FUTURE
EVOLUTION

Asian Alliance Insurance
Rest Assured
A Softlogic Group Company

Annual Report 2013

FUTURE EVOLUTION

Last year we took the first steps on a journey that has no end. For in the pursuit of continuous improvement, there can be no destination. Our will to improve, our passion to grow and our belief in our power to be the industry benchmark in a very competitive business are simply the signifiers of a company with a resolute commitment to excellence at all times.

We know that the results of our business strategies depend upon our willingness and ability to implement meaningful change. The story of your company's present evolution is also the story of our future success. That is why this report describes a series of restructuring activities that reflect industry trends worldwide; strengthening our risk-management frameworks, broadening our capacities and enhancing the value we offer to every stakeholder, as we evolve into the future.

Asian Alliance Insurance. Future Evolution.

Who we are

Asian Alliance Insurance PLC (AAI) is a composite insurance solutions provider since 1999 and has grown rapidly to become a force to be reckoned with in the insurance industry. The secret behind the Asian Alliance Insurance success story lies in its ability to offer tailor-made insurance solutions to its customers. Considered to be one of the fastest growing insurance companies in the country, the company further strengthened its credentials after its acquisition by the giant diversified conglomerate, the Softlogic Group, which is one of Sri Lanka's corporate success stories and a highly diversified group with interests in retail, healthcare, IT, leisure, financial services and automobiles.

The joint synergies have given rise to immense opportunities, especially in the healthcare sector, since the Softlogic Group owns 65% of the total private healthcare market. AAI is leveraging strategically on these and other emerging opportunities to consolidate its position as a leading insurer in the country by crossing many more milestones in its exciting journey. DEG - Deutsche Investitions - Und Entwicklungsgsellschaft MBH of Germany and FMO - Netherlands Financeirings-Maatschappij Voor Ontwikkelingslanden N.V. of Netherlands jointly hold a 38% stake in the company, which reflects the attractiveness of the insurer for investors.

Asian Alliance Insurance is ranked 6th in Sri Lanka's Total Premium market and assigned a BBB+(lka) Rating by Fitch Ratings Lanka Ltd, based on its performance and internal processes. The rating underscores the soundness of the Company's operations and financial strength. The Company caters to a clientele that consists of corporates and individuals through a network of 53 branches located strategically across the island and linked of 28 Regional Distribution offices, 1 Divisional offices, 15 Back offices, 2 Standalone branches for general sales and 7 offices in Softlogic Branches, besides leveraging on the parent group's extensive retail network.

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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About this report

This annual report is our first attempt to present our financial and operational performance as measured against a set of six 'capitals'. It is our first integrated report and we will strive to improve and fine tune our reporting in the years ahead as well.

pg In this report we have included references to additional information on certain sections, either in the report itself or online.

This icon tells you where you can find more information online at www.asianalliance.lk

QR code links will take you to information suitable to view on your mobile device. Download an application for your phone, take a picture of the code and the relevant page will open in your browser window.

Read this report online

Financial Highlights

→ Your Company achieved strong performance and carried out strategies focusing on growth, innovation and customer services. ←

Profit
362 Mn

PAT Growth
394%

EPS
9.66

Top Line
26%

Combined GWP
4 Bn

Total Assets
7 Bn

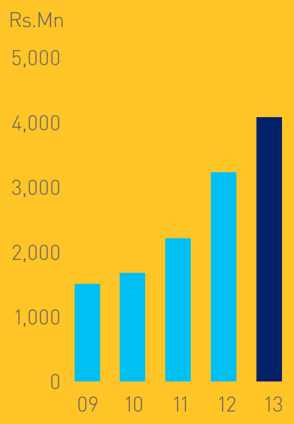
Life Fund
29%

Investment Income
114%

Fitch Rating
BBB+

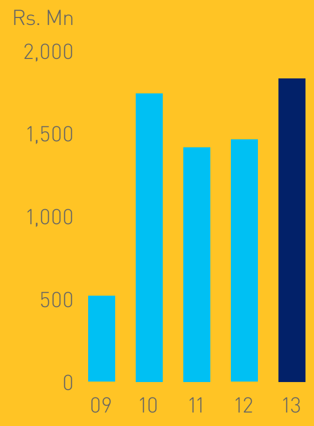
EPS	PRICE PER BOOK VALUE	ROCE	NET ASSETS PER SHARE	PE RATIO
Rs. 9.66	Rs. 1.75	22.01%	Rs. 48.85	8.85 Times

CONSOLIDATED GWP



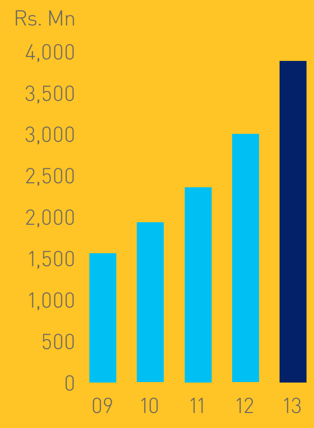
4,077 Mn

NET ASSETS



1,831 Mn

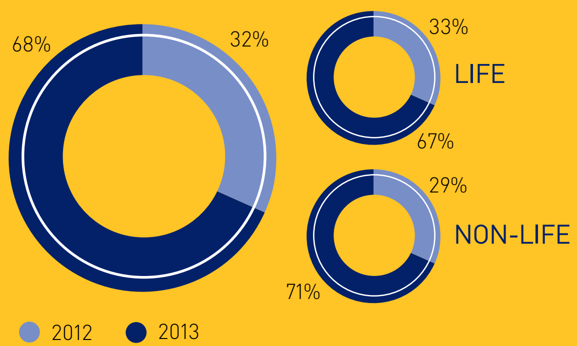
INSURANCE PROVISION - LIFE



3,938 Mn

In Rs. '000	2013	2012	2011	2010	2009
Gross Written Premium - Life	2,520,283	2,034,084	1,579,191	1,242,608	1,009,031
Gross Written Premium - Non Life	1,556,386	1,190,392	628,163	430,666	496,749
Profit Before Tax	394,137	74,702	(194,324)	370,576	147,107
Total Assets	7,475,158	5,701,104	4,646,633	4,413,700	2,732,163
Total Net Assets	1,831,694	1,461,503	1,414,900	1,741,453	517,540
Life Fund	3,938,030	2,904,345	2,353,008	1,929,352	1,560,395
Non Life Fund	921,221	681,514	392,777	275,668	275,602
In Rs.					
EPS	9.66	1.95	(5.28)	13.73	5.73
ROCE (%)	22.01	5.19	(12.55)	32.80	31.92
Net Assets Per Share	48.85	38.97	37.73	46.44	20.7
Price per Book Value	1.75	2.28	4.51	1.73	2.71
PE Ratio (Times)	8.85	45.54	(49.85)	5.84	9.73
Solvency - Life (Times)	2.48	1.88	1.44	1.16	2.21
Solvency - Non-Life (Times)	2.21	2.37	3.86	17.43	5.67

INVESTMENT INCOME



2013 has been an exciting year of change and growth for Asian Alliance as it surpassed Rs.4Bn mark in Gross Written Premium for the first time in the Company's history.
The strong financial position of your Company was further underscored by over Rs.7Bn total assets.

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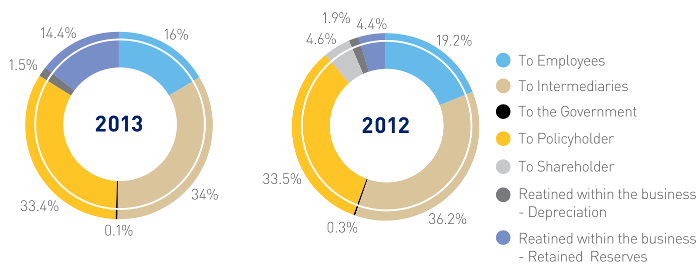
Refer Financial Reports and Supplementary Information on Quarterly Performance, Decade at a Glance and Ten Year Graphical Presentation on pages from 184 to 281

Triple Bottom Line Highlights

→ The report provides details about how we manage stakeholder engagement and business goals to achieve integrated growth. We realize that our integrated reporting journey is not complete and we will continue to improve, assess and enhance our reports over the years. ←

PROSPERITY

DISTRIBUTION OF VALUE ADDED



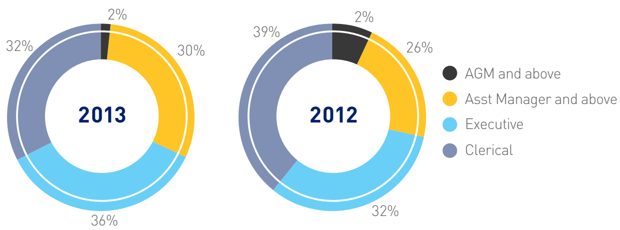
Distribution of Value Added (Rs.'000)	2013	2012	%
To Employees	412,291	315,626	31
To Intermediaries	855,829	596,641	43
To the Government	3,355	4,810	(30)
To Life Policyholders	842,119	551,339	53
To Shareholders	-	75,000	(100)
Retained as Depreciation	37,611	30,727	22
Retained within the business	362,335	73,290	394
	2,513,541	1,647,432	53

	2013	2012	%
Non Life GWP (Rs.'000)	1,556,386	1,190,392	31
Life GWP (Rs.'000)	2,520,283	2,034,084	24
EPS (Rs.)	9.66	1.95	395
ROCE (%)	22.10	5.52	300

70
Refer pages from 70 to 117 on the Sustainability approach

PEOPLE

TEAM BY EMPLOYMENT TYPE



Team by employment type	2013	2012
Asst General Manager and Above	12	12
Asst Manager and Above	186	147
Executive	220	181
Clerical	200	217
Total	618	557

GROWTH IN
TOTAL WORK FORCE

11%

GENDER DIVERSITY

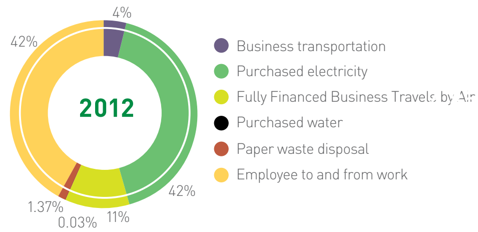
53%

37%

Female participation in work force	227
Number of training programs	58
Revenue per employee (Rs.'000)	6,856
Profit per employee (Rs.'000)	586
Number of Branches	53

PLANET

CARBON FOOTPRINT



Scope	Source	Tons of CO_2 equivalent
1	Business transportation	14.93
2	Purchased electricity	140.6
3	Fully financed business travel by air	35.39
3	Purchased water	0.095
3	Paper waste disposal	4.59
3	Employee to and from to the work	139.311
	Tonnes of $C0_2$ Equivalent	**334.916**

→ 9,000
Horton Plains - Eco Friendly Bags

→ 1,641 Kg
Waste paper
disposed for recycling

Our Inaugural Integrated Annual Report

About this Report

We are delighted to present our first Inaugural Integrated Annual Report, which shows Company's commitment to the Triple Bottom Line of Prosperity, People, and Planet (3 Ps) and raising the bar with regard to the quality of our reports during the year and "Asian Alliance Insurance always has been committed to doing the right thing for our People, for solid financial Performance, and for our Planet. The report provides details about how we manage stakeholder engagement and business goals to achieve integrated growth. We realize that our integrated reporting journey is not complete and we will continue to improve, assess and enhance our reports over the years. Further The Annual Report combines financial, corporate citizenship, and environmental reporting into one comprehensive report, which adheres to the Global Reporting Initiative (GRI), an internationally recognized standard for sustainability reporting. The Board has ensured that the information contained herein is authentic and that the report provides an honest view of the company's performance and strategic priorities to investors and stakeholders.

New enhancements within the 2013 our report features "Triple Bottom Line Highlights" a section for a quick, comprehensive review at each aspect of the Triple Bottom Line and GRI indicators to assist readers to access the information they require.

Commitment to Natural Resources

As part of our ongoing commitment to conserve our natural resources, printed copies of this report will be posted only to those of our shareholders who have requested for same in writing. For all others we are posting this report in the form of a CD - ROM, while this report could also be accessed online at our website www.asianalliance.lk.

Reporting framework

The information contained in this report, where applicable, complies with the Sri Lanka Financial Reporting Standards and Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka, the Companies Act No. 7 of 2007, the Listing Rules of the Colombo Stock Exchange, the Regulation of Insurance Industry Act No 43 of 2000 and rules and regulations issued by the Insurance Board of Sri Lanka. The Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka forms the base for areas on governance. As guidance, we have also used the prototype framework released by the International Integrated Reporting Council (IIRC).

Assurance and Compliance

The Company's board has approved the issue of this report on 13 February 2014. The Financial statements and notes to the Financial statements included in this report have been audited by Messrs. KPMG, who have expressed an opinion on the fair presentation of the annual financial statements as shown in Page 181 to this report. Annual Report 2013 achieved a B+ level under GRI guidelines, and had the entire Sustainability Report verified by Messrs. KPMG, thus leading to the "plus" designation.

→ We are delighted to present our inaugural integrated annual report, which shows the Company's commitment to the triple bottom line of People, Planet and Profit. ←

Our Approach to Integrated Annual Report

Economic Responsibility

The economic dimension of sustainability concerns the organization's impacts on the economic conditions of its stakeholders and on economic systems at local, national and global levels. The Economic indicators illustrate stakeholders and the main economic impacts of the organization throughout society.

Page 81

Environmental Responsibility

The environmental dimension of sustainability concerns an organization's impacts on living and non-living natural systems, including ecosystems, land, air, and water. Environmental Indicators cover performance related to inputs and outputs. In addition, they cover performance related to biodiversity, environmental compliance, and other relevant information such as environmental expenditure and the impacts of products and services.

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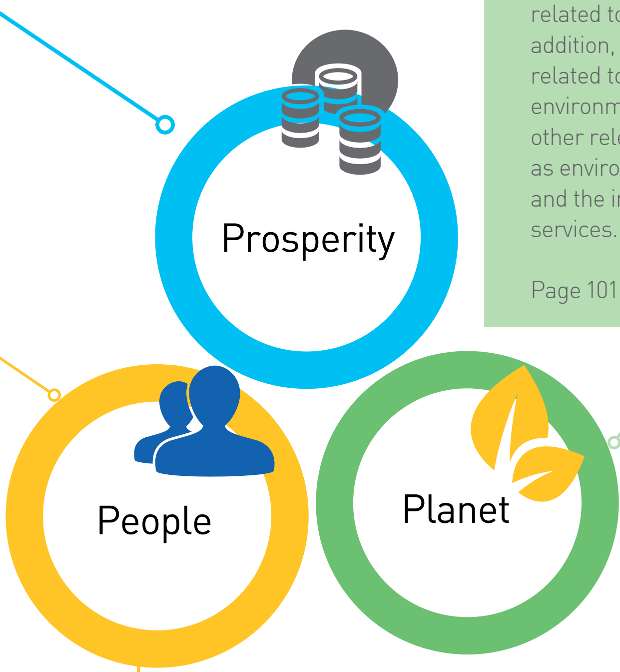
Social Responsibility

The social dimension of sustainability concerns an organisation's impact on the social system within which it operates. The GRI Social performance indicators identify key Performance aspects surrounding labour practices and decent work, human rights, society and product responsibility

Page 87



Culture & Work Practices

Labour practices and decent work performance indicators require organizations to report the specific aspects under the category of labour practices are based on internationally recognized universal standards.

