement Benefits	5,557	3,199	2,998	1,809	8,555	5,008
Retirement Benefit Paid	(356)	(1,121)	(114)	(105)	(470)	(1,226)
Interest Paid	1,247	1,409	48	28	1,295	1,437
Interest & Dividend Income	(60,105)	(79,927)	(217,353)	(239,467)	(277,458)	(319,394)
Realised Capital (Gain)/Loss	(81,715)	444	(109,488)	(16,461)	(191,203)	(16,017)
Unrealised Capital (Gain)/Loss	(144,563)	(4,440)	(78,899)	(51,844)	(223,462)	(56,284)
Profit on Sale of Fixed Assets	(2,307)	(3,356)	-	-	(2,307)	(3,356)
(Increase) / Decrease in Debtors and Other Assets	(83,863)	(5,907)	2,517	(30,547)	(81,346)	(36,454)
Increase /(Decrease) in Non-Life Insurance Prov.	(14,396)	29,463	-	-	(14,396)	29,463
Increase /(Decrease) in Creditors & Accruals	94,580	17,035	(2,865)	100,034	91,715	117,069
Cash Inflow/(Outflow) from Operating Activities	90,538	109,197	(20,675)	131,031	69,863	240,228
B. Increase in Cash and Cash Equivalents						
Cash In Hand & at Bank	16,367	11,296	46,071	40,844	62,438	52,140
Bank Overdraft	(4,242)	(16,412)	-	-	(4,242)	(16,412)
Net cash and cash equivalents as at 31st December 2010	12,125	(5,116)	46,071	40,844	58,196	35,728
Net cash and cash equivalents as at 31st December 2009	(5,116)	(6,099)	40,844	26,426	35,728	20,327
Increase / (Decrease) in Cash and Cash Equivalents	17,241	983	5,227	14,418	22,468	15,401

The above Cash Flow Statement is to be read in conjunction with the Notes to the Financial Statements on pages 97 to 117.

Statement of Income - Segment Review

For the Year Ended 31st December	Notes	Non Life Insurance		Life Insurance		Company	
		2010 Rs. ' 000	2009 Rs. ' 000	2010 Rs. ' 000	2009 Rs. ' 000	2010 Rs. ' 000	2009 Rs. ' 000
Gross Written Premium		430,666	496,749	1,242,608	1,009,031	1,673,274	1,505,780
Reinsurance Premium		(147,927)	(180,301)	(204,672)	(165,532)	(352,599)	(345,833)
Net Written Premium		282,739	316,448	1,037,936	843,499	1,320,675	1,159,947
Net Change in reserves for Unearned Premium	11.1	(4,879)	(3,896)	-	-	(4,879)	(3,896)
Net Earned Premium	18	277,860	312,552	1,037,936	843,499	1,315,796	1,156,051
Non-Life Insurance Losses & Loss Adjustment expenses	19	(246,348)	(275,552)	-	-	(246,348)	(275,552)
Life insurance benefits	19	-	-	(103,076)	(87,529)	(103,076)	(87,529)
Increase in Insurance Provision - Life	10.1	-	-	(368,957)	(356,427)	(368,957)	(356,427)
Net Acquisition cost	20	(16,733)	8,076	(247,791)	(165,536)	(264,524)	(157,460)
Total Benefits & Losses		(263,081)	(267,476)	(719,824)	(609,492)	(982,905)	(876,968)
Underwriting Results		14,779	45,076	318,112	234,007	332,891	279,083
Income from Investment	21.1	286,383	83,923	406,640	307,772	693,023	391,695
Other Income	21.2	2,307	3,356	5,441	3,755	7,748	7,111
Operating & Administration Expenses	22	(180,373)	(177,633)	(470,577)	(345,535)	(650,950)	(523,168)
Profit/(Loss) from Operations	23	123,096	(45,278)	259,616	199,999	382,712	154,721
Financial Expenses	24	(6,130)	(2,615)	(6,006)	(4,999)	(12,136)	(7,614)
Profit/(Loss) before Taxation		116,966	(47,893)	253,610	195,000	370,576	147,107
Income Tax Expense	25	(2,568)	(2,329)	-	-	(2,568)	(2,329)
Net Profit/(Loss) for the Year		114,398	(50,222)	253,610	195,000	368,008	144,778

Balance Sheet - Segment Review

As at 31st December	Notes	Non Life Insurance		Life Insurance		Company	
		2010 Rs. ' 000	2009 Rs. ' 000	2010 Rs. ' 000	2009 Rs. ' 000	2010 Rs. ' 000	2009 Rs. ' 000
Assets							
Investments	3	1,796,591	681,964	1,954,696	1,632,612	3,751,287	2,314,576
Investment Property	4	-	-	36,750	-	36,750	-
Property, Plant & Equipment	5	33,386	17,790	46,432	47,774	79,818	65,564
Policy Loans & Other Loans	6	1,223	841	44,656	30,612	45,879	31,453
Reinsurance Receivable		96,319	41,041	3,618	-	99,937	41,041
Premium Receivable	7	102,611	74,517	-	-	102,611	74,517
Other Assets	8	73,216	75,733	98,398	109,803	139,089	152,872
Cash & Cash Equivalents	9	16,367	11,296	46,071	40,844	62,438	52,140
Total Assets		2,119,713	903,182	2,230,621	1,861,645	4,317,809	2,732,163
Liabilities & Shareholders' Equity							
Liabilities							
Insurance Provision Life	10	-	-	1,929,352	1,560,395	1,929,352	1,560,395
Insurance Provision Non-Life	11	261,206	275,602	-	-	261,206	275,602
Provision for Life Solvency		100,000	-	-	-	100,000	-
Reinsurance Creditors	12	47,369	33,985	34,326	53,207	81,695	87,192
Other Liabilities	13	84,462	44,099	258,280	236,572	310,217	248,007
Amounts due to Related Companies	14	47,499	6,670	-	5,692	47,499	12,362
Employee Benefits	15	14,075	8,874	8,663	5,779	22,738	14,653
Bank Overdaft		4,242	16,412	-	-	4,242	16,412
Total Liabilities		558,853	385,642	2,230,621	1,861,645	2,756,949	2,214,623
Shareholders' Equity							
Stated Capital	16	1,062,500	250,000	-	-	1,062,500	250,000
Revenue Reserve	17	498,360	267,540	-	-	498,360	267,540
Total Shareholders' Equity		1,560,860	517,540	-	-	1,560,860	517,540
Total Liabilities & Shareholders' Equity		2,119,713	903,182	2,230,621	1,861,645	4,317,809	2,732,163

Notes to the Financial Statements

1. Corporate Information

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 Asia Capital PLC.

1.1 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 2010 were authorised for issue in accordance with a resolution of the Board of Directors on 14 February 2011.

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.

Critical Accounting Estimate/Judgement	Disclosure Reference	
	Note	Page
Insurance Provision – Life	10	109
Unearned premium	11.1	109
Deferred acquisition cost	11.2	109
Provision for Gross Outstanding Claims	11.3	109
Provision for IBNR/IBNER	11.4	109
Employee Benefits	15	110
Deferred Taxation – Utilisation of Losses	25.3	114
Valuation of Investment Property	4	106

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.

Notes to the Financial Statements

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

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 is valued at market value. The market value is determined on an aggregate portfolio basis.

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

b) Investment in Government securities

Investment in treasury bills, treasury bonds and repurchases agreement 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 property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs.

When the use of a property changes such that it is reclassified as property, plant and equipment,

its fair value at the date of reclassification becomes its cost for subsequent accounting.

2.2.3 Property Plant and Equipment

a) Cost

Property, plant and equipment is stated at cost less accumulated depreciation and less any impairment losses.

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

b) 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.

c) Depreciation

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

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

Depreciation 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.

d) 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.

e) Carrying Value

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

f) De-recognition

An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset

is included in the Statement of Income in the year the asset is de-recognised.

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

2.2.4 Lease Payments

- a) Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

2.2.5 Trade & 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 .

2.2.6 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.

2.2.7 Cash & Cash Equivalents

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

2.2.8 Impairment of Assets

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

Impairment losses are recognised in the Statement of Income

2.3 Liabilities and Provisions

2.3.1 Provisions

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

2.3.2 Reinsurance Payables

Reinsurance liability consists of reinsurance premium 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

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

b) Deferred Taxation

Deferred taxation is provided on the liability method. The tax effect of all temporary differences which occur where items are allowed for income tax purposes in a period different from that when they are recognized in the Financial Statements is included in the provision for deferred taxation (or future income tax benefits as applicable) at current rates of taxation.

Deferred tax assets are recognized for all deductible temporary differences and carry-forward of unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry-forward of unused tax losses can be utilized. The carrying amount of deferred tax asset is reviewed at each balance sheet date and reduced by the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

c) Economic Service Charge

As per the provisions of the Economic Service Charge Act No. 13 of 2006, ESC is payable on the liable turnover at specified rates. ESC is deductible from the income tax liability. Any unclaimed liability can be carried forward and set off against the income tax payable as per the relevant provisions in the Act.

Notes to the Financial Statements

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.

However under the Payment of Gratuities Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service. The Provision is not externally funded.

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

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. 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.

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) Others**
Other income is recognised on an accrual basis Net Gains and losses of a revenue nature on the disposal of Property, Plant & Equipment and other non current assets including investments have been accounted for in the Statement of Income, having deducted from proceeds on disposal, the carrying amount of the assets and related selling expenses.
- 2.4.4 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 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.
- 2.4.7 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.
- 2.4.8 Cash Flow Statements**
The cash flow statement has been prepared using the direct method. Interest received and dividend received are classified as investing cash flows while interest paid is classified as operating cash flows and dividends paid is classified as financing

Notes to the Financial Statements

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

2.4.9 Capital Commitments and Contingencies

Commitments and contingencies as at the balance sheet date is disclosed in Note No 29 to the Financial Statements on page 117.

2.4.10 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 117.

2.4.11. New Accounting Standards issued but not Effective as At Balance Sheet Date

The Institute of Chartered Accountants of Sri Lanka (ICASL) has issued a new volume of Sri Lanka Accounting Standards – 2011, applicable for financial periods beginning on or after 1 January 2012.

These Standards have many changes and consequential changes from the adaption of SLAS 44 and 45.

These new Accounting Standards are prefixed both SLFRS and LKAS which correspond to the relevant IFRS and IAS. Disclosure requirement under SLAS 10.30 and 10.31 have been exempted by the ICASL and therefore all differences and impacts arising from the new Standards are not presented in these Financial Statements.

The above Standards are effective for annual periods beginning on or after 1 January 2012.

2.4.12 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 117.

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 (lk) from Fitch rating and RAM Rating, other than in Group Companies. 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. Rs 10 million overdraft facility from Pan Asia Bank that is unsecured.

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

Notes to the Financial Statements

	Notes	Non Life Insurance		Life Insurance		Company	
		2010 Rs. ' 000	2009 Rs. ' 000	2010 Rs. ' 000	2009 Rs. ' 000	2010 Rs. ' 000	2009 Rs. ' 000
3 Investments							
Sri Lanka Government Securities	(3.1)	889,184	483,499	1,113,759	1,160,839	2,002,943	1,644,338
Investment in Quoted Shares	(3.2)	687,762	84,604	471,938	141,132	1,159,700	225,736
Investment in Debentures	(3.3)	-	-	310,062	90,448	310,062	90,448
Term Deposit		19,776	59,894	58,937	240,193	78,713	300,087
Commercial Papers	(3.4)	199,869	53,967	-	-	199,869	53,967
		1,796,591	681,964	1,954,696	1,632,612	3,751,287	2,314,576
3.1 Sri Lanka Government Securities							
Treasury Bonds		51,608	196,078	903,425	767,527	955,033	963,605
Repos		779,671	12,424	138,452	161,495	918,123	173,919
Treasury Bills		57,905	274,997	71,882	231,817	129,787	506,814
		889,184	483,499	1,113,759	1,160,839	2,002,943	1,644,338

3.2 Investment in Quoted Shares

	2010		2009	
	No. of Shares	Market Value Rs' 000	No. of Shares	Market Value Rs' 000
Non- Life				
Banks, Finance & Insurance				
Commercial Bank PLC	-	-	35,100	6,651
Commercial Bank PLC (Non Voting)	-	-	6,000	748
DFCC Bank PLC	-	-	66,000	11,022
Hatton National Bank PLC	-	-	61,000	10,385
Hatton National Bank PLC (Non Voting)	-	-	93,600	9,805
National Development Bank PLC	-	-	23,500	4,842
Nations Trust Bank PLC	189,100	15,789	54,700	2,010
Nations Trust Bank PLC Warrants 2010	-	-	221,800	1,829
Seylan Bank PLC	-	-	136,700	5,059
Seylan Bank PLC (Non Voting)	1,557,400	76,002	627,300	10,037
Lanka Orix Leasing Company PLC	-	-	28,500	3,904
Power & Energy				
Lanka IOC PLC	-	-	20,000	345
Hemas Power PLC	-	-	41,500	809
Chemicals & Pharmaceuticals				
Chemical Industries (Colombo) PLC	-	-	6,500	409
Chemical Industries (Colombo) PLC (Non Voting)	-	-	90,700	3,559
Diversified				
Hayleys PLC	-	-	11,000	1,889
Manufacturing				
ACL Cables PLC	-	-	32,000	2,457
Dipped Products PLC	180,000	21,600	-	-
Royal Ceramics Lanka PLC	850,100	259,195	-	-
Lanka Wall Tile PLC	338,700	46,774	-	-
Tokyo Cement Company (Lanka) PLC	2,788,600	112,382	-	-
Beverage, Food and Tobacco				
Distilleries Company of Sri Lanka PLC	500,000	89,000	60,300	6,347
Lion Brewery Ceylon PLC	40,000	7,520	-	-
Telecommunications				
Dailog Axiata PLC	5,000,000	59,500	-	-
Construction & Engineering				
Colombo Dock Yard PLC	-	-	10,200	2,497
Total		687,762		84,604

	2010		2009	
	No. of Shares	Market Value Rs' 000	No. of Shares	Market Value Rs' 000
3.2 Investment in Quoted Shares (Contd)				
Life				
Banks, Finance & Insurance				
Asia Capital PLC	2,191,500	103,000	-	-
Hatton National Bank PLC (Non Voting)	638,800	136,958	303,400	31,781
Commercial Bank PLC	-	-	25,000	4,737
Sampath Bank PLC	-	-	546,100	20,205
Seylan Bank PLC (Non Voting)	350,000	17,080	297,100	4,753
DFCC Bank PLC	-	-	99,000	16,533
Central Finance Company PLC	-	-	10,300	3,270
Lanka Orix Leasing PLC	-	-	20,000	2,740
Power & Energy				
Hemas Power PLC	-	-	46,800	912
Diversified				
Hayleys PLC	-	-	-	-
John Keels Holdings PLC	-	-	108,300	18,574
Manufacturing				
Royal Ceramics Lanka PLC	285,900	87,170	-	-
ACL Cabels PLC	-	-	82,800	6,355
Dipped Products PLC	756,800	90,816	7,500	646
Lanka Tiles PLC	-	-	101,000	6,717
Beverage, Food and Tobacco				
Distilleries Company of Sri Lanka PLC	-	-	39,500	4,157
The Lion Brewery Ceylon PLC	196,400	36,914	-	-
Telecommunications				
Sri Lanka Telecom PLC	-	-	193,400	8,897
Health Care				
Asiri Hospitals PLC	-	-	50,000	512
Hotels & Travels				
Asian Hotels Properties PLC	-	-	70,000	6,615
Amaya Leisure PLC	-	-	12,900	765
Galadari Hotels Lanka PLC	-	-	94,200	1,413
Confifi Hotel Holdings PLC	-	-	10,000	1,550
Total		471,938		141,132