Human Rights

Human rights performance indicators require organizations to report on the extent to which processes have been implemented, on incidents of human rights violations and on changes in the stakeholders' ability to enjoy and exercise their human rights, occurring during the reporting period.

Society

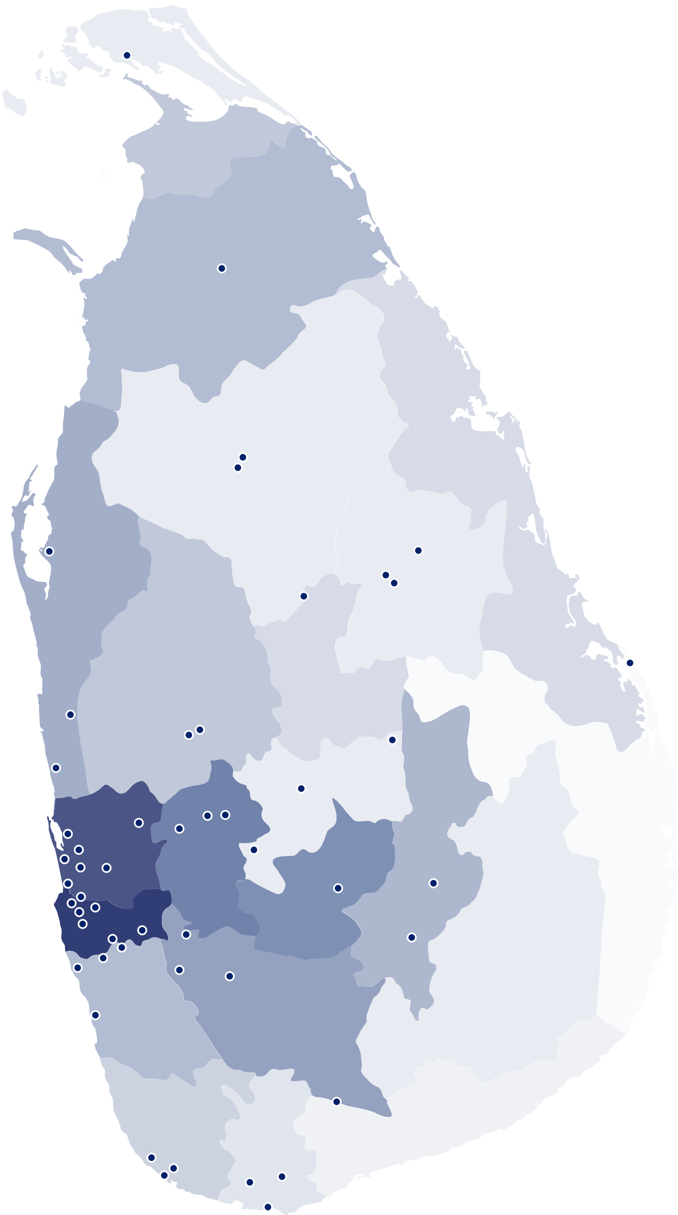
Society performance indicators focus attention on the impacts organization's have on the local communities in which they operate, and disclosing how the risks that may arise from interactions with other social institutions are managed and mediated. In particular, information is sought on the risks associated with bribery and corruption, undue influence in public policy-making, and monopoly practices.

Product Responsibility

Product responsibility performance indicators address the aspects of a reporting organization's products and services that directly affect customers, namely, health and safety, information and labelling, marketing, and privacy.

These aspects are chiefly covered through disclosure on internal procedures and the extent to which these procedures are not complied with.

Operational Footprint



Our Branch Network

Our branch network numbers 53 and we are still expanding. Customer convenience and accessibility remain top priorities at Asian Alliance.

Ambalangoda
Anuradhapura
Awissawella
Battaramulla
Batticaloa
Chillaw
Colombo
Colombo Metro
Dambulla
Emibilipitiya
Galle + Galle II
Gampaha + Gampaha II
Gampola
Hingurakgoda
Horana
Ja-Ela
Jaffna
Kaduwela
Kalutara
Kandy
Kegalle
Kiribathgoda
Kottawa
Kurunegala
Kurunegala City
Mahiyanganaya
Matara I
Matara II
Matara III
Mawanella
Minuwangoda
Moratuwa
Negombo
Nugegoda
Panadura + Panadura City
Piliyandala
Polonnaruwa
Puttlam
Ragama
Ratnapura
Thalawathugoda
Trincomalee
Vavuniya
Warakapola
Wattala
Wennappuwa

Branch Operations in Softlogic Outlets

Anuradhapura
Badulla
Bandarawela
Kurunegala
Nuwaraeliya
Polonnaruwa
Rathnapura

The Future of Insurance in Sri Lanka

A comprehensive seminar on the challenges relating to the segregation of insurance companies into Life and Non life operations.

The Future of Insurance in Sri Lanka

Asian Alliance Insurance PLC (AAI) along with their new shareholders, Messrs. DEG - DEUTSCHE INVESTITIONS - UND ENTWICKLUNGSGESELLSCHAFT MBH of Germany and FMO - NEDERLANDSE FINANCIERINGS-MAATSCHAPPIJ VOOR ONTWIKKELINGSLANDEN N.V. of Netherlands successfully hosted a seminar for Sri Lankan insurance companies and the stakeholders of the industry themed, 'The Future of Insurance in Sri Lanka' on 14th May 2013 at the Cinnamon Lakeside, Colombo.

Welcoming the chief guest and the special guests

The event was graced by the Governor of the Central Bank Mr Ajith Nivard Cabraal, who has steadfastly supported the initiatives and development of the Insurance industry. The high profile event witnessed the senior management of insurance companies, insurance brokers, actuaries, pioneers of the local insurance industry and stakeholders including Directors, CEOs, COOs, CFOs, CROs and CIOs from Government Agencies, Rating Agencies, Stock Brokers, Audit and Legal firms, Foreign Reinsurers and Reinsurance brokers. The conference, which is timely, offered a keen insight into the challenges associated with segregated insurance operations which becomes a requirement by February 2015 and how these can be overcome by business leaders. The comprehensive seminar programme offered these decision-makers a 360-degree view of what obstacles they could face and shared the experience on how such segregated companies in other developed markets work. The seminar featured high profile insurance professionals both local and overseas who shared their real life experiences on segregation of insurance companies into Life and Non life operations.

The welcome speech on the occasion was given by Mr. Ramal Jasinghe, Immediate Past President of the Insurance Association of Sri Lanka, and Director/Chief Executive Officer of AAI, in which he affirmed his Company's commitment for knowledge sharing and its continued contribution towards the betterment and development of the industry.

Delivering the welcome speech, Director CEO of Asian Alliance Insurance PLC; Mr. Ramal Jasinghe

Many guests including foreign and local speakers were present for the event that had different expertise on the subject matter.

Chief guest of the event Mr. Ajith Nirvard Cabraal with Mr. Paul Ratnayake and other Directors of the Company.

Delivering the keynote addres, Mr. Ajith Nivard Cabraal, The Governor of Central Bank of Sri Lanka.

The Keynote Address was delivered by Mr. Ajith Nivard Cabraal, Governor of the Central Bank of Sri Lanka, who commended AAI's pioneering initiative in organizing this seminar. He also outlined the benefits of segregation of operations of insurance companies, while injecting confidence amongst the corporate leaders about the nation's economic outlook.
"Sri Lanka has now entered an era of rapid economic and social progress reinforced by peace, long-term development plans, significant development of physical infrastructure, and a conducive business environment. Segregation of composite insurance companies into life and non life would enhance the focus and capacity of players in the industry to reach untapped areas of the economy and support the opportunities which would be generated with the five hubs concept as enumerated in the 'Mahinda Chintana'. Hence, the well functioning insurance market is complementary to banking and financial sector deepening more broadly and the development agenda of the country" stated the Governor of Central Bank.

Mr. Stewart Langdon, Partner of Leapfrog Investments explaining the strategic choices of when splitting a composite insurance company.

Commencing the business sessions, Mr. Stewart Langdon of Leapfrog Investments enlightened the audience on 'Strategic Choices relate to Splitting a Composite Insurance Company'. This informative session was followed by a Question and Answer session with Mr. Johan Richters, Director, Asian Alliance Insurance and Mr Stewart Langdon of Leapfrog Investments.

Next, the 'Valuation Considerations in Splitting a Composite Insurance Company' was discussed by Mr. Sanket Kawatkar of Milliman India, Singapore followed by another Q&A session by Mr. Sirinivasa Rao, CEO of Munich-Re and Mr. Sanket Kawatkar of Milliman India/ Singapore.

Mr. Sanket Kawatkar, the practice leader for life insurance of Milliman India/ Singapore, explaining the concept of embedded value

The event also included an interesting session where Legal, Accounting and Tax implications of splitting a Composite Insurance Company were spelt out by experts in these fields. Providing the local flavor to the seminar, the aspects of Legal, Accounting and Taxation were covered by luminaries in the respective fields, namely Mr. Naomal Gunawardena of Nithya Partners, Mr. Suren Rajakarier of KPMG and Mr. Duminda Hulangamuwa of Earnst & Young. The sessions provided an excellent opportunity for participants to engage in interactive sessions with experts so as to gain maximum leverage on the topics which covered the vital areas of the segregating operation.

Delievering the vote of thanks by
Managing Director of Asian Allinace Insurance PLC
Mr. Ifthikar Ahamed

Mr. Richard Holloway of Milliman India / Singapore addressed the distinguished gathering on 'Protecting Solvency and the Interests of Participating Policyholders while Splitting a Composite Insurance Company' which was followed by a Q&A session by Mr. Richard Holloway of Milliman India / Singapore and Mr. Manjula de Silva, Past President of the Insurance Association of Sri Lanka.
The seminar ended on a grand note with sharing of real-life experiences of splitting composite insurance companies, which offered a practical view of the process to participants. The closing remarks were given by Mr. Iftikar Ahamed, Managing Director of Asian Alliance Insurance PLC.

AAI is proud of the positive response it has received from participants, many of whom were leading professionals from other insurance companies in the industry. As a knowledge driven insurance company, AAI is on schedule to achieving its own transition of segregating Life and Non Life operations and is glad to be assisting other companies also to achieve the same, thereby benefitting the industry by ensuring a smooth transition.

About Asian Alliance Insurance PLC

Asian Alliance Insurance PLC commenced operations in December 1999 and has evolved into a composite insurance solutions provider reputed at the forefront of the industry. The company caters to a clientele that consists of corporates and individuals both in Life and Non-Life Business through an extensive network of Regional Distribution Offices located strategically throughout Sri Lanka; protecting them from any form of risk. The company has strengthened its credentials after its acquisition by the giant diversified conglomerate, the Softlogic Group, which is one of Sri Lanka's corporate success stories. Softlogic is one of the leading, dynamic organizations in Sri Lanka today, having expanded and diversified into the growth sectors of Retail, Healthcare, ICT, Automobiles, Travel & Leisure and Finance, holding authorized distributorships for some key global brand names. Recently, the two eminent foreign investors, DEG - DEUTSCHE INVESTITIONS - UND ENTWICKLUNGSGESELLSCHAFT MBH of Germany and FMO - NEDERLANDSE FINANCIERINGS-MAATSCHAPPIJ VOOR ONTWIKKELINGSLANDEN N.V. of Netherlands joined AAI with a long term vision to take the company to the next level whilst uplifting the industry. The company is now poised to reach global standards in terms of best practices and sustainability.

The Future of Insurance in Sri Lanka

Chairman's Message

→ We will align our Company's strategy with that of the country's advancement. We foresee an optimistic yet a challenging year for the insurance industry. Rebalancing the right talent pool and having the right blend of sector exposure is being actively pursued. ←

Ashok Pathirage
CHAIRMAN

Chairman's Message

It gives me pleasure to present Asian Alliance Insurance Annual Report and financial statements for the year ended 31st December 2013. An exciting journey had begun for your company culminating in performance yet again surpassing industry KPIs. Your Company achieved strong performance and carried out strategies focusing on growth, innovation and customer service. We have a bright future ahead as the industry consolidates and grows with the segregation of insurance business- life and non-life; strategic plans are implemented in this regard notwithstanding the overall group synergies combined with unmatched global expertise secured from our renowned equity partners. Your Company is constantly refining and re-defining processes and procedures recruiting specialized personnel to take advantages of market changes. As such, to prepare for rapid expansion of operations, we have raised the limits of the Company's reinsurance prerogatives along with the implementation of prudent fiscal discipline, which is key to overall stability and success.

→ The unrivalled growth rates achieved during 2013 is also attributed to the combination of forces notwithstanding the synergetic effect of Softlogic. ←

Year of Recovery

The country regained its pace registering a 7.2% growth in 2013 thereby responding positively to the market-friendly policies imposed in the previous year.

Commendably, the trade deficit narrowed to 8.7% of the GDP in 2013 whilst BOP reported a surplus of USD 700Mn with remittances reaching USD 6.7Bn and FDI surpassing USD 1Bn mark for the third consecutive year. The Central Bank continued to relax policy rates in 2013 further with the statutory reserve requirement reducing by 2% mid 2013. Bank lending rates decreased from 14.4% in February 2013 to 9.88% in December, encouraging credit growth to the private sector. Exchange rates stabilized despite the ramifications stemming from the US tapering of QE3. Inflation continued at single-digit levels with 2013 looking at an annual average rate of 6.9% (Vs. 10% in 2012) whilst the annual average core inflation declined since mid-2013 to 4.4%. Increased levels of liquidity and enhanced foreign investor sentiments impacted on the yield rates of Government securities.

Solid Performance

The Insurance business in Sri Lanka sustained its upward momentum in 2013 with the overall GWP income for Long Term Insurance and General Insurance reflecting Rs. 97,193Mn, a growth of 9.35%. The GWP Income of General Insurance amounted to Rs. 56,564Mn (2012 – Rs. 51,835Mn) while the GWP Income of Long Term Insurance amounted to Rs. 40,628Mn (2012 - Rs. 37,046Mn).

Asian Alliance Insurance maintained its status both in Life and Non-Life Insurance league easily outperforming industry growth rates. The Company garnered a bigger share of the insurance business by recording an increase of 26% on the total GWP growth, as against an industry average of 9.35% (Source: Estimated Industry figures). This growth in market share highlights the rapid rate at which your Company's Life business is acquiring new business. The strong Life Insurance sales team won new insurance deals of over Rs.1Bn, beating industrial norms in 2013.

The Non-Life business also recorded sound growth rates with a top line achievement of 31% YoY (Vs. industry average of 9%). Branch expansion was rapid notwithstanding a cost-conscious approach with insurance branches set up inhouse of Softlogic Finance PLC and of Softlogic Retail showrooms. This concerted effort accelerated the insurance company's island-wide reach to 53 by end Dec 2013 (41 - 2012). Our continuous focus in medical insurance backed by market potential given the country's ageing population and increasing interests shown by corporates for insurance stands in good stead. Our group synergies with the Asiri Hospital chain gave us the competitive edge to be one of the top five players in the medical insurance segment.