Notes to the Financial Statements

	2010			2009		
	Face Value Rs' 000	Carrying Value Rs' 000	Market Value Rs' 000	Face Value Rs' 000	Carrying Value Rs' 000	Market Value Rs' 000
3.3 Investment in Debentures						
Life						
Quoted						
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	10,062	9,000	9,000	10,448	9,000
LB Finance PLC - 24%	15,000	15,000	14,956	15,000	15,000	14,956
	89,000	90,062	88,956	89,000	90,448	88,956
Non Quoted						
Peoples Leasing Co. PLC -14.25%	70,000	70,000	-	-	-	-
Commercial Leasing PLC - 13%	70,000	70,000	-	-	-	-
Merchant Bank of Sri Lanka PLC -13%	80,000	80,000	-	-	-	-
	220,000	220,000	-	-	-	-
Total	309,000	310,062	-	89,000	90,448	-

	Non-Life Insurance		Life Insurance		Company	
	2010 Rs. ' 000	2009 Rs. ' 000	2010 Rs. ' 000	2009 Rs. ' 000	2010 Rs. ' 000	2009 Rs. ' 000
3.4 Investment in Commercial Papers						
Merchant Bank of Sri Lanka PLC - 15.5%	-	20,925	-	-	-	20,925
Lanka Orix Leasing PLC -16.5%	-	10,505	-	-	-	10,505
Peoples Leasing PLC -23%	-	22,537	-	-	-	22,537
Asia Capital PLC- 12.5%	199,869	-	-	-	199,869	-
	199,869	53,967	-	-	199,869	53,967

	Free Hold		Total
	2010	2009	
4 Investment Property			
Balance as at 1 January 2010	-	-	-
Acquisitions	36,750	-	36,750
Change in Fair Value	-	-	-
Balance as at 31 December 2010	36,750	-	36,750

The above investment property has been acquired on 29th June 2010 and is located at Kalalgoda Road, Hokandara at an extent of 1 Root & 36 perches. The property contains one Factory Building with attachments. The valuation of the property has been done by Messrs Ariyathilake & Co.(Pvt) Ltd.Chartered Valuers (UK) , at the time of acquisition.

	Non-Life Insurance		Life Insurance		Company	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
5 Property Plant & Equipment - Freehold						
Net Book Value	33,386	17,790	46,432	47,774	79,818	65,564
	33,386	17,790	46,432	47,774	79,818	65,564

	Computer Hardware Rs. '000	Computer Software Rs. '000	Office Equipment Rs. '000	Furniture & Fittings Rs. '000	Fixtures & Fittings Rs. '000	Motor Vehicles Rs. '000	Total Rs. '000
5.1 Non-Life Insurance							
Cost							
Balance as at 1 January 2010	18,321	10,275	6,114	7,177	7,343	4,110	53,340
Additions during the Year	1,462	1,843	303	228	-	1,075	4,911
Disposals/Transfers	-	-	(2)	-	-	(1,080)	(1,082)
Balance as at 31 December 2010	19,783	12,118	6,415	7,405	7,343	4,105	57,169
Depreciation							
Balance as at 1 January 2010	11,844	8,713	3,891	3,883	6,143	1,077	35,551
Depreciation Charge for the Year	2,090	1,072	799	532	371	1,019	5,883
Disposal/Transfers	-	-	-	-	-	-	-
Balance as at 31 December 2010	13,934	9,785	4,690	4,415	6,514	2,096	41,434
Carrying Value							
Balance as at 31 December 2010	5,849	2,333	1,725	2,990	829	2,009	15,735
Balance as at 31 December 2009	6,477	1,562	2,223	3,294	1,200	3,034	17,790

	Computer Hardware Rs. '000	Computer Software Rs. '000	Office Equipment Rs. '000	Furniture & Fittings Rs. '000	Fixtures & Fittings Rs. '000	Motor Vehicles Rs. '000	Total Rs. '000
5.2 Life Insurance							
Cost							
Balance as at 1 January 2010	15,903	23,824	26,175	23,100	31,046	-	120,048
Additions during the Year	2,100	183	2,712	3,241	3,947	-	12,183
Disposals/Transfers	-	-	-	-	-	-	-
Balance as at 31 December 2010	18,003	24,007	28,887	26,341	34,993	-	132,231
Depreciation							
Balance as at 1 January 2010	10,576	23,816	13,961	9,007	14,915	-	72,275
Depreciation Charge for the Year	1,813	20	4,078	2,546	5,067	-	13,524
Disposal/Transfers	-	-	-	-	-	-	-
Balance as at 31 December 2010	12,389	23,836	18,039	11,553	19,982	-	85,799
Carrying Value							
Balance as at 31 December 2010	5,614	171	10,848	14,788	15,011	-	46,432
Balance as at 31 December 2009	5,327	8	12,215	14,093	16,131	-	47,774

	Balance as at 01.01.2010 Rs.	Incurred During the Year Rs.	Transferred Rs.	Balance as at 31.12.2010 Rs.
5.3 In the Course of Construction				
IT System Work in Progress	-	17,651	-	17,651
	-	17,651	-	17,651

5.4 Property, Plant & Equipment includes fully depreciated assets having a gross carrying amount of Rs. 75,947,650 (2009 - Rs.70,725,074)

Notes to the Financial Statements

		Non-Life Insurance		Life Insurance		Company	
		2010	2009	2010	2009	2010	2009
		Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000
6	Policy Loans & Other Loans						
	Loans granted to employees (6.1)	1,223	841	74	128	1,297	969
	Loans granted to policy holders (6.2)	-	-	44,582	30,484	44,582	30,484
		1,223	841	44,656	30,612	45,879	31,453
6.1	Loans to Employees						
	Balance as at 01 January	841	1,342	128	298	969	1,640
	Loans granted during the Year	2,081	2,333	1,353	534	3,434	2,867
		2,922	3,675	1,481	832	4,403	4,507
	Repayment during the Year	(1,699)	(2,834)	(1,407)	(704)	(3,106)	(3,538)
	Balance as at 31 December	1,223	841	74	128	1,297	969
6.2	Loans to Life Policy Holders						
	Balance as at 01 January	-	-	30,484	12,275	30,484	12,275
	Loans granted during the Year	-	-	18,879	19,727	18,879	19,727
	Interest Accrued	-	-	5,441	3,755	5,441	3,755
		-	-	54,804	35,757	54,804	35,757
	Repayment during the Year	-	-	(10,222)	(5,273)	(10,222)	(5,273)
	Balance as at 31 December	-	-	44,582	30,484	44,582	30,484
7	Premium Receivable						
	Premium Receivable	103,064	76,371	-	-	103,064	76,371
	Less: Provision for Bad Debts						
	Balance as at 1 January	1,854	1,543	-	-	1,854	1,543
	Provision/ (Reversal) during the year	(1,401)	1,354	-	-	(1,401)	1,354
	Bad Debts written off during the year	-	(1,043)	-	-	-	(1,043)
	Balance as at 31 December	453	1,854	-	-	453	1,854
	Net Premium Receivable	102,611	74,517	-	-	102,611	74,517
7.1	Premium Receivable						
	- Related Party (7.2)	3,462	17,976	-	-	3,462	17,976
	- Other	99,149	56,541	-	-	99,149	56,541
		102,611	74,517	-	-	102,611	74,517
7.2	Premium Receivable from Related Parties						
	Asia Securities(Pvt) Ltd	12	-	-	-	12	-
	Asia Assets Finance Ltd	181	-	-	-	181	-
	Asia Capital PLC	8	-	-	-	8	-
	Asia Siyaka Commodities (Pvt) Ltd	12	-	-	-	12	-
	Richard Pieris & Co. PLC & Group	3,249	17,976	-	-	3,249	17,976
		3,462	17,976	-	-	3,462	17,976

		Non-Life Insurance		Life Insurance		Company	
		2010	2009	2010	2009	2010	2009
		Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000
8	Other Assets						
	Inventories	4,653	3,873	260	-	4,913	3,873
	Interest Receivables	3,375	7,104	54,893	46,119	58,268	53,223
	Current A/C With Life	32,525	32,664	-	-	-	-
	Other Receivables	11,809	13,073	30,935	55,702	42,744	68,775
	Tax Recoverable	20,854	19,019	12,310	7,982	33,164	27,001
		73,216	75,733	98,398	109,803	139,089	152,872
9	Cash & Cash Equivalents						
	Cash In Hand	197	304	1,326	1,266	1,523	1,570
	Cash at Bank	16,170	10,992	44,745	39,578	60,915	50,570
		16,367	11,296	46,071	40,844	62,438	52,140

10 Insurance Provision Life

The valuation of the long term Insurance business as at 31.12.2010 was made by Mr. M. Poopalanathan, AIA of Actuarial & Management Consultants (Pvt) Ltd, for and on behalf of Asian Alliance Insurance PLC.

In accordance with the Consultant Actuary' s Report, the sum of provision Rs. 1,929 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. 31.596 Mn has been created for the purpose of any future bonus and contingencies by the Actuary.

Actuary recommended to transfer Rs 253 Mn to Shareholders.

		2010 Rs. ' 000	2009 Rs. ' 000
Actuarial Assumptions			
Interest Rate		6.5%	6.5%
Mortality Table Used		A67/70	A67/70
10.1 Movement in Insurance provision - Life			
Balance as at 1 January		1,560,395	1,203,968
Increase in Life fund (gross)		368,957	356,427
Balance as at 31 December		1,929,352	1,560,395
11 Insurance Provision -Non-Life			
Reserve for net unearned premiums	(11.1)	179,999	175,120
Reserve for net deferred acquisition cost	(11.2)	(14,462)	(10,062)
Reserve for Gross Outstanding Claims	(11.3)	81,104	97,069
Reserve for IBNR & IBNER	(11.4)	14,565	13,475
		261,206	275,602
11.1 Reserve for net unearned premiums			
Balance as at 1st January		175,120	171,224
Transfers during the year		4,879	3,896
Balance as at 31st December		179,999	175,120
11.2 Reserve for net deferred acquisition cost			
Balance as at 1st January		(10,062)	5,819
Transfers during the year		(4,400)	(15,881)
Balance as at 31st December		(14,462)	(10,062)
11.3 Reserve for gross outstanding claims			
Balance as at 1st January		97,069	58,767
Transfers during the year		456,684	341,870
Claims approved during the year		(472,649)	(303,568)
Balance as at 31st December		81,104	97,069
11.4 Reserve for IBNR & IBNER			
Balance as at 1st January		13,475	10,329
Transfers during the year		1,090	3,146
Balance as at 31st December		14,565	13,475
11.5 Reconciliation between Insurance Provision and Technical Reserve			
Non Life Insurance Provision		261,206	275,602
Reinsurance Receivable on Claims Outstanding		(63,087)	(28,734)
		198,119	246,868

The above Non Life Insurance Technical Reserve Rs. 198,119,752 as at 31.12.2010 includes the claims incurred but not reported (IBNR) reserve and claims incurred but not enough reported (IBNER) reserves that have been certified by independent consultants actuaries M/S K. A. Pandit of Mumbai, India.

According to the actuary certificate dated 24th January 2011, the IBNR & IBNER reserve as at 31st December 2010 is Rs.14,565,000 which is equal to 5.24% of Net Earned Premium of Rs. 277,860,595 as at 31st December 2010.

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

Notes to the Financial Statements

	Non-Life Insurance		Life Insurance		Company	
	2010 Rs. ' 000	2009 Rs. ' 000	2010 Rs. ' 000	2009 Rs. ' 000	2010 Rs. ' 000	2009 Rs. ' 000
12 Re-insurance Creditors						
Reinsurance Creditors	47,369	33,985	34,326	53,207	81,695	87,192
	47,369	33,985	34,326	53,207	81,695	87,192
13 Other Liabilities						
Commission Payable	25,096	14,280	-	37,820	25,096	52,100
Other Government Taxes	-	983	-	767	-	1,750
Claims Payable (13.1)	773	5,704	76,026	65,606	76,799	71,310
Current A/C with Non-Life	-	-	32,525	32,664	-	-
Premium Deposit & Other	-	-	46,223	42,647	46,223	42,647
Tax & Other Statutory Payables	1,848	6,697	1,215	677	3,063	7,374
Accruals & Others	56,745	16,435	102,291	56,391	159,036	72,826
	84,462	44,099	258,280	236,572	310,217	248,007
13.1 Movement of Claims Payable						
Balance as at 1 January	5,704	8,270	65,606	51,072	71,310	59,342
Claims Approved during the year	472,649	303,568	182,892	138,596	655,541	442,164
Claims Paid during the year	(477,580)	(306,134)	(172,472)	(124,062)	(650,052)	(430,196)
Balance as at 31 December	773	5,704	76,026	65,606	76,799	71,310
14 Amounts Due to Related Companies Relationship						
Asia Securities(Pvt) Ltd Affilate	45,562	3,910	-	5,692	45,562	9,602
Asia Capital PLC Parent Co	1,937	2,760	-	-	1,937	2,760
	47,499	6,670	-	5,692	47,499	12,362
15 Employee Benefits						
Balance as at 1 January	8,874	6,796	5,779	4,075	14,653	10,871
Provisions made during the year	5,557	3,199	2,998	1,809	8,555	5,008
	14,431	9,995	8,777	5,884	23,208	15,879
Payments during the year	(356)	(1,121)	(114)	(105)	(470)	(1,226)
Balance as at 31 December	14,075	8,874	8,663	5,779	22,738	14,653

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

	2010 Rs. ' 000	2009 Rs. ' 000
Movement in the present value of the defined benefit obligations		
Defined benefit obligations at 1 January	14,653	10,871
Interest Cost	1,758	1,304
Current service costs	5,542	3,080
Benefits paid by the plan	(470)	(1,226)
Actuarial (gains)/losses	1,255	624
Defined benefit obligations as at 31 December	22,738	14,653
Expense recognised in Profit/(Loss)		
Current service cost	5,542	3,080
Interest Cost	1,758	1,304
Actuarial Losses	1,255	624
	8,555	5,008
The expense is recognised in the following line items in the Statement of Income:		
Staff expenses	8,555	5,008

	2010	2009
Actuarial assumptions		
Normal retirement age	55 years	55 years
Discount rate per annum	11%	12%
Salary increment rate per annum	10% with next increment due on 01 January 2011	11% with next increment due on 01 January 2010
Withdrawal rate	3% upto 49 years of age and zero thereafter	3% upto 49 years of age and zero thereafter

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

	Company	
	2010 Rs. ' 000	2009 Rs. ' 000
16 Stated Capital		
37,500,000 fully paid ordinary shares	1,062,500	250,000
Balance as at 1 January	250,000	250,000
Issued during the year	812,500	-
Balance as at 31 December	1,062,500	250,000

During the year the Company has raised Rs.812,500,000 through Rights issue of 1 for 2 existing shares, at Rs. 65 per share to strengthen the Company's Capital Structure.

	Revenue Reserve Rs. ' 000
17 Revenue Reserves	
Balance as at 1 January 2009	154,060
Net Profit/(Loss) for the Year	144,778
Dividend paid	(31,298)
Balance as at 31 December 2009	267,540
Net Profit/(Loss) 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

Notes to the Financial Statements

	Non-Life Insurance		Life Insurance		Company	
	2010 Rs. ' 000	2009 Rs. ' 000	2010 Rs. ' 000	2009 Rs. ' 000	2010 Rs. ' 000	2009 Rs. ' 000
18 Net Earned Premium						
Gross Written Premium						
First Year Premium	-	-	379,118	256,243	379,118	256,243
Renewal Premium	-	-	846,829	739,628	846,829	739,628
Group Life Premium	-	-	7,151	6,495	7,151	6,495
Single Premium	-	-	9,510	6,665	9,510	6,665
Fire	81,958	105,367	-	-	81,958	105,367
Marine	24,767	33,931	-	-	24,767	33,931
Miscellaneous	94,552	117,708	-	-	94,552	117,708
Motor	229,389	239,743	-	-	229,389	239,743
	430,666	496,749	1,242,608	1,009,031	1,673,274	1,505,780
Reinsurance	(147,927)	(180,301)	(204,672)	(165,532)	(352,599)	(345,833)
Net Written Premium	282,739	316,448	1,037,936	843,499	1,320,675	1,159,947
(Increase) / Decrease in Unearned Premium	(4,879)	(3,896)	-	-	(4,879)	(3,896)
Net Earned Premium	277,860	312,552	1,037,936	843,499	1,315,796	1,156,051