Investment Income recorded stronger gains for 2013 triggered primarily by a trading strategy consequent to declining interest rate. Recovery of the equity market during latter part of 2013 increased growth in the company's fair value gains.

Dynamics of changes

Fitch Ratings Lanka assigned Asian Alliance Insurance's Insurer Financial Strength (IFS) with a 'B' – stable outlook whilst also publishing the National Insurer Financial Strength rating and National Long- Term Rating of 'BBB+(lka). The ratings were based on operational and synergetic benefits of its ultimate parent, Softlogic Holdings PLC.

As our theme for the year focuses on 'FUTURE EVOLUTION', we are working hard to achieve the mandated splitting of Life and Non-Life insurance based on business strength. DEG and FMO's knowledge-sharing in this regard has been inestimable. Your Company took the initiative in organizing a forum, 'THE FUTURE OF INSURANCE IN SRI LANKA' in May 2013, with DEG and FMO educating the public regarding the upcoming industry mandate to all insurance companies and stakeholders of Sri Lanka.

2014E is looking at a growth trajectory of 7.4% of which we will target a larger market share given the financial and capital markets stabilising. The nation's successful international sovereign bond issues define improving investor and business confidence for 2014. We will align our Company's strategy with that of the country's advancement. We foresee an optimistic yet challenging year for the insurance industry. Re-balancing the right talent pool and having the right blend of sector exposure is being actively pursued. Softlogic Retail footprint targets 300 by 2015, Asiri hospital chain expansion forays the only hospital chain implementing a roll-out expansion plan and automobiles, all augur well to capitalize on increasing market share and also returns.

Acknowledgements

Your Company's exceptional performance would not have been possible without the continued support of our customer base and other stakeholders. On behalf of the Board, I take this opportunity to extend my sincere gratitude to them for their valuable support and confidence in our Company. The unrivalled growth rates achieved during 2013 is also attributed to the combination of forces notwithstanding the synergetic effect of Softlogic. I would like to thank the Board of Directors, Managing Director, CEO, Senior Management in particular, and all the staff for their dedication and commitment that has evidently propelled this company to a position of dominance within industry.

Managing Director's Message

→ I am pleased to state that the company surpassed the expected growth and profit figures for the year. With the economic growth factor on track, optimism in business dictated greater economic activity for all stakeholders involved by end 2013. ←

Iftikar Ahamed
MANAGING DIRECTOR

Managing Director's Message

I am privileged to address you, valued shareholders, for the first time in my new capacity with Asian Alliance Insurance PLC (AAI). Having been closely associated with the operations of the Company for some time now, I would like to place on record the fact that the parent group, Softlogic Holdings' vision for the acquisition of AAI back in 2011 is now firmly in place with the stage set for an exciting phase of growth and profitability.

My earlier association with Softlogic and the recent changeover to AAI offers me a 360-degree perspective on how these synergies have fused and crystallized to create a stronger and more strategic insurance company. The journey to realizing these strategic results from the time of the acquisition has been intense. In a short period of just over two years much has been accomplished in building the team and acquiring the resources that are necessary to execute the future plans of the Company. AAI is currently in 6th place of the overall league table, whilst being ranked 5th in the Life Insurance Table and 10th in the General Insurance Table. This march, from a diminutive insurance operator and moving towards creating Sri Lanka's most profitable Insurance Company, has necessitated a strengthening of people and processes within the organization which has been intensely rewarding.

Looking at 2013 from a macro point of view, the uncertain outlook forecast for the year fortunately cleared up as the year drew to a close, with AAI taking rapid steps to realize its operational and financial objectives. I am pleased to state that the company surpassed the expected growth and profit figures for the year. With the economic growth factor on track, optimism in business dictated greater economic activity for all stakeholders involved by end 2013, as interest rates came down, government borrowing moderated and the liquidity situation in the market improved. In tandem with the reasonable 7% GDP growth forecast of the economy for the next year, the stage is well set for an even more profitable 2014 in our view.

Life Products Meet Aspirations of a Nation

Our growth strategy in the Life business was on target, as we netted greater numbers of our target segment, self-employed middle income upwardly mobile individuals who are aspirational and who see protection as a necessity rather than as a luxury. Our Living policy benefits are attracting this target group in large numbers and we expect this target group to only grow further as Sri Lanka marches towards attaining a per capital income of US$4,000 by 2016. The delivery and product positioning have been seamless through the year. As a result, the Life division recorded significant levels in new business earned as well as renewal of existing policies. The sharp growth in our Life business demonstrates just how the company has honed its systems and processes towards this end that have received further impetus since the acquisition of AAI by the Softlogic Group. It is pertinent to note at this point that the protection platform on which AAI is positioned is not an easy model to replicate and is the most difficult form of insurance to sell. It is therefore the company's drive and dynamism manifested by the Life team that has made this possible. AAI's Life business model is operating in perfect harmony and the profitability achieved in 2013 underscores its success.

> → The joint effort of all our stakeholders and partners has set us up on an extremely attractive platform where we face the future with great confidence. ←

Turnaround in Non Life Profitability

Motor and Health insurance were the two main drivers of top line growth in AAI's Non Life business. We perceive Health insurance to be the next big frontier in the industry and our group synergies with the Asiri Group of Hospitals places us in pole position to move forward in this area. The marriage of an insurance player with the largest private sector healthcare provider is an enviable synergy and an unrivalled value proposition that is set to provide immense value to all stakeholders. It is but natural that a combination of protection and caring, combining insurance and healthcare, offers a compelling choice for customers. The company recorded Health premiums of Rs 439Million for the year and was ranked 6th in this table.

AAI was able to further streamline and expand its distribution by leveraging on group synergies of Softlogic Finance branches and Softlogic Retail outlets. By leveraging these synergies, AAI is able to deliver multiple distribution touchpoints for customer convenience and higher visibility. This group synergy is also a

→ Health Premium

→ Industry League Table on Health Care

cost effective way to expand distribution without the need to set up separate branch offices and we were able to successfully tap into the retail base of customers as well that led to a growth of 37% in our Motor business through 2013 realizing Rs 850Million in premiums.

The benefits of being part of a large group are now starting to be realized and I am proud to announce that the Non Life division was able to break the shackles of having its losses accommodated by earnings from Life, by actually breaking even for the first time in the company's history. A slew of factors are responsible for this major achievement, some of which are the streamlining of processes, claims management and enhanced customer service, which together helped achieve this breakthrough for the Non Life sector. We are extremely pleased at Non Life division breaking even as it heralds that the company is truly on track to facing the challenge of the segregation of the insurance business in 2015.

Strategic Investment Portfolio

As part of the Softlogic Group with substantial experience in finance and related businesses, AAI was able to gain group synergies once again in devising a well thought out investment strategy to drive profitability. The performance of our investment portfolio has played a key role in driving profitability in both Life and Non Life divisions. Through 2013, a comprehensive Fixed Income strategy, coupled with investment in quality equities has enabled us to garner valuable capital gains for the company thereby enhancing our investment portfolio performance. The extra gains have helped to cushion the negative performance experienced in the Non Life arena, and with the profitability aspect now being addressed for the Non-Life business, the dependence on one-off gains in the Investment Portfolio has been eliminated.

Promising Outlook

The joint effort of all our stakeholders and partners has set us up on an extremely attractive platform where we face the future with great confidence. The prospects for the insurance industry are bright as Sri Lanka strives for growth over 7% in 2014 with growth in excess of 8% envisaged beyond. The benefits that both Life Insurance and General Insurance will harvest from this economic growth should be staggering. Our themes for 2014 are to focus on profitability, superlative customer service, and improvement and efficiency in all our processes and procedures.

Acknowledgements

As a company and a group, we have much to celebrate in 2013, the most newsworthy being the fact that internationally acclaimed institutions DEG and FMO have staked a 38% claim in AAI. The guidance and technical advice we are receiving from these two giants is helping transform our business through global best practices. The Chairman and the Board of Directors have been indispensable with their significant contribution to setting strategy and giving direction to the company. The Management Team is extremely talented and has great potential that has been demonstrated in delivering a exceptional result for the year. AAI has the all the elements in place to set the benchmark for dynamism and innovation in the industry, as we continue on our exciting journey.

Chief Executive Officer's Message

As regards our strict adherence to ensuring sustainability of our policyholders and partners, we continued to maintain and safeguard strong financial discipline throughout the period under review in terms of controlling critical ratios to ensure peak performance.

Ramal G. Jasinghe
DIRECTOR / CHIEF EXECUTIVE OFFICER

Chief Executive Officer's Message

It is with pleasure that I review a year in Your Company's history which has proved to be profitable and enriching in many ways. Our parent group, Softlogic Holdings' entrepreneurial spirit and enduring vision has inspired Your Company not only to leverage on group synergies, but to identify new and better ways of doing things.

I am delighted to emphasize the great advantages that have accrued to Your Company from our investors Messrs. FMO - FINANCEIERINGS – MAATSCHAPPIJ VOOR ONTWIKKELINGSLANDEN N. V AND DEG - DEUTSHE - INVESTITIONS UND ENTWICKLUNGSGSELLSCHAFT MBH, from Netherlands and Germany respectively. These two development financing institutions which stand among the largest and most reputed in the world having invested in AAI's potential has cemented Your Company's credentials in the market and enhances Sri Lanka's country profile for serious long term investors. Beyond the significance of these investments, Your Company has been grateful and eager to absorb the international best practices and technically advanced systems and processes that the investors have brought with them.

Embarking on a Unique Sustainability Journey

One of the most pivotal learnings we have adopted from FMO and DEG has been their sustainability agenda. Both these institutions invest with the belief that their partner shares their vision for devising sustainable environmental, social and governance solutions that will benefit all stakeholders in the partnership.

Positioned on the platform of protection and not only investment-linked insurance, AAI has already woven sustainability into its foundation and therefore found it easy to embrace our investors' sustainability criteria. As a result, this move has not necessitated a change of mindset, but rather involved setting up a new reporting structure in line with GRI reporting principles. This annual report is based on the Global Reporting Initiative (GRI) Reporting Framework Level B+, the generally accepted guideline for sustainability reporting. We understand this is work in progress and that Your Company's dynamic and committed team will work in accordance with the reporting framework to take your Company's Annual Report to the next level of continuous improvement with each passing year.

The important development is that we have embarked on a meaningful journey of sustainability along with all stakeholders and that we are all the richer for it. Your Company has embraced the theme of 'Protect Your Environment' - and as such all our social, environmental and business objectives will bring this theme to the fore, whether it is at National parks and other heritage locations of importance for its bio diversity, and in our communications with our stakeholders.

Nurturing our Valued Assets

As a sustainable business, Your Company has been offering enduring solutions to the industry by developing its employees to the highest standards in providing the service of insurance. Your Company proactively encourages employees to gain entry level insurance technical qualifications and specialize in the field of Actuarial science. Salary increments and easy payment options are some of the many incentives given to employees to pursue further qualifications that will boost their career progression. Your Company is committed to the career progression, job satisfaction, well being and retention of its employees. According to the Staff survey carried out by the Great Place to Work server in 2013, majority suggested that they are happy to work with your company. We pride ourselves in maintaining an organization that attracts the best and the brightest talent in the industry.

All these significant measures will significantly strengthen our hand when the industry moves towards a segregation of Life and General insurance business entities as two separate legal and operational units by January 2015, and in 2016 the introduction of the Risk-Based Capital regime thereafter. Having envisioned the enhanced knowledge resources required when this change is effected, several years ahead, Your Company has equipped its people with the required qualifications, knowledge skill sets and the required confidence to make a smooth transition to the new regulations post 2016.

Spearheading Change in the Industry

One of the first initiatives we undertook this year with the backing of our investors, DEG and FMO, has been to spearhead and organize 'The Future of Insurance' seminar for industry wide stakeholders. This event was graced by the Governor of the Central Bank Mr Ajith Nivaad Cabraal , who addressed this august gathering as the Chief Guest. FMO and DEG provided financial support to the organization of the conference and played a pivotal role in engaging insurance experts from around the region as speakers to address the event. The seminar was attended by over 200 participants, including a delegation from the Insurance Regulator the Insurance Board of Sri Lanka (IBSL), representing the insurance industry of Sri Lanka. Your Company is proud to have galvanized the issue of insurance segregation squarely at the centre of the debate in the industry by holding such a timely seminar, Your Company has proffered great yeoman service to the industry for its sustainable future. We believe this was a watershed moment for the industry in initiating a new thought process and preparing for the progressive changes to come in 2016.

Rich progress in Life Business Expansion

As aforementioned , your Company's combined Life and Non Life insurance premium increased by 26%, from Rs 3.22 billion to Rs 4.07 billion in 2013. Profit before tax crossed Rs.394 million and profit after tax increased from Rs. 73 million in 2012 to Rs. 362 million in 2013. The life business generated a profit of Rs. 433 million, which is a 178% increase over the 2012 profit of

Rs.155 million. Significantly, AAI's Life division forged strongly ahead through the period under review to reach the status of the fifth-largest player in the category of Life insurance and succeeded in narrowing its gap with the fourth player while widening its lead between the sixth player and itself.

Your Company's success in Life business can be attributed to comprehensive strategies, forward looking policies and our commitment to customize products to individual customer needs. It is necessary to mention here that Your Company's unique Medical and Living policy benefits make our offering stand distinctly apart from the rest of the industry. The projected per capita income of US$4,000 by the year 2016 has tremendous implications and will enhance levels of insurance penetration, translating to a promising future for the industry.

In such a conducive environment, the market will demand more sophisticated products and we believe Your Company will enjoy first mover status because of its well established reputation for tailormade products as compared to one-size-fits-all products. On the other hand, greater disposable incomes will mean that as a visionary organization, Your Company will be able to explore more intricate products such as pension and investment linked products.

Non Life Business Gains Momentum

Your Company's Non Life business has shown progress by making a dramatic turnaround in the fourth quarter of 2013. In the face of aggressive competition, we have enhanced our reinsurance capacity by obtaining an A Rated panel of reinsurers , complemented with a total restructuring of the division and its organisational chart which has been developed to provide speedy underwriting and claims services. We are now prepared to face the challenges of the market as well as the limitation of state sponsored infrastructure projects not being made available to private sector. Non life premiums increased by 31% from Rs 1.19 billion in 2012 to Rs 1.55 billion in 2013. Both corporate and retail distribution channels contributed to this growth. The Non Life insurance business trended positively particularly during the last 2 quarters of 2013, underscoring the strategic direction that the Management took to further develop this vital and lucrative line of business.

Health Insurance Enhances Non Life Earnings

The medical policies that Your Company is able to proffer by leveraging on group synergy of Asiri Group of Hospitals, the largest private sector medical care player in Sri Lanka, places AAI in a uniquely advantageous position as it caters to a unique and long-felt need in the market. As a result, Your Company made significant headway into single-handedly expanding the health insurance segment in 2013, and cornering a substantial market share by fulfilling the vital need for health insurance. We are proud to announce that AAI recorded the sixth highest GWP in the health insurance market segment in individual and corporate segments, backed by the strong synergy and financial stability of Softlogic Holdings.