18.1 Annualized New Business Premium

	Life Insurance	
	2010 Rs. ' 000	2009 Rs. ' 000
Individual Policies	599,801	443,637

	2010 Rs. ' 000	2009 Rs. ' 000
	18.2 Revenue	
Gross Written Premium	1,673,274	1,505,780
Reinsurance Premium	(352,599)	(345,833)
Net Written Premium	1,320,675	1,159,947
(Increase)/Decrease in Unearned Premium	(4,879)	(3,896)
Net Earned Premium	1,315,796	1,156,051
Commission Income	65,286	66,884
Income from Investment	693,023	391,695
Other Income	7,748	7,111
Total Revenue	2,081,853	1,621,741

Insurance Revenue Accounts

18.2.1 Non-Life Insurance Revenue Account

Gross Written Premium	430,666	496,749
Net Earned Premium	277,860	312,552
Net Benefit Payment	(246,348)	(275,552)
Net Acquisition cost	(16,733)	8,076
Expenses	(186,503)	(180,248)
Net Underwriting Result	(171,724)	(135,172)
Investment & Other Income	288,690	87,279
Net Profit / (Loss) for the Year	116,966	(47,893)

18.2.2 Life Insurance Revenue Account

Gross Written Premium	1,242,608	1,009,031
Net Earned Premium	1,037,936	843,499
Net Benefit Payment	(103,076)	(87,529)
Net Acquisition Cost	(247,791)	(165,536)
Expenses	(476,583)	(350,534)
Net Underwriting Result	210,486	239,900
Investment & Other Income	412,081	311,527
Surplus from Life Insurance before Transfers	622,567	551,427
Transfer to Insurance Provision - Life	(368,957)	(356,427)
Transfer to Shareholders Fund	253,610	195,000

	Non-Life Insurance		Life Insurance		Company	
	2010 Rs. ' 000	2009 Rs. ' 000	2010 Rs. ' 000	2009 Rs. ' 000	2010 Rs. ' 000	2009 Rs. ' 000
19 Insurance Claim & Benefit - Net						
Gross Claims Incurred	459,079	345,016	150,688	102,185	609,767	447,201
Policy Maturities	-	-	2,227	1,677	2,227	1,677
Policy Surrenders	-	-	40,603	35,545	40,603	35,545
Reinsurance Recoveries	(199,417)	(62,984)	(90,442)	(51,878)	(289,859)	(114,862)
Salvage Value	(13,314)	(6,480)	-	-	(13,314)	(6,480)
	246,348	275,552	103,076	87,529	349,424	363,081
20 Net Acquisition Cost						
Net policy acquisition cost	21,534	7,805	241,208	161,031	262,742	168,836
Increase in Deferred Acquisition Expenses	(4,400)	(15,881)	-	-	(4,400)	(15,881)
Other insurance related cost	(401)	-	6,583	4,505	6,182	4,505
	16,733	(8,076)	247,791	165,536	264,524	157,460
21 Investment Income & Other Income						
21.1 Income from Investment						
Interest Income on government securities and other money market instruments	55,272	79,569	211,166	238,293	266,438	317,862
Dividend Income	4,833	358	6,187	1,174	11,020	1,532
Realised Capital Gain/ (Loss)	81,715	(444)	109,488	16,461	191,203	16,017
Un realised Capital Gain/ (Loss)	144,563	4,440	78,899	51,844	223,462	56,284
Rental Income	-	-	900	-	900	-
	286,383	83,923	406,640	307,772	693,023	391,695
21.2 Other Income						
Profit on sale of fixed Assets	2,307	3,356	-	-	2,307	3,356
Interest on Policy Loans	-	-	5,441	3,755	5,441	3,755
	2,307	3,356	5,441	3,755	7,748	7,111

	Non-Life Insurance		Life Insurance		Company	
	2010 Rs. ' 000	2009 Rs. ' 000	2010 Rs. ' 000	2009 Rs. ' 000	2010 Rs. ' 000	2009 Rs. ' 000
22 Operating and Administration Expenses						
Staff Expenses (22.1)	72,659	82,023	149,530	104,510	222,189	186,533
Administration Expenses	90,657	87,523	220,412	168,097	311,069	255,620
Publicity & Business Promotion	17,057	8,087	100,635	72,928	117,692	81,015
	180,373	177,633	470,577	345,535	650,950	523,168
22.1 Staff Expenses						
Salaries & Wages	55,046	53,935	106,788	67,945	161,834	121,880
EPF & ETF	6,739	8,051	13,181	9,774	19,920	17,825
Gratuity	5,557	3,199	2,998	1,809	8,555	5,008
Others	5,317	16,838	26,563	24,982	31,880	41,820
	72,659	82,023	149,530	104,510	222,189	186,533
22.2 Number of Employees						
As at the end of the Financial Year					370	330
23 Profit from Operations						
Profit from Operations for the year is stated after charging following Expenses						
Depreciation	5,883	5,291	13,524	11,157	19,407	16,448
Auditors' Remuneration - Audit	330	550	770	550	1,100	1,100
- Non Audit	19	25	44	25	63	50
Legal Fees	1,215	428	1,365	1,205	2,580	1,633
Management Fees	25,919	900	5,811	900	31,730	1,800
24 Financial Expenses						
Bank Interest	1,247	1,409	48	28	1,295	1,437
(Gain) \ Loss on Foreign Exchange	1,058	(748)	-	-	1,058	(748)
Bank Charges	3,825	1,954	5,958	4,971	9,783	6,925
	6,130	2,615	6,006	4,999	12,136	7,614

Notes to the Financial Statements

		Company	
		2010	2009
		Rs. ' 000	Rs. ' 000
25 Income Tax Expense			
Current Income Tax			
Current Tax Expense on Ordinary Activities for the Year	(25.1)	-	-
(Charge)/Reversal of Previous Year Economic Service Charge	(25.4)	(2,568)	(2,329)
Deferred Income Tax			
Deferred Taxation (Charge)/Reversal	(25.3)	-	-
		(2,568)	(2,329)

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

	Non-Life Insurance		Life Insurance		Company	
	2010	2009	2010	2009	2010	2009
	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000
Accounting Profit/(Loss)	116,966	(47,893)	253,610	195,000		
Aggregate Disallowed Items	55,619	27,809	42,350	37,335		
Aggregate Allowable Expenses	(5,405)	(5,623)	(513,701)	(495,964)		
Aggregate Allowable Income	(233,419)	(8,154)	-	-		
Taxable Profit/(Loss)	(66,239)	(33,861)	(217,741)	(263,629)	(283,980)	(297,490)
Tax Losses Brought Forward					(2,098,966)	(1,801,476)
Tax Losses Carried Forward					(2,382,946)	(2,098,966)
Statutory Tax Rate					35%	35%
Current Income Tax Expense					Nil	Nil

25.2 The Company is liable to income tax at 35% of its taxable profit. However no provision is made in view of the tax loss. The tax loss carried forward as at 31 December 2010 is Rs. 2,382,945,460 (2009 - 2,098,965,698).