Making the Organization Future-Ready

As regards our strict adherence to ensuring sustainability of our policyholders and partners, we continued to maintain and safeguard strong financial discipline throughout the period under review in terms of controlling critical ratios to ensure peak performance. This disciplined approach will generate benefits for shareholders, policy holders and employees of Your Company, who have placed their trust and careers in the company.

I am pleased to state unequivocally that Your Company is well poised to benefit from the opportunities as highlighted by the Government's development policies and by the Central Bank of Sri Lanka (CBSL)'s Roadmap for 2014. I have no doubt in my mind that Your Company will prove an indispensable partner in the Nation's development strategy by way of supreme customer satisfaction, value addition and relevant products. We believe, this is Your Company's responsibility towards its stakeholders who have placed enormous trust and faith in us.

Appreciation

I wish to express my gratitude to the Chairman and the Board of Directors for their unstinted support and wise counsel. I would particularly like to welcome Mr. Iftikar Ahamed, the new Managing Director of AAI, who is no stranger to the company since he has been functioning as Executive Director for several years prior to his new assignment. He has been a source of strength personally and an asset to the company's strategic planning process. I have no doubt that he will continue to inject even greater vigour into systems and processes of Your Company, which is already moving up steadily to the pinnacle of the insurance industry and is being lauded for its strategic sustainability goals.

A special mention of thanks to Jatinder Mukhi and Johann Ritchers who represent our investors DEG and FMO respectively for readily sharing their knowledge and expertise to take your Company to world Class levels of excellence. The dedication and engagement by these two gentlemen definitely provide your company with the much needed cutting edge advantage to be a significant player in this competitive landscape. The faith and confidence placed in me for the longest time by Chula Hettiarachchi – Chief Operating Officer Life and Saliya Wickramasinghe- General Manager Finance, our Deputy General Managers, Assistant General Managers – who possess a pool of very capable talent to drive the Company's strategic goals to reality, the Senior Managers , Managers , Executives and Non executives who form the backbone of your Company for their excellent support and dedication towards the Company's progress. Your Company's sustainability odyssey will be exciting and we hope as well wishers of the company you will be inspired to read about our journey into infusing sustainability in all areas of our sustenance.

The Board of Directors

Iftikar Ahamed Managing Director	Ashok Pathirage Chairman	Mohan Ray Abeywardena Director	Ramal Jasinghe Director/ Chief Executive Officer

Paul Ratnayeke
Deputy Chairman

Johannes W. H. Richters
Director

Jatinder Mukhi
Director

Sujeewa Rajapakse
Director

The Board of Directors

Ashok Pathirage
Chairman

Having served in the Softlogic Group Board as the Managing Director from inception, he was appointed as the Chairman of the Group in 2000. The Group which commenced with just twelve employees 23 years ago and with a small turnover now manages a multibillion turnover across various economic growth sectors. Along with Softlogic Holdings, six other firms, which are managed by Mr. Pathirage, are listed. His role as the MD/Chairman of Asiri Group, has led the healthcare sector to be the leading private healthcare provider in Sri Lanka. He is also the Chairman of Softlogic Capital Limited, Softlogic Finance PLC, Asian Alliance Insurance PLC besides being the Chairman of many other Group Companies that operate in Leisure, Retail, Automobile and ICT industries. He also serves as the Deputy Chairman of the National Development Bank PLC Board and is the Chairman of NDB Capital Holdings PLC Board.

Paul Ratnayeke
Deputy Chairman

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

Iftikar Ahamed
Managing Director

Mr. Iftikar Ahamed heads the Financial Services Sector of the Softlogic Group and is also the Managing Director of Softlogic Capital PLC, which is the Financial Services Holding Company of the Group. He counts over 30 years of experience in a wide range of métiers within the financial services industry and has extensive Banking experience both in Sri Lanka and overseas, having held senior management positions at Nations Trust Bank PLC and Deutsche Bank AG. He holds an MBA from University of Wales, UK.

Ramal Jasinghe
Director/Chief Executive Officer

With experience exceeding over 30 years which includes over 18 years in the Insurance sector, Mr. Jasinghe started off his career in the manufacturing industry and thereafter in industrial marketing. He holds a MBA from the University of Sri Jayewardenepura and is a Chartered Marketer; Fellow of The Chartered Institute of Marketing, UK and the Academy of Marketing Sciences, USA.

He was awarded the Platinum Honour in 2011 in recognition of Professional excellence in the field of Management by the Post Graduate Institute of Management Alumni (PIMA).

Mr. Jasinghe has obtained his Executive and Management Training at the Stanford University – California and at the Indian Institute of Management, Ahamedabhad.

Mr. Ramal Jasinghe is the Immediate Past President of the Insurance Association of Sri Lanka (IASL). He also served the Financial System Stability Consultative Committee of the Central Bank of Sri Lanka. Mr. Jasinghe serves in the Council and Management Committee of the National Chamber of Exporters and the National Chamber of Commerce. He has also served on the Board of the Strike, Riot & Civil Commotion and Terrorism Fund & headed the Market Interest Group for the Financial Services Sector launched by the Chartered Institute of Marketing Sri Lanka Region under the aegis of its parent organization in UK.

Mr. Jasinghe has been an active member of the Sri Lanka Institute of Marketing, serving on their Executive Committee for many terms and has served as a judge at the SLIM awards. He was one of the Architects of the National Business Excellence Awards conducted by the National Chamber of Commerce. He is a visiting lecturer at the University of Sri Jayawardenapura, Sri Lanka Institute of Development Administration (SLIDA) and is an examiner at the Sri Lanka Institute of Marketing (SLIM) where he also serves as a Research Project Supervisor.

Mohan Ray Abeywardena
Director

Mr. Abeywardena holds an MBA from the University of Wales and a Post Graduate Diploma in Marketing from The Chartered Institute of Marketing, UK (CIM). He serves as the Group Managing Director/CEO of Acuity Partners (Pvt) Ltd; a Joint Venture Investment Banking firm equally owned by the DFCC Bank and Hatton National Bank PLC. He has over 27 years of work experience in the Capital markets in Sri Lanka of which 22 years was spent in stockbroking and since 2009 he has been in Investment Banking. He was appointed to the Board of Directors of the Colombo Stock Exchange in 2013. He is the Chairman of Acuity Stockbrokers (Pvt) Ltd and Acuity Securities Ltd, and he also holds Directorship's in Guardian Acuity Asset Management Ltd and Lanka Ventures PLC.

Sujeewa Rajapakse
Director

A Fellow of the Institute of Chartered Accountants of Sri Lanka and the Society of Certified Management Accountants of Sri Lanka, Mr. Sujeewa Rajapakse is the Managing Partner of BDO Partners a Firm of Chartered Accountants. He holds a MBA from the Postgraduate Institute of Management, University of Sri Jayewardenepura.

Mr. Rajapakse is the Immediate past President of the Institute of Chartered Accountants of Sri Lanka and represents the Monitory Policy Consultative Committee of Central Bank of the Sri Lanka as a member and is a Board member of NDB Bank PLC, Haycarb PLC and Dipped Product PLC. Mr Rajapakse is a member of the National Pay commission. He is an old boy of Richmond College, Galle.

Jatinder Mukhi
Director

Jatinder Mukhi is currently the CEO of Asia Insurance 1950 Pte Ltd a fully registered insurance company in Thailand, dealing mainly in Non-Life Insurance. He has spent the whole of his working career in the Insurance industry and has over 35 years of Insurance experience of which 14 years have been in Asia. He understands all facets of the Insurance Industry and has vast knowledge in all areas of an Insurance company from operations, pricing, marketing, distribution and general management.

Jatinder Mukhi has held various senior positions in Insurance companies and is highly skilled in setting up Greenfield operations as well as enhancing the performance of existing companies. Prior to taking on his current position, he took Zurich Japan from premium income of $US 80m to $US500m and to number 2 market share position in the direct channel. He has provided advice to Asian Insurance Companies in order to improve operations and sales distribution

Jatinder Mukhi is 58 years old and was born in India, but migrated to Australia in 1971 and is an Australian Citizen. His education entails both Eastern as well as Western standards as he completed his high schooling in India whilst his undergraduate as well as postgraduate studies have been in Australia. He holds a Master of Business Administration from the University of Technology, Sydney, and is an Associate of the Australian Insurance Institute.

Johannes W. H. Richters
Director

Johannes W. H. Richters has garnered international management experience in markets as varied as South America, the Caribbean and Asia. He counts extensive experience in medium term planning, budgeting and reporting processes and is particularly adept at setting up and effecting the turnaround of greenfield projects. He is responsible for restructuring companies and negotiating joint venture agreements. He holds a Masters degree in Law from the Free University of Amsterdam and underwent further corporate management training at ING Insurance, Netherlands. He has functioned as Chairman and CEO of ING Mexico and CEO and Managing Director of ING Argentina in the past. He holds almost 40 years experience in the global insurance field and is affiliated to government committees in Suriname and other global insurance bodies.

His early education and experience has given him a strong affinity with European and emerging markets. He brings with him proven negotiating and contracting capabilities in both the public and private sectors in an international environment.

The Executive Committee

Chula Hettiarachchi	Iftikar Ahamed	Ramal Jasinghe	Saliya Wickremasinghe
Chief Operating Officer, Life	Managing Director	Director/Chief Executive Officer	General Manager, Finance

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Managing Director

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Chula Hettiarachchi
Chief Operating Officer, Life

He holds B.Com. and M.Com degrees from the University of Kelaniya and also holds a Postgraduate Diploma in Finance and Business Management from the Institute of Chartered Accountants of Sri Lanka. He has received extensive overseas training with Allied Dunbar UK, FALIA Japan, and OLIS Japan, as well as the Indian Insurance Institute, Pune, and Munich Re Germany. His career spans a period of 31 years, 18 of which is in the life insurance field. He spearheads the Life distribution operations in an astute and professional manner.

Saliya Wickramasinghe
General Manager, Finance

Saliya Wickramasinghe is a Fellow of the Chartered Institute of Management Accountants (FCMA) and a member of the Certified practicing Accountants (CPA), and has a BSc degree from the University of Colombo. His career spans over 31 years including exposure in local blue chip companies as well as 5 years in a multi-national company in Australia. His varied experience brings a wider perspective to the finance operations of the Company. He has participated in the Top Management Programme conducted by FALIA (Japan) and AOTS (Japan). Wickramasinghe presently serves as a Non-Executive Director at Softlogic Finance PLC.

The Senior Management

Left to right

Amal Dharmapriya, Victor Colombage, Sithumina Jayasundara, Suranga Waduge, Dilan Christostom, Annesly Arsakulasuriya, Thilanka Kiriporuwa, Kapila Suriyaarachchi

Victor Colombage
Deputy General Manager - Non Life
He is a Chartered Insurer (U.K) and Associate Member of Chartered Insurance Institute London (ACII). Joining the Industry as a young acolyte at Colombo Assurance as a Junior Underwriter in 1960 just prior to the nationalization of the Industry in 1962 he rose rapidly among the rank and file of the Insurance Corporation, leading an illustrious career, which culminated as Manager - Miscellaneous Accident Insurance dept. His career spans a period of 53 years, of which 6 years was spent overseas. He overlooks the Non-Life technical operations of the Company, with diligence and proficiency.

Annesly Arsakulasuriya
Deputy General Manager - Non Life Sales
He cut his teeth in the insurance industry as a school leaver serving in various capacities. He bears hands on experience in corporate insurance sales of 25 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.

Suranga Waduge
Assistant General Manager - Life

Mr. Suranga Waduge holds a MSc in Mathematics and Statistics from the University of Missouri Kansas City, USA and a BSc (Hons) in Business, Financial and Computational Mathematics from the University of Colombo. Mr. Waduge began his career at Asian Alliance Insurance as a Management Trainee in 2004 and left to USA in 2006 to read for his MSc. Having gained foreign exposure for 3 years he returned to Asian Alliance as the Manager Actuarial. During his 7 year career in Insurance, he has participated in many foreign and local training programmes on Life Insurance and Reinsurance including FALIA (Japan). At present, he is working towards becoming an Associate member of the Institute and Faculty of Actuaries (UK).

Dilan Christostom
Assistant General Manager - Finance

He is an Associate Member of Association of Chartered Certified Accountants (ACCA). His career spans over 13 years, of which 5 years was spent overseas. His extensive knowledge and experience in Finance and Accounting brings a wider perspective to the company.

Sithumina Jayasundara

Assistant General Manager - Non Life

Sithumina is a Chartered Insurer and an Associate Member of the Chartered Insurance Institute of UK. He is also a senior Associate of the Australian and New Zealand Institutes of Insurance and Finance.

He began his career in Insurance in 1997 and has obtained foreign exposure through different training programmes on General Insurance and specialized in Reinsurance. Presently Mr. Sithumina is the honorary treasurer of the Sri Lanka Insurance Institute, which is affiliated to the Chartered Insurance Institute of the UK and he is a product of St Anthony's collage , Kandy.

Amal Dharmapriya

Assistant General Manager,
Information & Communication Technology

He has a M.Sc. in Computer Science, University of Colombo School of Computing and a BSC in Applied Sciences from the University of Sri Jayewardenepura. He is a passed finalist of Certified Information Security Manager (CISM) – ISACA 2012 and a member of the Australian computer society (MACS). Mr. Dharmapriya has 13 years of ICT experience of which, 9 years of hands-on experience in System Design, Development and Implementation. His career in the insurance industry spans a period of 9 years. The high point of his career in Asian Alliance is considered as spearheading the development of an in-house complete Non Life insurance solution for the Company and which is considered to be a pioneering effort within the local insurance industry.

Kapila Suriyaarachchi

Assistant General Manager - Life (Sales)

Mr. Kapila Suriyaarachchi commenced his career with Asian Alliance Insurance as a Regional Deputy Manager in 2001. A loyal employee of the company since, he functions as Assistant General Manager - Life - Sales - SBU1 currently. Prior to joining the company he possessed 11 years work experience in the insurance field and earned a Diploma in Business Studies. He has consistently been conferred Best Regional Deputy Manager awards in 2004, 2005, 2007, 2009 and 2010. He won the Runner-up position for the same award in 2006. During his tenure with the company, he has participated in many foreign and local training programmes in the realm of life insurance, having travelled to India, Japan and Malaysia.

Thilanka Kiriporuwa

Head of Human Resources

He holds a Masters in Business Studies (UOC), CIM (UK), Diploma in Humana Resources, Diploma in Information Technology. He is a multi-talented personality, counting over 13 years' experience in Human Resources, Customer Service, Logistics, Administration, Facilities Management, Retail and General Operations.He overlooks the HR aspect for Asian Alliance Insurance and Financial Sector of the Softlogic Group.

Management Discussion and Analysis

During the year the company has outperformed the industry growth rate by achieving nearly threefold growth in consolidated GWP by surpassing Rs.4Bn mark.

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EVOLVING
INTO THE
FUTURE

Macroeconomic Overview

Global Economy

	2012	2013	2014 (Projections)	2015 (Projections)
World Output	3.1	3.0	3.7	3.9
Advanced Economies	1.4	1.3	2.2	2.3
Emerging Economies	4.9	4.7	5.1	5.4
United States	2.8	1.9	2.8	3.0
Euro Area	-0.7	-0.4	1.0	1.4
Developing Asia	6.4	6.5	6.7	6.8

Source: IMF World Economic Outlook

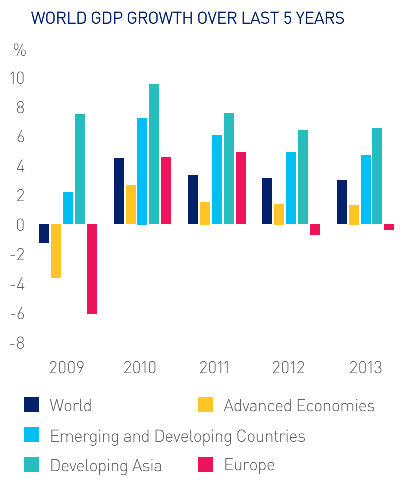
Overview of the World Economy

Although growth in advanced economies declined in 2013, it is expected to grow in 2014 and 2015. Emerging economies are entering a slow economic growth phase and forecasting favourable movement in future. A large share of this growth is expected from the US, with the easing of fiscal consolidation measures and a continuation of supportive monetary policy measures. The Euro region is expected to further recover, as indicated by continued improvement in business indicators. The Asian region continued to have a positive growth rate and the same trend is expected to continue in 2014 and 2015. Emerging market economies are expected to slow down, reversing the strong growth seen in the recent past with the slowdown in Brazil, China and India accounting for most of this decline.

Global GDP growth

However, economic activity is expected to pick up in the advanced economies. In many emerging markets and developing economies, the projected pickup is now relatively more modest – expected to increase from growth of 4.7% in 2013 to 5.1% in 2014. In the euro area, business confidence indicators suggest that activity is close to stabilizing in the periphery and already recovering in the core economies. The forecasts assume that Chinese authorities do not enact major stimulus and accept somewhat lower growth, consistent with the transition to a more balanced and sustainable growth path. The forecast for real GDP growth for China has thus been reduced to about 7.5% for 2013–14. This slowdown will reverberate across developing Asia, where growth is expected to remain between 6.5% and 6.7% in 2013–14.

Global Inflation



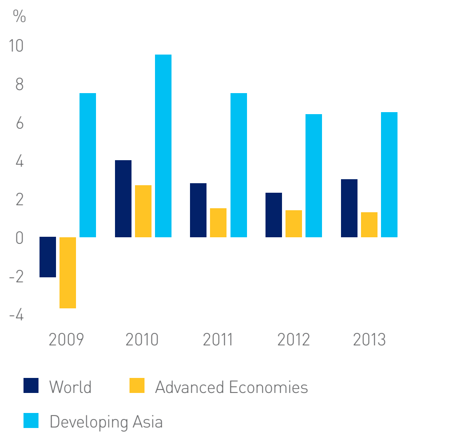
Subdued inflation pressure is expected to prevail as a result of the pickup in activity in the advanced economies not leading to a major reduction in output gaps and commodity prices falling amid improved supply and lower demand growth from key emerging market economies. In advanced economies, inflation is currently running below target, at about 1.5% on average. The return to target is projected to be slow, given that output is expected to return to potential only slowly.

Overview of Developing Asia

Developing Asia Slows

Despite improving economic conditions in the advanced economies, developing Asia is now projected to grow at a slower pace than earlier forecasts. This slowdown is most visible in the region's giant. China's growth is forecasted to decelerate to 7.5% in 2014 from 7.7% in the previous year. The slowdown in this giant economy hinders but does not stifle growth in rest of Asia, where the projected growth rate is 6.7% in 2014. Economists perceive financial market vulnerability in the short term and moderating growth prospects over the medium term as the two major challenges facing developing Asia.

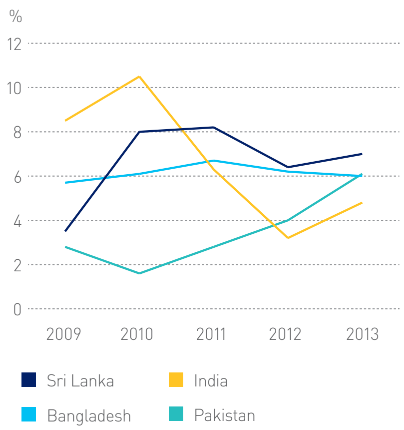
WORLD GDP GROWTH COMPARISON WITH DEVELOPING ASIA



Progress in South Asia

In the past, the South Asia economic focus report dubbed South Asia as the second-fastest growing region in the world in the aftermath of the global crisis. However, the region's recent performance has been less impressive: stable foreign direct investment (FDI) in the region is low, half that of other regions relative to GDP; inflation is twice that of other regions and fiscal deficits and debt-to-GDP ratios are high; structural weakness and vulnerability in South Asia to global changes in monetary policy are all reasons for this pessimism. Overall, South Asia regional growth is expected to moderate in 2013 compared to prior projections. India's slowdown has significant spillover effects to the rest of South Asia, even more so after the financial crisis.

REGIONAL PERFORMANCE OF SOUTH ASIA



The Sri Lankan Economy

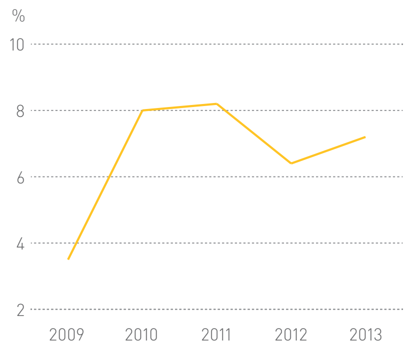
Overview of the Economy

The Sri Lankan economy expanded by 6.3% during the first half of 2013. The impact of unfavourable weather conditions, subdued global growth and the delayed effect of tight monetary policy measures of 2012 slowed the growth momentum, although Sri Lanka continues to grow faster than most emerging market economies. The Industry sector continued to post strong growth of 10.4%, largely driven by construction and manufacturing sub-sectors. The continuation of major public infrastructure programmes and an increase in private sector construction activities contributed to the strong growth in the construction sector. The gradual recovery in Sri Lanka's major trading partners and higher demand from the tourist sector contributed to further growth. The Services sector grew by 5.5%, despite the continuing slowdown of wholesale and retail trade activity, as transport and financial services continued to expand. The Agriculture sector recorded a marginal growth of 0.5% compared to the relatively high growth of 10.4% recorded during the first half of 2012. The adverse weather conditions prevailing at the beginning of the year affected domestic agricultural production, particularly paddy and other food crops which include vegetables and highland crops and export agricultural production such as rubber and coconut, although tea performed favourably. Meanwhile, broad money growth decelerated to 16.7% in November 2013, bringing the average growth of broad money to 16.5%, down from 20.2% during 2012.

GDP Growth

Central Bank of Sri Lanka statistics indicates that real GDP growth for the Sri Lankan economy in 2013 was approximately 7.2%.

TOTAL GDP GROWTH OVER LAST 5 YEARS



Fiscal Policy

The continued easing of monetary policy through 2013 amidst low and stable inflation brought about the desired macro economic outcomes. Continuing the increasing trend observed from June 2013, earnings from exports in October 2013 exceeded US dollars 1 Bn for the first time in the history. Consequently, the trade deficit contracted significantly by 38.9% to US$494 Mn during this period. Average headline and core inflation for 2013 were at 6.9% and 4.4% respectively, compared to 7.6% and 5.8%, respectively, in 2012.

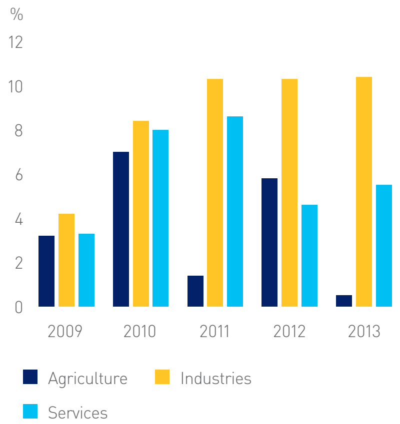
Sector Performances

The services account performed strongly, recording a surplus, growing by 32.1% during the first half of 2013, as earnings from transport, travel, and computer and information services sectors increased. Tourist arrivals increased during the first 10

Macroeconomic Overview

months of the year amounted to 904,015 - recording a year-on-year growth of 16.8%.Earnings from tourism recorded a year-on-year growth of 26% during the first 10 months of 2013 to US$ 996.2 million, compared to the cumulative earning of US$ 790.5 million during the corresponding period of 2012. Workers' remittances continued to be the foremost foreign exchange earner in Sri Lanka, increasing by 11.4% to US$4,922 million during the first nine months of 2013 from the corresponding period of 2012.

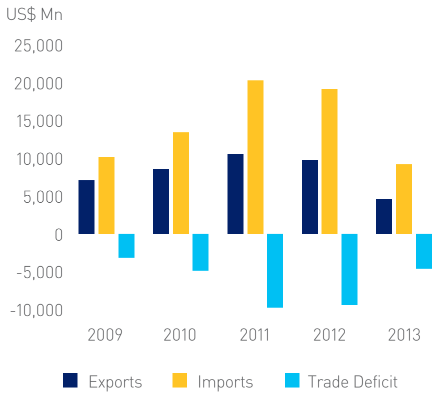
GDP SECTORWISE ANALYSIS



External Sector Performance

The favourable developments in the external sector together with higher inflows to the financial account, resulted in the Balance of Payments (BOP) recording an estimated surplus during the first 10 months of 2013, compared to the deficit recorded during the corresponding period of 2012. The contraction of the trade deficit, higher inflows to the services account and an increase in private transfers contributed to reducing the current account deficit.

EXTERNAL SECTOR PERFORMANCE (US$ MN)



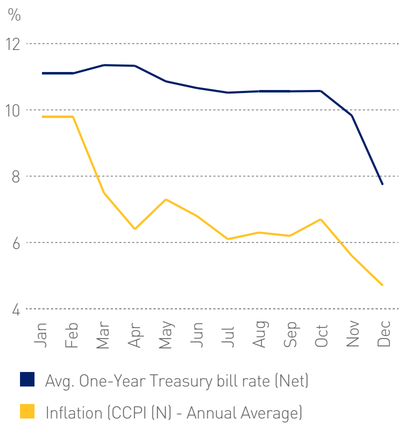
Inflation

Inflation has remained at single digit levels for almost five years, while core inflation has declined to record low levels, indicating well-contained demand driven inflationary pressures. The lagged effect of the tight monetary policy stance, moderation of global commodity prices, together with the absence of significant supply-side shocks domestically contributed to inflation remaining within single digits during the first nine months of 2013. Going forward, inflation is projected to remain at single digit levels during the remainder of 2013.

Interest rates

The reduction of policy interest rates in December 2012 and in a further two steps in May and October 2013, increased levels of liquidity, improved foreign investor appetite and lower credit disbursement by banks to the private sector exerted downward pressure on the yield rates of government securities. Deposit rates, which continued to rise with increased competition in the banking sector and aggressive deposit mobilization by commercial banks, gradually responded to the reduction in policy rates. Except the prime lending rate, other lending rates of commercial banks were slow to adjust to the easing of monetary policy. The outreach of the financial sector also widened with the expansion of the branch network of banks as well as Licensed Finance Companies (LFCs).

INFLATION VS INTEREST RATE



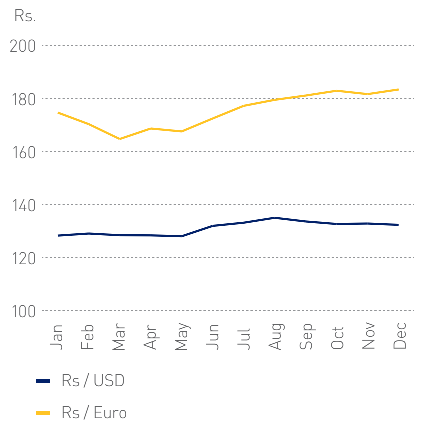
Banking Sector Impacted

Tight monetary policy measures adopted in 2012 continued to affect credit to the private sector. The deterioration in asset quality was mainly in the pawning portfolio, resulting from the sharp fall in the price of gold. The narrowing of interest rate margins as well as increased provisioning and write-offs contributed to the decline in profitability of the banking sector. Deposit mobilization and credit growth in LFCs and Specialized Leasing Companies (SLCs) expanded despite strong competition in the financial sector, although asset quality in the sector deteriorated. The capital and liquidity positions of these companies were also further strengthened.

Currency

Both current and capital accounts of the Balance of Payments (BOP) improved, resulting in a stronger exchange rate and an international reserve position. The rupee stabilized on the receipt of higher foreign exchange inflows to the banking sector. Consequently, the Sri Lanka rupee depreciated against the US dollar only by 2.9% during the year to end October 2013. Based on cross currency exchange rate movements, the Sri Lanka rupee has appreciated against several major international currencies thus far during the year. The rupee has appreciated by 1.4% against the US dollar since end August 2013, following a brief period from mid-June to end August, during which the currency depreciated. Reflecting the cross currency movements, the rupee also depreciated against the euro by 5.8% and the Pound Sterling by 4.7% during this period.

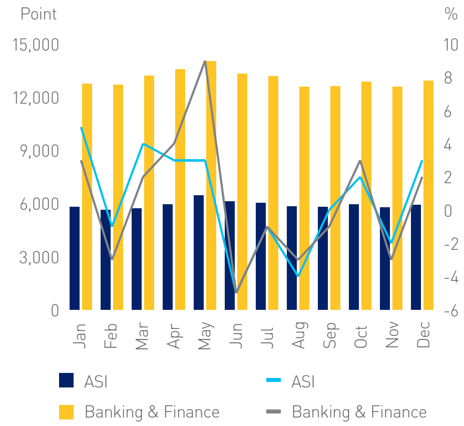
SL RUPEE VS. EURO/USD



Stock Market Strengthens

The performance of the Colombo Stock Exchange improved during the period ending October 2013 with all key indicators rising. The All Share Price Index (ASPI) and the S&P SL 20 index increased by 5.2% and 6.0%, respectively, during the first 10 months of 2013, while market capitalization increased to Rs.2.5 trillion by end October 2013 from Rs. 2.2 trillion at end 2012. Four rights issues which raised Rs. 1.4 billion mainly contributed to the increase in market capitalization. Declining domestic interest rates, improved investor confidence and healthy earnings by corporates contributed to the growth in the equities market. Activity in the corporate debt market also increased during the year, supported by the exemption of the withholding tax on interest earned from investments in listed debt as proposed in the budget for 2013.