		Company	
		2010	2009
		Rs. ' 000	Rs. ' 000
25.3 Deferred Tax Assets & Liabilities			
Unrecognised Deferred Tax Assets			
Deferred Tax Assets have not been recognised in respect of following items			
Tax Losses Carried Forward		2,382,946	2,098,966
Employee Benefits		22,738	14,653
Total Deductible Temporary Differences		2,405,684	2,113,619
Unrecognised Deferred Tax Assets		673,591	739,767

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;

		Company	
		2010	2009
		Rs. ' 000	Rs. ' 000
Property, Plant & Equipments		16,913	21,350
Total Taxable Temporary Differences		16,913	21,350
Unrecognised Deferred Tax Liabilities		4,736	7,473

Company

	2010 Rs. ' 000	2009 Rs. ' 000
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.17,130,730 is shown as ESC Recoverable. ESC (Charged)/Reversal	(2,568)	(2,329)
An amount of Rs.2,567,652 is written off to the Statement of Income as unrecoverable taxes as per the tax legislations.		
25.5 Notional Tax Credit		
The Company is entitle to the following notional tax credit in case of a future tax liability Notional Tax Credit	104,177	81,530

26 Earnings/(Loss) Per Share
Basic Earnings/(Loss) per Share

Earnings per Share is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding as at year end. Earnings per share for 2009 has been reinstated to give effect to the Rights Issue during the year (Note 16)

Company

	2010 Rs. ' 000	2009 Rs. ' 000
Profit Attributable to Ordinary Share Holders	368,008	144,778
Weighted Average No of Ordinary Shares	26,803	25,267
Earnings Per Share	13.73	5.73
27 Dividends per Share		
The dividends per share is calculated by dividing the dividends proposed, by the number of ordinary shares in issue. Final Dividends - (Rs. 000)	112,500	32,500
No of Ordinary Shares	37,500	25,000
Dividends Per Share	3.00	1.30

28 Related Party Disclosures**28.1 Transactions with Group Companies and Director related entities**

Company	Relationship	Nature of Transaction	2010 Rs. ' 000	2009 Rs. ' 000
Asia Capital PLC	Asia Capital PLC owns 44.3% of the Company's issued share capital	Insurance Placed	1,944	1,370
		Claims Incurred	344	966
		Management Fees Paid	31,730	1,800
		Investments in Equity Shares	103,000	-
		Investments in Commercial Papers	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	No Transactions		
Asia Assets Finance Ltd	Group Co. of Asia Capital PLC	Insurance Placed	1,378	716
		Claims Incurred	460	422
		Purchase of Investment Property	36,750	-
Asia Securities (Pvt) Ltd	Group Co. of Asia Capital PLC	Insurance Placed	87	175
		Claims Incurred	89	19
		Share Brokerage Charges incurred	15,481	6,620
Asia Siyaka Commodities (Pvt) Ltd	Group Co. of Asia Capital PLC	Insurance Placed	5,317	552
		Claims Incurred	1,371	732
Investor Access Asia (Pvt) Ltd	Group Co. of Asia Capital PLC	Insurance Placed	14	557
		Claims Incurred	37	89
Asia Tea Packaging (Pvt) Ltd	Group Co. of Asia Capital PLC	Rental Income	900	-

Notes to the Financial Statements

28 Related Party Disclosures**28.1 Transactions with Group Companies and Director related entities (Contd.)**

Company	Relationship	Nature of Transaction	2010 Rs. ' 000	2009 Rs. ' 000
Richard Pieris & Co.PLC	Richard Pieris & Co. PLC owns 15% of the Company's issued share capital	Insurance Placed Claims Incurred	35,304 26,385	50,181 19,704
Richard Pieris Distributors Ltd	Richard Pieris Distributors Ltd owns 10% of the Company's issued share capital	Insurance Placed Claims Incurred	2,906 1,821	8,954 1,129
Arpico Interiors (Pvt Ltd)	Group Co. of Richard Pieris & Co.PLC	Fixed Assets Purchases Insurance Placed Claims Incurred	1,502 145 198	5,882 - -

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;

	2010 Rs. ' 000	2009 Rs. ' 000
Short Term Benefits	43,284	24,586
Long Term Benefits	13,091	2,999
	56,375	27,585
28.2.2 Directors' Fees & Remuneration	11,353	6,861

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	2010 Rs. ' 000	2009 Rs. ' 000
Vallibel Power Erathna PLC *	Director Related Entity	Insurance Placed	-	42
Vallibel Finance Ltd *	Director Related Entity	Commission Paid	-	305
Vallibel Leisure (Pvt) Ltd *	Director Related Entity	No Transactions		
Royal Ceramics Lanka PLC *	Director Related Entity	Insurance Placed Claims Incurred	- -	791 667
LB Finance PLC *	Director Related Entity	Insurance Placed Claims Incurred Investments in Debentures Interest income on Debentures Commission Paid	- - - - -	119 42 15,000 3,597 3,213

Company	Relationship	Nature of Transaction	2010 Rs. ' 000	2009 Rs. ' 000
Pan Asia Banking Corporation PLC *	Director Related Entity	Insurance Placed	-	627
		Claims Incurred	-	2,323
		Investments in Term Deposits	-	59,080
		Investments in Fixed Deposits	-	9,393
		Interest Income	-	8,401
		Current A/C balance as at year end	-	(1,869)
		Overdraft Facility	-	10,000
		Overdraft interest paid	-	411
Sampath Bank PLC *	Director Related Entity	Insurance Placed	-	471
		Current A/C balance as at year end	-	28,532
		Investments in Term Deposits	-	10,076
		Interest Income	-	445
		Investments in equity shares	-	20,205
		Overdraft Facility obtained	-	15,000
		Overdraft interest paid	-	998
		Investments in Debentures	-	25,000
Interest Income on Debentures	-	4,051		
Lanka IOC PLC *	Director Related Entity	Investments in equity shares	-	345
Paul Rathnayake Associates	Director Related Entity	Insurance Placed	-	405
		Claims Incurred	-	67
		Legal Fees Paid	702	431
P.R.Secretarial Services (Pvt) Ltd	Director Related Entity	Insurance Placed	-	10
		Secretarial Fees paid	368	377
Ceat Kelani Holdings Ltd	Director Related Entity	Insurance Placed	197	-
		Claims Incurred	187	-

* The Director related has resigned during the year.

29 Commitments & Contingencies

29.1 Capital Expenditure and Commitments

The Company has purchased commitments for acquisition of Oracle financial system as at 31 December as follows.

	2010 Rs. ' 000	2009 Rs. ' 000
Authorized by the Board, and contracted for	6,250	24,827
Authorized by the Board, and not contracted for	-	-
	<u>6,250</u>	<u>24,827</u>

29.2 Contingent Liabilities

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

30 Events 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.

The Directors have proposed a final dividend of Rs. 3.00 per share for the year ended 31 December 2010 on 14th February 2011.

31 Comparative Informations

There were no reclassifications to the comparative information presented.

Ten Year Performance

	2010 Rs. '000	2009 Rs. '000	2008 Rs. '000	2007 Rs. '000	2006 Rs. '000	2005 Rs. '000	2004 Rs. '000	2003 Rs. '000	2002 Rs. '000	2001 Rs. '000
Non Life Insurance Statement of Income										
Gross Written Premium	430,666	496,749	459,771	383,590	417,679	353,281	310,401	271,097	287,074	244,758
Net Earned Premium	277,860	312,552	243,614	207,089	173,892	139,168	120,036	90,037	90,149	80,435
Net Insurance Claims & Benefits	(246,348)	(275,552)	(183,734)	(151,867)	(115,671)	(100,588)	(89,354)	(53,991)	(61,048)	(63,700)
Net Commission	(21,133)	(7,805)	5,604	30,621	25,132	34,940	23,382	29,599	25,611	12,511
Net Deferred Acquisition Cost	4,400	15,881	4,723	(1,827)	(4,387)	(2,375)	(3,649)	2,034	(4,231)	(6,331)
Underwriting Results	14,779	45,076	70,207	84,016	87,740	71,145	50,415	67,679	50,481	22,915
Investment & Other Income	288,690	87,279	59,214	33,630	21,473	23,864	15,261	16,324	12,790	18,256
Expenses	(186,503)	(180,248)	(158,275)	(118,453)	(107,104)	(86,728)	(64,809)	(75,122)	(80,666)	(85,568)
Operating Profit / (Loss) for the Year	116,966	(47,893)	(28,854)	(807)	2,109	8,281	867	8,881	(17,395)	(44,397)
Life Insurance Statement of Income										
Gross Written Premium	1,242,608	1,009,031	970,077	890,793	747,934	577,695	421,681	274,440	162,143	45,902
Net Earned Premium	1,037,936	843,499	811,449	742,835	631,386	468,317	334,701	226,281	126,525	36,693
Net Insurance Claims & Benefits	(103,076)	(87,529)	(48,902)	(38,942)	(32,730)	(9,443)	(7,267)	(9,012)	(762)	(252)
Net Acquisition Cost	(247,791)	(165,536)	(155,619)	(164,653)	(139,939)	(129,155)	(112,062)	(92,701)	(53,540)	(23,121)
Underwriting Results	687,069	590,434	606,928	539,240	458,717	329,719	215,372	124,568	72,223	13,320
Investment & Other Income	412,081	311,527	173,898	122,487	54,674	22,667	10,415	6,604	4,197	3,100
Expenses	(476,583)	(350,534)	(305,249)	(233,125)	(182,334)	(156,957)	(149,181)	(114,370)	(100,814)	(35,941)
Operating Surplus before Transfer to Insurance Provision - Life	622,567	551,427	475,577	428,602	331,058	195,429	76,606	16,802	(24,394)	(19,521)
Transfer from \ (to) Shareholder's Fund	(253,610)	(195,000)	(160,000)	(115,241)	(66,091)	(20,000)	-	2,806	42,566	34,346
Transfer to Insurance Provision - Life	368,957	356,427	315,577	313,361	264,966	175,429	76,606	19,608	18,172	14,825
Company Statement of Income										
Gross Written Premium	1,673,274	1,505,780	1,429,848	1,274,383	1,165,613	930,976	732,082	545,537	449,217	290,660
Net Profit \ (Loss) Before Taxation	370,576	147,107	131,146	114,434	68,200	28,281	866	6,075	(59,961)	(78,743)
Taxation	(2,568)	(2,329)	4,258	(1,138)	2,568	(2,568)	(2,331)	-	-	-
Net Profit \ (Loss) After Taxation	368,008	144,778	135,404	113,296	70,768	25,713	(1,465)	6,075	(59,961)	(78,743)

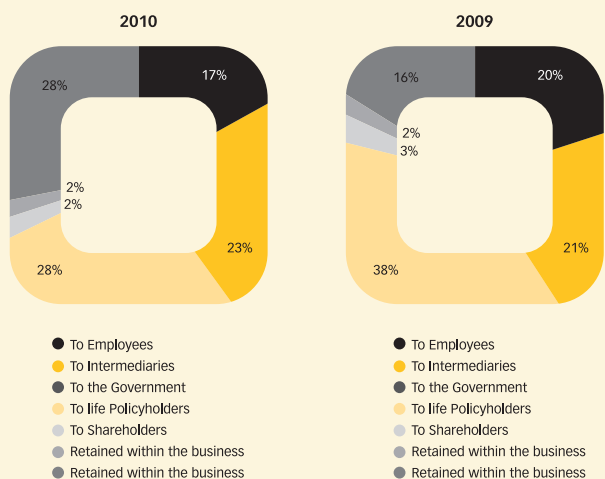
Ten Year Balance Sheet Summary

Company	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000
Assets										
Investments	3,751,287	2,314,576	1,787,010	1,457,673	924,700	564,050	325,321	201,431	132,874	106,052
Investment Property	36,750	-	-	-	-	-	-	-	-	-
Property, Plant & Equipment	79,818	65,564	54,136	33,948	30,249	34,458	44,288	64,210	66,690	57,742
Policy Loans & Other Loans	45,879	31,453	13,915	6,655	1,884	1,317	5,142	18,736	30,979	22,732
Reinsurance Receivable	99,937	41,041	45,940	283,975	485,915	93,305	171,535	156,540	163,141	100,221
Premium Receivable	102,611	74,517	105,926	78,078	96,267	58,555	65,344	49,615	53,453	68,164
Other Assets	139,089	152,872	103,291	57,251	52,627	36,119	21,294	20,454	39,136	55,377
Cash & Cash Equivalents	62,438	52,140	30,507	21,713	26,272	20,414	26,827	26,100	5,947	3,329
Total Assets	4,317,809	2,732,163	2,140,725	1,939,293	1,617,914	808,218	659,751	537,086	492,220	413,617
Liabilities & Shareholders' Equity										
Liabilities										
Insurance Provision - Life	1,929,352	1,560,395	1,203,968	888,391	575,030	310,064	134,635	58,026	38,417	20,245
Insurance Provision - Non Life	261,206	275,602	246,139	431,004	611,062	167,855	273,674	194,486	199,576	155,852
Provision for Life Solvency	100,000	-	-	-	-	-	-	-	-	-
Reinsurance Creditors	81,695	87,192	55,654	91,923	59,620	82,275	61,325	86,137	62,940	64,287
Other Liabilities	310,217	248,007	206,877	248,222	194,112	129,751	80,026	50,994	95,122	82,069
Amounts due to Related Companies	47,499	12,362	2,976	1,884	2,451	13,932	21,207	23,469	1,518	409
Interest Bearing Borrowings	-	-	-	-	578	2,157	13,053	48,102	32,757	26,334
Employee Benefits	22,738	14,653	10,871	9,213	7,201	5,092	4,452	3,029	1,768	984
Bank Overdraft	4,242	16,412	10,180	-	-	-	-	-	-	-
Total Liabilities	2,756,949	2,214,623	1,736,665	1,670,637	1,450,054	711,126	588,372	464,243	432,098	350,180
Shareholders' Equity										
Stated Capital	1,062,500	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	200,000
Reserve for Long Term Insurance Fund	-	-	-	-	-	-	7,354	7,354	5,479	-
Preliminary & Pre Operational Expenses	-	-	-	-	-	-	-	-	(6,646)	(13,292)
Revenue Reserve	498,360	267,540	154,060	18,656	(82,140)	(152,908)	(185,975)	(184,511)	(188,711)	(123,271)
Total Shareholders' Equity	1,560,860	517,540	404,060	268,656	167,860	97,092	71,379	72,843	60,122	63,437
Total Liabilities & Shareholders' Equity	4,317,809	2,732,163	2,140,725	1,939,293	1,617,914	808,218	659,751	537,086	492,220	413,617

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.

	2010		2009		
	Rs.' 000	%	Rs.' 000	%	
Net Earned Premium	1,315,796		1,156,051		
Investment and Other Income	700,771		398,806		
Reinsurance Commission Income	65,286		66,884		
	2,081,853		1,621,741		
Net Claims & Benefits	(349,424)		(363,081)		
Cost of External Services	(409,376)		(327,801)		
Value Addition	1,323,053		930,859		
Distribution of Value Added					
To Employees	Salaries & Other Benefits	222,189	17%	186,533	20%
To Intermediaries	Insurance Commission	308,319	23%	190,987	21%
To the Government	Taxes	3,673	0%	4,388	0%
To Life Policyholders	Increase in Insurance Provision - Life	368,957	28%	356,427	38%
To Shareholders	Dividends	32,500	2%	31,298	3%
Retained within the business	Depreciation	19,407	2%	16,448	2%
Retained within the business	Revenue Reserve	368,008	28%	144,778	16%
		1,323,053	100%	930,859	100%



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.

Glossary of Insurance Terms

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).

Formula:

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

Net Loss Ratio - Non-Life

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

Glossary of Insurance Terms

Net Written Premium

Gross written premium less reinsurance premium payable.

Net Claims Incurred

Claims incurred less reinsurance recoveries.

Net Asset Value per share (NAV)

Net Assets

No. of Ordinary Shares

Non-medical Limit

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

Non-participating Business

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

Policy Loan

Under an insurance policy, the amount that can be borrowed on the security of the surrender value of a Life Insurance policy at a specific rate of interest from the issuing Company by the policyholder, who used the value of the policy as collateral for the loan. In the event the policyholder dies with the debt partially or fully unpaid, the insurance company deducts the amount borrowed, plus any accumulated interest, from the amount payable.

Premium

The payment or one of the regular periodic payments, that a policyholder makes to own an insurance policy.

Policy

The printed document issued to the policyholder by the Company stating the terms of the insurance contract.

Proposal form

Pre-printed form which seeks to identify all relevant questions for a particular type of insurance

Price Earning Ratio

Market price of a share divided by earnings per share.

Market price per share

Earning per share

Participating Business

Life Insurance business where the policy holders are contractually entitled to share in the surplus of the relevant life fund.

Primary Insurers

Insurance companies that assume risks in return for an insurance premium and have a direct contractual relationship with the holder of the insurance policy (private individual, firm or organisation).

Profit Commission

Commission received from the reinsurer based on the net profit of the reinsurer as defined in the agreement between the insurer and reinsurer.