STOCK MARKET PERFORMANCE 2013



Key Economic Indicators

	2013	2012
GDP Growth	***6.3%	7.2%
Per capital GDP (Rs)	2,022	2,923
Inflation (Annual Average)	**6.9%	7.6%
Budget Deficit (Mn)	*5.8	6.4%

*CBSL Estimates (Recent development 2013)

**ADB Forecast

*** 1st half of 2013

Outlook for 2014

The Sri Lankan economy is forecasted to grow at a higher rate of around 8% per cent in 2014 according to Central Bank of Sri Lanka's projections. The recovery in the global economy, continued expansion of domestic economic activities and the impact of growth oriented policy measures adopted in 2013 are expected to accelerate economic growth in 2014. Domestic output is expected to increase in line with changing lifestyles of people and increasing penetration into global markets. In order to increase the production capacity of the country, investment activities are expected to expand continuously, while greater emphasis on manufacturing output is also expected to stimulate demand for services such as trade, transportation, communication and banking. The expansion in tourism and related services is also expected to contribute to higher economic growth. Favourable weather conditions and continued Government support are expected to raise output in the agriculture sector in 2014. Inflation is projected to remain at mid-single digit levels during 2014.

However, a rebound in the growth of credit aggregates without a commensurate decline in credit to the public sector and the possible strengthening of global commodity prices, aided by a gradual increase in global growth, continue to pose upside risks to inflation in the period ahead. With favourable supply side developments in both domestic and external sectors and prudent monetary management, inflation on both year-on-year and annual average bases are projected to remain below 6 per cent at end 2014. Earnings from exports are expected to grow by 12.7% to US$11.2 billion in 2014. This growth will be driven by all three sectors. Industrial exports, which account for the largest share of exports, are expected to increase significantly. This growth is largely due to the expected recovery in the US and EU economies, which continue to be the main markets for Sri Lanka's industrial exports. Agricultural exports are also expected to increase,

Supported by higher prices and volumes for tea, rubber and coconut exports, while export of minor agricultural products and spices are expected to increase due to improved promotional activities in international markets, and higher global demand due to changing consumption patterns in major markets.

Meanwhile, expenditure on imports is expected to increase by 13.1% to US$ 21.6 billion in 2014 reflecting an increase in all categories. Increased consumer spending due to economic growth and higher per capita incomes, higher imports of intermediate goods for production of exports and power generation as well as an increase in imports of investment goods for infrastructure development will drive import expenditure in 2014. As expenditure on imports is expected to increase at a higher rate than the increase in earnings from exports, the trade deficit is expected to increase by 13.5 per cent in 2014. This increase is somewhat high due to the low base in 2013, as the trade deficit is expected to decline by 2.6 per cent in 2013.

However, as a percentage of GDP, the trade deficit is expected to increase only marginally to 13.8 per cent in 2014. Going forward, economic growth is expected to accelerate further during the new year, while inflation is projected to remain in mid-single digits. With the expected improvement in Net Foreign Assets of the banking sector, continued fiscal consolidation and increased growth of credit to the private sector of around 16%, broad money is projected to expand by about 14% in 2014. This will be sufficient to facilitate expected economic growth without fuelling demand driven inflationary pressures.

Impact to Asian Alliance Insurance businesses due to change in Key macroeconomic indicators in 2013 and likely trends in 2014

Economic Indicator	Impact to the Company's Business
GDP growth	➲ Growth of the Gross Domestic Product will increase business volumes of Asian Alliance Insurance. Emerging manufacturing and service sectors seek more protection from the uncertainties which arise in the business environment. Consequently, Asian Alliance is motivated to come up with more innovative insurance products.
Infrastructure development	➲ The development of economic and social infrastructure is vital for rapid economic development. The road network in the country has developed significantly. As a result of this, people have access to greater connectivity and the gap between the market and people has decreased significantly. With the cessation of the civil war in Sri Lanka, new infrastructure facilities developed across the country and emergence of new markets is being witnessed , creating more opportunities for insurance industry. Infrastructure developments are taking place rapidly, with new airports, harbours and highways, thereby narrowing distance between urban and rural areas.
Inflation	➲ Low inflation rates impact business profits positively as well as boosts the share price of the company. When the inflation rate goes up, the company has to incur higher costs on wages and salaries, resulting in low profits and negative impact on share price of the company. Overall, the growth of the economy has a direct impact by the high rate of inflation.

Insurance Industry Overview

Strengthened global regulatory framework

Moderate growth in GWP

Overview of Global Insurance Industry

Regulatory developments are having an impact in all major markets, as governments and insurers seek the right balance for consumers and the sustainability of the industry. Profitability remained a challenge in the global insurance industry as a direct result of the prevailing low interest rate environment in 2013; however other favourable factors boosted underwriting profitability during the year.

The primary Life Insurance Market

→ Global premium income grew by 2.9%

Global life insurance premium income increase by 2.9% in 2013. Life insurers' balance sheets remain solid as companies continue to de-risk products and assets impairments have remained moderate as a result of stronger credit and equity markets. However, continued low economic growth, low interest rates, volatile financial markets and regulatory changes mean the business environment will likely remain challenging in the coming years.

Non-Life Insurance stable in 2013

The Global non-life insurance sector was stable in 2013, with the overall premium growth unchanged at 2.5%. In the advanced markets, premium growth was 1.4% also steady from 2012, based mostly on moderate rate increase in some markets and, to a lesser extent exposure growth, which weakened with the slowing global economy. In southern Europe, the industry witnessed significant declines in premium income for a second year in a row.

Challenging business environment

Profitability: towards a new equilibrium?

Following the post financial- crisis recovery, profitability in life insurance has declined slowly but steadily since the end of 2009. Return on equity has been close to 9% for the last four quarters for a sample of global composite and the large life insurers. The reasons for the significantly lower profitability are low interest rates, which have reduced investment yield and margins (the difference between earned and guaranteed interest rate), and weak premium income growth.

A glance back and a look ahead at insurance in emerging regions

Emerging Asia

PERFORMANCE 2013

Life Insurance

- Premium growth has recovered in china but new business has continued to slow in India.
- There has been sustained premium growth in Southeast Asia based on stronger demand for investment-linked insurance products.
- Profitability in 2013 has continued to be constrained by low interest rates.

OUTLOOK 2014

- Growth in China and Southeast Asia is expected to remain robust alongside cyclical improvement in economic activity.
- An expected recovery in India could be could be tempered by the implementation of new regulations governing traditional policies from January 2014.

Insurance Industry Overview

PERFORMANCE 2013

Non-Life Insurance

- Overall growth has mirrored the broader economic trends with the trade related lines lagging and property / engineering outperforming.
- Motor premium growth has remained stable, tempered by the scaling down of earlier state-backed incentives.
- Profitability has benefited from low natural catastrophe related losses.

OUTLOOK 2014

- Cyclical uptick in economic growth will support a recovery in trade related lines, while the benefits of fiscal supported infrastructure projects will begin to fade.
- Focus on nat cat protection and agricultural insurance is likely remain strong.
- Liberalisation in regional motor market will continue to support growth.

Eastern Europe

PERFORMANCE 2013

Life Insurance

- The single premium savings business in Poland has had strong decline. The boom in credit related products in Russia has continued.
- Growth rebounds have been seen in number of markets (eg. in Hungary and Bulgaria), while weak performance continues in others.

OUTLOOK 2014

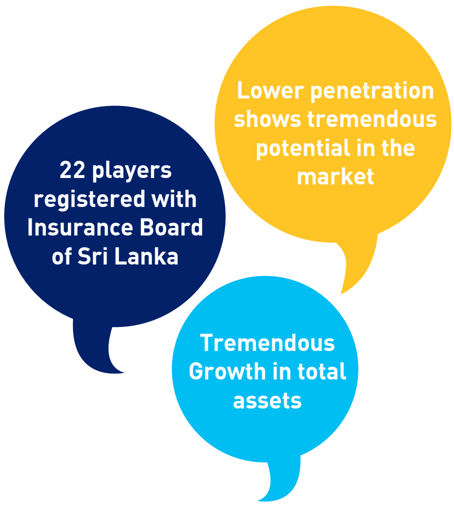
- Growth is likely slow to a more sustainable level in Russia and resume in Poland.
- Recent nationalization of second - pillar pensions should benefit the old-age insurance segment.
- The recovery will remain uneven reflecting the varied economic environment across countries.

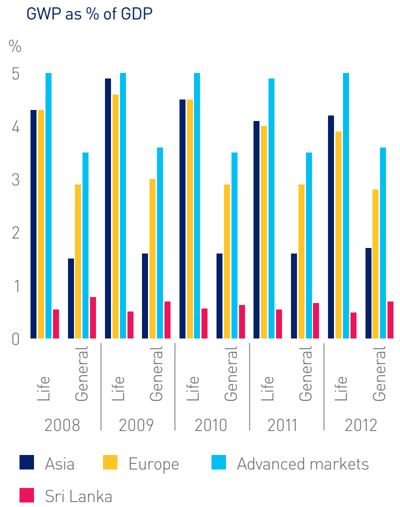
Non-life Insurance

- Weak economic activity has suppressed premium growth in many markets, including Poland, Czech Republic and Hungary.
- Pressure on rates remains strong particularly in motor lines, and property business has also increased in several markets.
- Growth in Russia slowed tangibly as motor business slowed down.

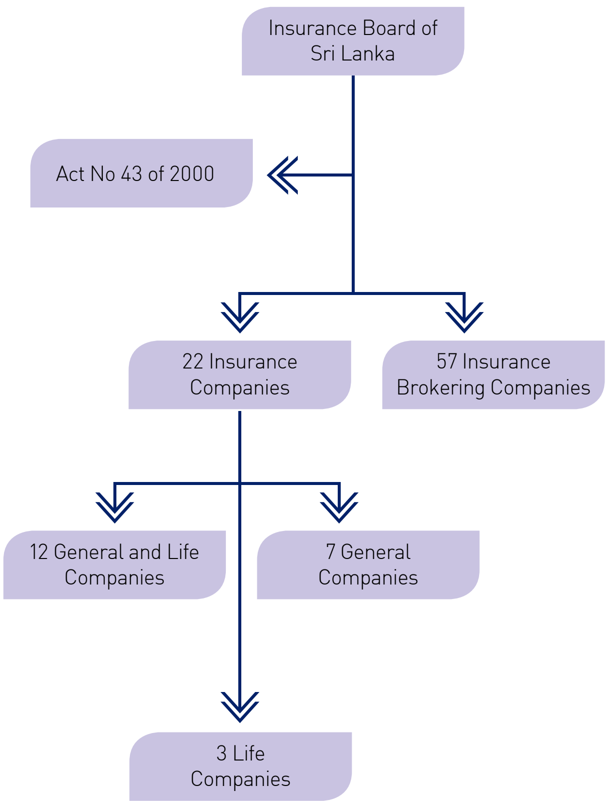
- Stronger European economic growth will filter through benefitting non life premium growth particularly in the many highly export dependent markets. However the recovery will only gather momentum slowly.
- The markets remain price focused and highly competitive which will undetermine both premium and underwriting profitability.

Insurance Industry in Sri Lanka





Composition of the Insurance Industry



About 3% of total assets of the financial sector in Sri Lanka is in the insurance sector, which reflects the enormous scope for future growth in this sector. Despite the number of players in the industry, the Sri Lankan insurance industry continues to lag behind Asian counterparts, as premiums as a percentage of GDP is 1.2 per cent in Sri Lanka as compared to a regional average of 5.8 per cent, whilst long term life insurance business accounts for 0.5 per cent of GDP.

Decline in Profitability

The insurance sector experienced growth in total assets and premium income, although its profits declined. Total assets of the insurance sector increased significantly by 23.9 per cent during the first half of 2013. Total gross written premium (GWP), which grew at an accelerating pace up to mid-2011, continued to moderate thereafter, recording a growth of 9.17 per cent for the 2013.

Profits of the sector declined due to high operational costs and declined investment income in the general insurance sector. Despite an increase in total investment income contributed by a 92 per cent increase in investment income in the long term insurance sector, investment income in the general insurance sector declined by a significant 37.4 per cent due to marked to market losses in equity investments. The significant growth in investment income in the long term insurance sector was due to the increased growth of investments in Government securities which earned sizeable capital gains as interest rates declined. However, due to the decline in profits in the general insurance sector, the overall profits of the insurance sector declined.

Insurance Industry Overview

Reliance on Securities

Insurance companies carrying on long term insurance business as well as those insurance companies carrying on general insurance business met the statutory solvency margin requirement by end June 2013 and maintained their soundness.

Moreover, all insurance companies complied with the requirement of investing 20 per cent of the technical reserves in respect of general insurance and 30 percent of the long term funds in government securities as at end June 2013. Accordingly, investments in government securities by long term and general insurance accounted for 46 per cent and 20 per cent, respectively, of their total assets.

Strengthening Regulation

The Insurance Board of Sri Lanka (IBSL) took measures to strengthen the valuation process in the industry. IBSL issued guidelines and instructions to insurance companies specifying eligibility criteria that a valuer should meet in order to be able to value land and buildings in Sri Lanka for the purpose of solvency margin rules for long term and general insurance business.

The minimum capital requirement pertaining to insurance companies and insurance Brokering companies would be increased by 2015 and 2014, respectively, with a view to promoting their financial soundness. Accordingly, all insurance companies registered on or before 30 June 2011 are required to increase their minimum paid up share capital up to Rs.500Mn for each class of insurance business on or before 11 February 2015.

The Total assets of the insurance industry have increased by 24% in second half of the 2013 compared to corresponding period of 2012. This growth consists of, 23% increase in the assets of Long term insurance and 26% in General insurance compared to the corresponding period in 2012.

In terms of Section 25 of the Act, 20 per cent of assets of the Technical Reserve of Non Life Business and 30 per cent of the assets of Long Term Insurance Fund of the Life Insurance Business should be invested in Government Securities. This is a mandatory requirement that all insurance companies have to comply with.

At the end of first six months of 2013, the investment in Government Securities amounted to Rs.97,331Mn which represents 46.24% of the total assets of Long Term Insurance Business, while such investment of the total assets of General Insurance Business amounted to Rs.26,994Mn representing 19.93%. Accordingly, the total investment of assets of both Technical Reserve of General Insurance Business and Long Term Insurance Fund of the Life Insurance Business amounted to Rs.124,325Mn representing 35.94 percent as at 30th June 2013. This is in excess of the required amount of investment in Government Securities by the Act.

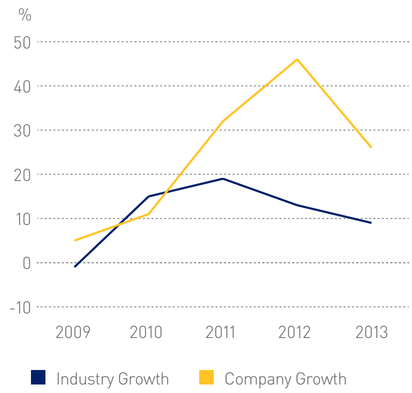
Company's Performance in Relation to Industry

In this report we analysed your company's performance in relation to industry averages. The insurance industry maintained its growth momentum in 2013 with combined life and non life premiums increasing from Rs.89Bn in 2012 to Rs.97Bn in 2013. During the year the company has outperformed the industry growth rate by achieving nearly threefold growth in consolidated GWP by surpassing Rs.4Bn mark.