Portfolio Transfer

Amounts payable in respect of the transfer between a cedent and a reinsurer of the liability under a reinsurance contract for premium expiring after a fixed date or on claims incurred prior to a fixed date, normally the date on which the contract commences or ends

Reinsurance

Transfer of all or part of the risk assumed by an insurer under one or more insurances to another insurer, called the reinsurer.

Reinsurance Commission

Commission received or receivable in respect of premium paid or payable to a reinsurer.

Reinsurance Premium

The premium payable to the reinsurer. Reinsurance is an arrangement whereby one party (the reinsurer), in consideration for a premium, agrees to indemnify another party (the cedent) against part or all of the liability assumed by the cedent under a policy or policies of insurance.

Reinsurance inwards

The acceptance of risks under a contract of reinsurance.

Reinsurance outwards

The placing of risks under a contract of reinsurance.

Retention

That part of the risk assumed which the insurer/reinsurer does not reinsure/retrocede, i.e. retained net for own account.

Retrocession

The reinsurance outwards of risks previously accepted by an insurer as reinsurance inwards. The recipient is known as the retrocessionaire.

Revenue Account

An account which shows a financial summary of the insurance related revenue transactions for the accounting period.

Rider

An amendment to an insurance policy that modifies the policy by expanding or restricting its benefits or excluding certain conditions from coverage.

Risk Based Capital (RBC)

Amount of required capital that the insurance company must maintain based on the inherent risks in the insurer's operations. These risks include Asset Depreciation Risk, Credit Receivables Risk, Underwriting Risk and Off-Balance-Sheet Risk.

Segment

Constituent business units grouped in terms of nature and similarity of operations.

Solvency margin - Life

The difference between the value of assets and value of liabilities, required to be maintained by the insurer who carries on Life insurance business (Long Term Insurance) as defined in Solvency Margin (Long Term Insurance) Rules, 2002 made under section 26 of the Regulation of insurance Industry Act No. 43 of 2000.

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 12th Annual General Meeting of ASIAN ALLIANCE INSURANCE PLC will be held on 25th March, 2011 at 09.30 a.m. at Level 36, East Tower, World Trade Centre, Echelon Square, Colombo 01.

AGENDA

1. To read the notice convening the meeting
2. To receive and consider the Report of the Directors on the State of Affairs of the Company and the Statement of Audited Accounts for the year ended 31st December, 2010 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. Stefan Abeyesinghe who retires by rotation in terms of Article 103 of the Articles of Association of the Company as a Director of the Company.
6. To re-elect Mr. V. Siva Jr. who retires by rotation in terms of Article 103 of the Articles of Association of the Company as a Director of the Company.
7. To appoint Mr. Dayananda Muthukumarana who is 71 years of age, as a Director.

A notice has been received by the Company from Asia Capital PLC of Level 21-01, West Tower, World Trade Centre, Echelon Square, Colombo 1, a shareholder of the Company intimating its intention to move the following resolution together with intimation from Mr. Dayananda Muthukumarana in writing of his willingness to be elected.

To consider and if thought fit to pass the following as an ordinary resolution:

“IT IS HEREBY RESOLVED THAT Mr. Dayananda Muthukumarana, who is presently 71 years of age be and is hereby appointed as a Director of the Company, in terms of Section 211 of the Companies Act No.7 of 2007 for a term that ends on the earlier of a date that is one (01) year from the date of appointment or at the conclusion of the Annual General Meeting following the 12th Annual General Meeting at which the re-appointment, if any takes place and it is further resolved that the age limit referred to in Section 210 of the said Act shall not apply to Mr. Dayananda Muthukumarana.”

8. To reappoint Messrs KPMG Ford, Rhodes, Thornton & Co., Chartered Accountants as Auditor of the Company for the ensuing year and to authorise the Directors to determine their remuneration.
9. To transact any other business of which due notice has been given.

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

(Sgd.)

P. R. Secretarial Services (Private) Limited
SECRETARIES

Colombo
14 February 2011

NOTE

- A member entitled to attend and vote at the above mentioned 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 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 later than 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

Asian Alliance Insurance PLC

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

Customer Care Contact Center

Tel: 011 2337233

Customer Relationship Unit

Tel: 011 2332288

Our Distribution Network

Colombo Central

460, Galle Road,
Colombo 3.
Tel: 011 2564551 - 2
Fax: 011 2372981

Panadura

293 1/1, Galle Road,
Panadura.
Tel: 038 2240223
Fax: 038 2240224

Negombo

17, Station Road,
Negombo.
Tel: 031 2231788
Fax: 031 2231789

Gampaha

95/1, Colombo Road,
Gampaha.
Tel: 033 2230890
Fax: 033 2230891

Kurunegala

76, Negombo Road,
Kurunegala.
Tel: 037 2220017
Fax: 037 2220016

Kandy

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

Matara

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

Kottawa

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

Galle

118, Matara Road,
Galle.
Tel: 091 2226368 - 7
Fax: 091 2226369

Kegalle

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

Kiribathgoda

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

Kaduwela

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

Moratuwa

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

Horana

153A, Anguruwatota Road,
Horana.
Tel: 034 2261631 - 2
Fax: 034 2261633

Kurunegala City Office

254, Colombo Road,
Kurunegala.
Tel: 037 2222052 - 3
Fax: 037 2222054

Gampola

12/B1, Navalapitiya Road,
Gampola.
Tel: 081 2350538
Fax: 081 2350891

Ja-Ela

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

Nugegoda

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

Jaffna

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

Colombo South

131, St. Michael's Road,
Colombo 3.
Tel: 011 2336415
Fax: 011 2336413

Battaramulla

24/1/1, Kaduwela Road,
Battaramulla
Tel: 011 2884516 - 7
Fax: 011 2884518

Piliyandala

78/1/1, Horana Road,
Piliyandala.
Tel: 0112608821
0112608831
Fax: 0112608606

Form of Proxy

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

1.of.....
 failing him/her,
2. Mr. J. H. P. Ratnayeke or failing him
 3. Mr. H. L. L. M. Nanayakkara or failing him
 4. Mr. R. Wickremasinghe or failing him
 5. Mr. R. C. D. de Silva or failing him
 6. Prof. L. R. Watawala or failing him
 7. Mr. R. G. Jasinghe or failing him
 8. Mr. Stefan Abeyesinhe or failing him

As my/our Proxy to represent me/us and to speak and to vote on my/our behalf at the 12th Annual General Meeting of ASIAN ALLIANCE INSURANCE PLC which is to be held on the 25th of March, 2011 at 09.30 a.m. at Level 36, East Tower, World Trade Centre, Colombo 01, and at every poll which may be taken on 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, 2010 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. Stefan Abeyesinghe who retires by rotation in terms of Article 103 of the Articles of Association of the Company as a Director of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-elect Mr. V. Siva Jr. who retires by rotation in terms of Article 103 of the Articles of Association of the Company as a Director of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
6. Ordinary resolution to appoint Mr. Dayananda Muthukumarana as a Director of the Company, who is presently 71 years of age.	<input type="checkbox"/>	<input type="checkbox"/>
7. To reappoint Messrs KPMG Ford, Rhodes, Thornton & Co., Chartered Accountants as Auditor of the Company for the ensuring year and to authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>

Signed this day of 2011.

.....
 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 COMPLETION OF FORM OF PROXY

1. Kindly perfect the Form of Proxy by filling in legibly your full name and address, your instructions as to voting, by signing in the space provided and filling in the date of signature.
2. Please indicate with a 'X' in the cages provided how your proxy is to vote on the Resolutions. If no indication is given the Proxy in his/her discretion may vote as he/she thinks fit.
3. 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 later than 48 hours before the time appointed for holding of the Meeting.
4. If the form of proxy is signed by an attorney, the relative 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 PLC
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

J. H. Paul Ratnayake

Deputy Chairman/Managing Director

H. L. L. Manohan Nanayakkara

Director/Chief Executive Officer

Ramal G. Jasinghe

Prof. Lakshman R. Watawala
Ranjith J. Wickramasinghe
R. Chanaka D. De Silva
Stefan Abeyesinghe
Valentine Siva Jr.
D. Priyanthi Pieris (Alternate Director)

Executive Committee

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