Premium Income	2009	2010	2011	2012	2013
Industry consolidated Premium Income (Rs.Mn)	57,553	66,253	78,512	89,025	97,230
Company consolidated Premium Income (Rs.Mn)	1,506	1,673	2,207	3,224	4,077
Total Premium as % of GDP	1.19	1.18	1.2	1.17	*1.2
Industry Growth rate (%)	-1	15	19	13	9
Company Growth rate (%)	5	11	32	46	26

** Estimated*

INDUSTRY VS COMPANY - CONSOLIDATED

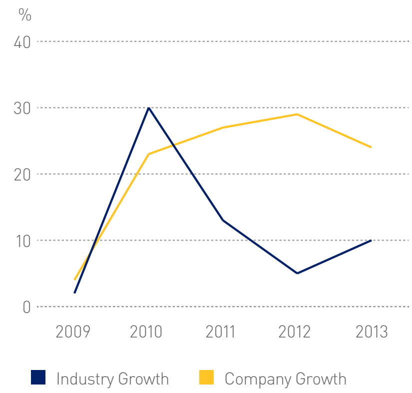


Life Insurance

The total premium income from Life Insurance reflected a positive 10% over 2012 to reach Rs.40,666Mn in 2013 whereas, the company was able to achieve a premium growth of 24% over the year 2013.

Life Insurance	2009	2010	2011	2012	2013
Market Size (Rs.Mn)	24,005	31,152	35,181	37,054	40,666
Company Size (Rs.Mn)	1,009	1,243	1,579	2,034	2,520
Market Growth %	2	30	13	5	10
Company Growth %	4	23	27	29	24

INDUSTRY VS COMPANY - LIFE

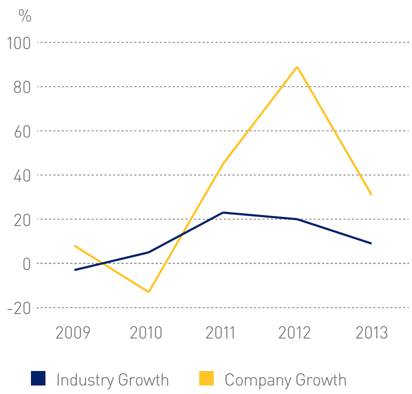


Non-Life Insurance

In 2013, the premium income from Non-Life grew by 9%, which is Rs.51,835Mn in 2012 in contrast to Rs.56,564Mn in 2013. A premium growth of 31% was achieved by your company over the year 2013. Motor Insurance continues to sustain a substantial proportion of the Industry's Gross Written Premiums, growing by 8%.

Non-life Insurance	2009	2010	2011	2012	2013
Market Size (Rs.Mn)	33,548	35,101	43,331	51,835	56,564
Company Size (Rs.Mn)	497	431	628	1,190	1,556
Market Growth %	-3	5	23	20	9
Company Growth %	8	-13	45	89	31

INDUSTRY VS COMPANY - NON LIFE



Business Review

Overview

In the insurance industry there are challenges in the external as well as in the internal environment i.e. pressure on margins, attract new and retain existing customers and staff, regulatory changes. Therefore it's vital to address those challenges by capitalizing on our strengths and convert those into opportunities and exploit those opportunities to create a competitive edge in the industry. Following table summarized few key challenging areas and what we did in response to achieve the aforementioned competitive edge.

Material Challenges and Responses

Material Challenges	Strategic Pillars Addressed	The Company's Response in 2013
Improve Profitability	Growth in Profitability	➲ Focus on the profitable product segment. ➲ Improve the productivity of the sales team. ➲ Investing in skilled human capital. ➲ Expanding the geographical spread of business.
Retain and Grow our Customer Base	Customer	➲ Improving our understanding on customers' needs and treating them fairly. ➲ Implementing effective and efficient procedures to provide a quality service to the customers. ➲ Develop innovative products and services to satisfy the customer needs. ➲ Investing in our brand through targeted marketing initiatives.
Attract, Retain and Develop Adequate Skills and Capabilities	People	➲ Develop training programs to attract, retain and develop the knowledge of the people in line with the strategies and objectives of the Company. ➲ Carry out employee engagement surveys to identify the satisfaction levels and expectations of the people.
Improve our Process and System Efficiencies	Operational Efficiencies	➲ Investments on operational and technological infrastructure to sustain growth and improve levels of customer service. ➲ Constant improvements of processes to deliver efficient and effective solutions in underwriting and claims activities. ➲ Enforce global best practice to enhance efficiencies. ➲ Expense management through monitoring against budget.
Maintain adequate financial Controls and Good Governance	Financial Discipline	➲ Active management and identifications of risk exposures to derive risk mitigation strategies. ➲ Applying sound underwriting practices and actuarially determined pricing. ➲ Ensuring the placements of reinsurance arrangements.
Develop Disciplined Portfolio Management to support Profitable Growth and Expansion	Investment Strategy	➲ Maintain strict compliance with stop loss policy to impose purchase limits to control the exposure limits. ➲ Assessments of regulatory ratios prior to investment decisions.

Strategic Objectives - Performance Summary of 2013 and 2014 Priorities

Strategic Objective 2013	2013 Update	2014 Priorities
Expanding geographical presence	• Enhanced sales strength by recruiting and training field staff. • Leveraged on Softlogic group synergies to establish presence of Asian Alliance Insurance through Softlogic outlets. • Emphasized personalized new business. • Branch staffs were empowered with underwriting authority, which has improved the turnaround time.	• Increase market presence further to provide convenient access and improved service levels to customers. • Increase the level of integration between the Group and the Company that will allow the Company to pass the benefit gained through synergy to policyholders and to shareholders. • Cost effective distribution models will be used in expanding sales outlets. • Capture untapped business opportunities in the Market. • Further strengthen freelance sales agents team.
Innovating Alternative Channels	• Promoted web based products. • Promoted social media platform to offer products.	• Strategic alliances with different industries to tap different markets. • Enhance web based product offering with customized customer interface.
Continuous Improvement in Service Standards	• Achieved segmentation of our three business pillars in Non Life insurance: Motor, Health and General. This allowed us to improve operational efficiency. • Enhancement of customer service thereby competing on the basis of service rather than price. • Identification of customer satisfaction levels through constant feedback and customer surveys to ensure there are no gaps in service expectations.	• Focus will be continued on the three business pillars which aligned with the core business obtained, with high degree of specialization. • Customer surveys and feedback will be carried out and taken on a continuous basis to improve service levels. • Provide simplified policy document. • Continue to Invest on staff education to maintain the technical skills of the staff well above the industry standards.
Provide best service to customers	• Fully fledged 24 hour call centre established for the convenience of customers. • Island wide network of permanent assessors employed by the company. • Sourcing genuine spare parts for customers with guaranteed quality. • Introduction of on-site cash settlement.	• Ensure transparency in every aspect of the business from underwriting policy to settlement of a claim. • Develop a service oriented culture within the company. • Increase the awareness amongst customers about taking proactive actions rather than exposing to risks. • Specialized customer relationship management trainings will be carried out.
Continuous product development	• Modified our unique Asiri Medical product further to suit customer requirements. • Relaunched personalized products based on customer requirements.	• Investment on Research and Development will be continued, to cater customer demands based on the feedback gathered through customer surveys. • More focus will be on introducing individual healthcare products to customers.
Add value to services	• Corporate Social Responsibility activities carried out to minimize the accidents and pollution in general. For an example - Special project at Horton Planes to minimize pollution.	• Implementation of proactive measures to avoid the occurrence of perils, for an example - fire drill will be carried out during the year. • Improve the customer awareness on hazardous activities. • In terms of CSR activities, more focus will be placed on to reducing motor accidents in general, via increasing awareness of drivers on imposed road rules.

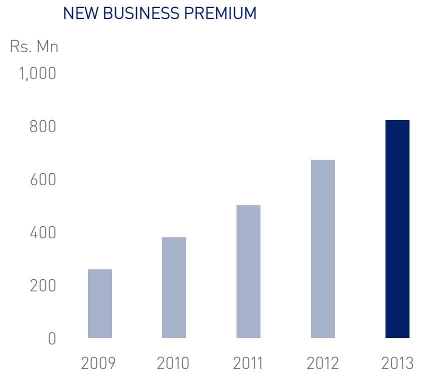
Value Creation - Life

Industry Overview

The year 2013 proved to be a challenging one for the insurance industry as a whole. The Industry growth in terms of new business dropped to a dismal 2% in first year premium earned compared to the 5% growth achieved in the previous year.

Company Performance

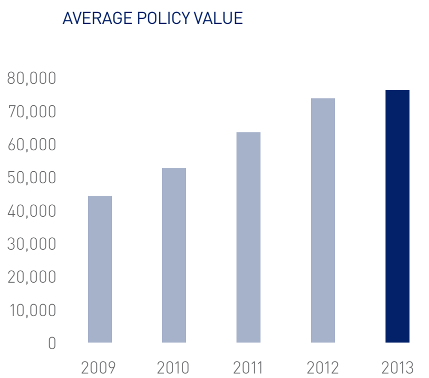
The Company maintained a healthy growth despite the bleak industry backdrop, recording an increase of 21% in first year premium reflecting new business growth compared to 2013. Over the last five years, the company has consistently grown both in new business and GWP over and above the industry averages. The company's strong business principles are proving to be the cornerstones of our success.

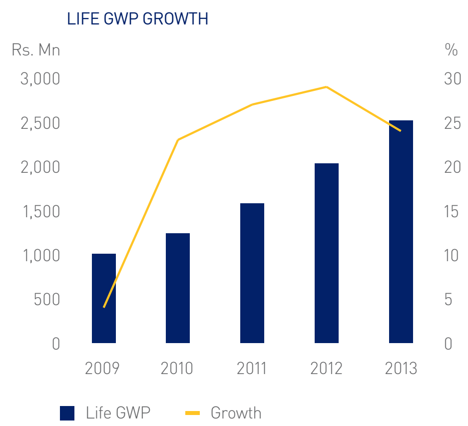


We have maintained a cautious and prudent growth strategy by controlling unbridled growth while empowering the company to consolidate its industry growth and re invest in its people and processes at critical moments in its growth journey. The formula for the company's strong year on year performance is achieving the right balance of infrastructure, processes and people, which provides the springboard for superlative company performance. The company views sustainability of its operations seriously and consistently eliminates any form of risk that might accompany strain to the business.

Key objectives of Life

- Retain current customer base
- Engaging customers to invest in insurance
- Combating high attrition in the insurance industry
- Ensuring new business growth stays on track
- Expansion of distribution network with productivity and efficiency
- Maintaining a competitive edge in the industry





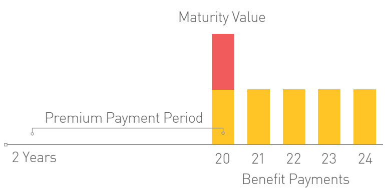
We have taken initiatives to achieve the key objectives for the future prospect of the life division of the company. Key strategic objectives and initiatives taken are summarized in the table shown below.

Strategic Objective	Strategic Pillar	Initiatives
Retain current customer base	Prosperity	Our ability to retain customers was the grounds for the excellent operational growth, impeccable reputation and sustainability of our business. Our Advisor's top priority is to meet with the customers and understand their requirements at the point of sale, so that we deliver our services with absolute perfection at all times. Our customer retention management platform is empowered with 5 service divisions. ➲ Regional service offices ➲ Client Relationship Division (CRU) ➲ Customer Care Centre (CCC) ➲ Corporate customer service Unit (CCSU) ➲ Policy Conservation Unit (PCU) Refer page 97 under product responsibility section for further details. Our Policy Conservation Unit is a special unit staffed by as many as 80 employees. This unit was set up to directly service the existing customer base and has served to double our policy retention rate in comparison to the industry average. The unit is dedicated to strengthening company-customer relationship immeasurably.
Engaging customers to invest in insurance	Prosperity	Protecting customers against true risks of life The company has adopted protection as its chief priority and we defend this positioning stringently by staying true to the fundamentals of insurance by selling insurance while addressing inherent risks in the lives of our customers.
Combating high attrition in the insurance industry	Prosperity/ People	Sustaining value addition under our core philosophy of 'Build People, Build Business' The company has a clear vision when it comes to articulating and putting into action its strategic pillars of growth. Perhaps the one most crucial success factor is our employee force. AAI's deeply structured talent management vision has consistently raised the bar for our people. This has resulted in high retention rates that have helped to inject a strong consistency and reliability of our transacting servicing levels, which is critical to insurance business. The rapport that our staff builds with customers is therefore nurtured over a long period of time, thereby offering a sense of security. Our earning and benefit structure is the foundation of our successes. We believe handsome compensation translates into significant contribution by staff and therefore, we are proud to be one of the most preferred employers for our high remuneration levels supported by career succession planning, training and other employee focused initiatives. Our people drive the business and the company's prosperity; we believe it is only right that they partake of the company's success. This forthright support of the staff at all levels has meant that AAI attracts the best and brightest insurance talent in the industry.

Value Creation - Life

Strategic Objective	Strategic Pillar	Initiatives
Ensuring new business growth stays on track	Prosperity	Absorb appropriate talent through a structured recruitment plan. The company trains and develops skills to optimize individual contribution by supporting it with well-designed products and services, underscored by the core value of protection. The company has leveraged on joint synergies with the parent, Softlogic Holdings to garner new business, reinforce our market positioning and enable us to enhance our healthcare solutions portfolio. We will continue to improve to develop our competitive advantage.  *Advisor training session*
Expansion of distribution network with productivity and efficiency	Prosperity/ People	The company encourages organic growth which empowers the expansion of regional hubs and there on-distribution territories with satellite offices. This organic expansion has ensured high productivity levels. Further, the Company's geographical distribution strategy is planned carefully in alignment with the Country's development strategy. During the year under review, we sustained our focus on the Northern and Eastern regions, strengthening operations in Jaffna, Vavuniya, Trincomalee, Polonnaruwa, Mahiyanganaya and Batticalo. Further we opened the gateway to the Southern development by opening the Embilipitiya Regional office. Our effective training programmes have enabled us to leverage on existing staff to manage our branches, thereby ensuring upward mobility of our employees. During the year, we expanded 6 of our existing offices, located at Minuwangoda, Mawanella, Dambulla, Kottawa and 2 offices in Matara .  *Minuwangoda Branch opening*  *Mawanella Branch opening*
Maintaining a competitive edge in the industry	Prosperity	In keeping with our business portfolio topline, high networth customer segment, positive claims experiences and the financial strength of the Organization, we have structured reinsurance to manage and absorb higher risks. This is supported by our strategic actuarial expertise, lending invaluable strength towards the decision making of the company. Our reinsurance arrangements are continuously strengthened through active engagement with our reinsurer "Munich Re" who continues to be a vital partner in our success. The company continued to place great emphasis on enhancing operational efficiencies by ensuring continuous development of IT-based processes. We initiated digitalization of documents and data entry systems, which substantially enhanced operational efficiencies.

Our Life Products

	Features	Benefits
Family	With Asian Alliance Family Plan, you can decide on the maturity period from 5-30 years depending on your age and the purpose for which the plan is prepared. When the policy matures, Asian Alliance will pay you the sum assured together with the accumulated bonuses declared yearly. Through this plan, you will also become eligible for a Guaranteed Loyalty Bonus on completion of every 10 years.	➲ Health Care, ➲ Guaranteed Family Income, ➲ Guaranteed Maturity Values with Increasing Bonuses, ➲ Automatic Paid Up Condition after 2 to 3 years of premium payment period, ➲ Loan facilities based on your calculated cash values, ➲ Extended free Life Cover for a plan designed for over 10 years.
Retirement Plan	Asian Alliance Retirement Plan is an investment plan that provides coverage for you with guaranteed level premium for the period of the plan, where cash values build up from year to year. You can choose the term of your plan designed for 15, 20 or 30 years, depending on your age and the purpose for which the plan is prepared. When the policy matures at the end of the period, Asian Alliance pays you the sum assured together with the accumulated bonuses declared yearly.	➲ A substantial fund at maturity, which can be: - collected in a lump sum to be invested for returns on your own, - re-invested through the company or an associated company on your instruction, - converted to an annuity to draw periodical sums as decided by you, - automatic eligibility for a life cover during the entire term, ➲ Entitlement to bonuses declared annually subject to valuations and will also qualify for a Guaranteed Loyalty Bonus on completion of every 10 years of premium payment, ➲ Maintenance of the policy at no cost if you face disability due to accident or sickness, ➲ Automatic Paid Up Condition after 2 to 3 years of premium payment period, ➲ Loan facilities based on your calculated cash values, ➲ Extended Life Cover for a plan designed for over 10 years, ➲ House Protection Insurance to protect damages against fire, lightning and natural perils.
Child	Asian Alliance Child Plan provides you with a life cover during the plan period, with the child being named as the beneficiary. When the premium ceases, your child will begin to receive the sum assured together with the accumulated bonuses declared yearly.  	➲ In the unforeseen event of your demise, the life cover will come into effect, and the sum assured will be credited to your child immediately, ➲ When your child turns 16 or 21 the premium will cease and at this point he/ she will begin to reap the benefits. At this point you will also receive the maturity value with bonuses, ➲ At the end of the term your child will receive a further 200% of the sum assured at 40% per year for 5 consecutive years, ➲ If you pass away during the annuity benefit paying period, your child will receive double the financial benefit for the remaining years, ➲ Extended Life Cover for a plan designed for over 10 years, ➲ Automatic Paid Up Condition after 2 to 3 years of premium payment period, ➲ Loan facilities based on your calculated cash values.

Value Creation - Life

Our Life Products

	Features	Benefits
Group Plan	Alliance Group Life Plan offers a "Tailor-made" employee benefit package covering unfortunate tragedies of your esteemed employees at a low premium.	➲ Unfortunate demise due to any cause, ➲ Total and Permanent Disablement due to accident and sickness, ➲ Partial and Permanent Disablement, ➲ Critical Illness covering 25 illnesses, ➲ Funeral expenses benefit.
Loan Protection	The Asian Alliance Loan Protection Plan specially designed to ease your worry and anxiety, the loan protection plan protects your mortgage, thereby maintaining the strength and stability of your family even in the event of an unfortunate tragedy.	➲ Cover against non payment of loan installments due to death or total disability, ➲ The period of the plan will depend on your loan repayment period and will cover the outstanding balance of the loan at any given time, ➲ With just a single premium payment at the inception of the plan period, your liabilities, collateral and the amount due to respective lending institution are both protected, ➲ Due to the risk being covered on a capital reducing basis, you will have the benefit of protecting your mortgage at the lowest premium in the industry.
Individual Protection	Asian Alliance presents the simplest and oldest form of insurance to ensure that the financial position of your loved ones is stable even if an unexpected tragedy should strike. Available at a very attractive premium, this policy covers a variety of unfortunate tragedies that could take place. The sum assured is paid on the death of the life assured during the term of the policy. The Alliance Term Plan also has the advantage of being able to accommodate rider benefits at a very nominal premium.	➲ Covering the death due to any cause within the term of the policy, ➲ Providing adequate protection at a very attractive premium.

Family Health Care Benefit

Asian Alliance Asiri Card

Our Life Products

	Features	Benefits
Relief Plan	Alliance Premium Relief Plan is an innovative tailor made insurance solution from us to meet the future protection needs of you and your loved ones. This product releases you from conventional premium payments whilst providing the benefits throughout the original term of the policy.	• Total term of the policy and the Premium Paying Term (PPT) will be based on your decision. • No further premium payments are required upon completion of the Premium Paying Term; policy will be maintained in full force until completion of the original term. • A portion of the premiums will be refunded on policy cancellation from the 1st year onwards. • Either a portion or the full premium paid will be refunded at the maturity. • Alliance Premium Relief Plan offers you benefits (rider covers) such as; **Family Income Benefit** This unique rider provides your family with an agreed monthly income for the plan period in the event of your unfortunate demise and/ or Total Permanent Disability due to sickness or accident. **Accidental Death and Disability Benefits** An additional sum payable in the unfortunate event of accidental death, Total Permanent Disability and Permanent Partial Disability due to an accident. **Hospitalization Benefit** A fixed amount up to a maximum of Rs. 10,000/- per day for hospital stay. This benefit can be extended to the spouse and four children. **Spouse Rider** You have the choice of including your spouse in the main contract and cover his / her life against unfortunate demise. **Terminal Expenses** This makes a provision for funeral expenses in the event of your demise. This will be released on production of the death certificate. **Premium Protector** If you face Total Permanent Disability due to an accident or sickness, we will maintain the policy in force at no cost to you. **Family Health Care Benefit** This covers your spouse and children for indoor surgical and hospitalization expenses up to Rs. 75,000/- per policy year. **Family Health Care Super Benefit** This covers your spouse and children for indoor surgical and hospitalization expenses up to Rs. 300,000/- per policy year. **Critical Illness Benefit** An additional sum payable on diagnosis or actual undergoing of 26 critical illnesses covered under the policy.

Future Outlook

Our current business practices are generating the desired levels of growth in both topline and bottom line for the company and we envision that the company will dominate the up market segment in the protection based selling platform in the years ahead. We will expand our market share by leveraging our health care solutions portfolio and effecting strategic geographic expansion. Our key strength that sets us apart in the industry is our unique sales model and we will leverage on this to further strengthen our positioning in the market. The company plans to take advantage of the prevailing environment through investment based products to reach the next level of market development. Separate distribution units headed by the senior management carder will be setup with a view to new task of playing a dominant role in the investment linked insurance space, given on success with protection based products. This is a much looked-forward to initiative that we plan to embark on with bigger strengthened by our past success.

Value Creation - Non Life

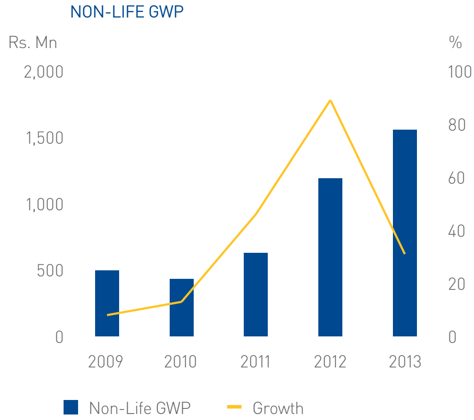
Industry Overview

The composition of the local insurance industry remained the same during the year. 22 insurance companies are registered under the Insurance Board, of which only 21 companies are in operation. Of the 22 companies, 12 companies are registered as composite insurance companies, carrying on both Long term insurance business and General insurance business. Out of the rest, three companies are registered to carry on Long term insurance business and seven companies are registered to conduct General insurance business. The insurance industry grew at the rate of 9% as compared to 20% in 2012. We expect the market to remain price driven through 2014. The market realities arising out of the segregation of the insurance business into Life and Non life in 2015 are still nebulous, but until such time the market will remain price sensitive. We expect that service will become the point of differentiation amongst industry players' post 2015.

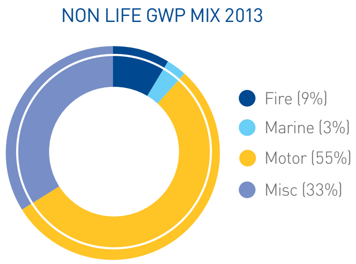
The year 2013 proved to be a dynamic one for Asian Alliance Insurance's Non Life business segment. The company recorded its highest growth from its health care insurance segment, marking 53% growth during the year. This performance was followed by a 37% growth in motor. A notable development during the year was the rise in disposable incomes of Sri Lanka's middle class and their preference for opting for medical insurance. The middle class remains a major growth segment as the country forges ahead to achieve a per capita income of US$4,000 by 2016, which will have a distinctive impact on the manner in which Insurance is perceived - more as a necessity than a luxury. The upsurge in in vehicle imports were the key growth driver in Motor insurance.

Company Performance

During the year under review, the Non Life business recorded an increase of 31% in GWP, one of the highest in the industry. The main growth drivers of this dynamic performance were the Corporate and Broker segments. Motor insurance was the main contributor to this strong performance with 55%, followed by Non Motor class of business by 45%. In the Non Motor segment, Fire contributed with 9%, Marine by 3% and Miscellaneous by 33%. Improved underwriting skills helped to minimize the claims ratio during the period under review.

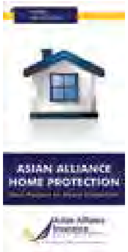
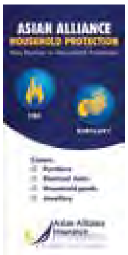


The Non Life Division recorded a GWP growth rate of 31% against Industry growth rate 9%.



The following graphical illustration highlights a few specialized products from our products range, offered to our valued customers. Some of which are tailor made to the requirement of the customers
e.g. Pet Insurance.

Our Non Life Products

Specialised Products	Features
Asian Alliance Home Protection 	Asian Alliance Home Protection policy offers protection for home and its contents against multiple risks. protects the house and its contents against fire and lightning, explosion, cyclone, storm, tempest, flood, other specified natural perils, aircraft and other devices or articles dropped there from, bursting or overflowing of water tanks, apparatus or pipes, impact damage, malicious damage, aircraft damage, electrical inclusions, burglary, riot and strike.
Asian Alliance Household Protection 	This is a pre-underwritten insurance policy which covers household contents against accidental fire and burglary at a reasonable premium. The policy has been designed to insure furniture, household goods, electrical items and jewellery of house holders.
Asian Alliance Pet Insurance 	Asian Alliance PET insurance policy is a unique insurance designed to insure PET Dogs. Coverage consists of medical expenses due to accidents or specified illnesses, death due to accident or sickness.
Asian Alliance Shop Guard Insurance 	This is a special package insurance policy designed to cover various types of insurable risks faced by businessmen and entrepreneurs who engage in the retail trade. Policy covers fire and allied perils, burglary, liabilities and other insurable pecuniary losses including optional covers.
Chandi - Children's Health Insurance 	A segment which is prone towards hospitalization and various diseases. With the growing number of children being hospitalized due to illness such as Dengue, parents have more headache to take care of besides a mere fall from a bicycle or a bruised elbow.

Value Creation - Non Life

There are key strategic objectives in the Non Life division of the company e.g., expanding retail arm, Innovating alternative channels, continuous improvement in service standards and continuous product development.

We have taken initiatives to achieve the objectives for the future prospect of the Non life division of the company. Key strategic objectives and initiatives we have been taken summarized in the table shown below.

Strategic Objective	Strategic Pillar	Initiatives
Expanding retail arm	Prosperity	➲ Enhanced sales strength by recruiting and training field staff with special focus on strengthening the distribution network outside Colombo. ➲ Leveraged on Softlogic Group synergies to establish presence of Asian Alliance Insurance through Softlogic outlets. ➲ Emphasized personalized new business. ➲ Branch staff empowered with underwriting authority, thereby strengthening decentralization and instant decision making at branch level, minimizing time taken for approvals process.
Innovating Alternative Channels	Prosperity	➲ The company explored more web based products through alliances with mobile service providers and invested in the social media platforms to promote products and services.

Facebook page of the company

Home screen of the company web site

Strategic Objective	Strategic Pillar	Initiatives
Continuous improvement in service standards	People	• Achieved segmentation of our three business pillars: Motor, Health and General. This allowed us to improve underwriting, claims settlement and sales under each pillar, also ensuring each team focused on its core products. • Enhancement of customer service thereby competing on the basis of service rather than price. • Maintain a healthy claims ratio through prudent underwriting. • The company was able to identify the right mix for different motor categories by relying on statistical information and a precise actuarial formulae. • Encourage staff to complete technical exams in Insurance, thereby improving their technical prowess. • Reconciliation of customer satisfaction levels with constant feedback and results of customer surveys to ensure elimination of gaps in service standards. • Separate customer complaint register to enable customers to record their complaints with a well oiled complaints redress system for speedy resolution.
Provide best service to customers	People	• Fully fledged 24 hour call centre established for the convenience of customers. • The Motor workshop owned by the Softlogic Group equips us to exercise complete control over repairs and we offer to pick up and drop off vehicles for greater customer convenience. Affiliations with other garages outside Colombo. • Cashless settlement by customer. • Island wide network of permanent assessors employed by company to ensure immediate access to any of our customers who have met with an accident in any part of the country. • Accident on-site cash settlement. • Sourcing genuine spare parts for customers with guaranteed quality.  *Call centre*  *On site Inspection and cash settlement*
Continuous product development	Prosperity	• Modified our unique Asiri Medical product further to suit customer requirements which has met with a positive response as is visible in the rise in medical policy holders. • Relaunched personalized products based on customer requirements. • Gained greater control over claims arising due to unexpected natural disasters by setting up an in-house geo mapping system, which enables precise underwriting, which has led to a drop in claims during the year.

Value Creation - Non Life

Strategic Objective	Strategic Pillar	Initiatives
Add value to services	People/ Planet/ Prosperity	➲ We have established a separate risk management team headed by risk engineers who are constantly monitoring and reviewing the value chain to offer recommendations to safeguard our stakeholders against risks. ➲ The company takes initiatives to provide premium reductions, reduction in the deductibles imposed on the policy, policy warranties and rebates, to encourage clients and reduce risks to the environment and society. ➲ As part of its social sustainability efforts, the company drives social awareness about safety issues. Some of these initiatives are: - Installations of sprinkler systems - Sprinkler system implementations significantly reduce the severity of the damages that can be caused from hazards and improve the claims experience. - Fire evacuation procedures / fire drills / fire exits- A consistent fire evacuation procedures and infrastructure adopted by the policyholders could eliminate hazards that can turn into claims. - Safety Signs to highlight the danger zones and hazardous activities- hazardous activities are identified and safety sign boards are provided by the company to increase awareness which will in turn reduce the claims exposure. - Increase the knowledge of employees on health and safety practices- Employees are the key drivers of all operations and significant savings can be achieved by making sure the workforce is trained to take corrective actions during a hazardous event. The Company conducts employee knowledge enhancement programme to raise awareness of the employees. - Safety guidelines on electronic installations Flood Prevention - AAI focuses on the flood prone areas and raise awareness to act towards protecting them from the risks it poses.

Future Outlook

Going ahead, the company will continue to consolidate its market share through all the steps taken whilst simultaneously gearing up for the new regime in 2015. Our differentiated platforms and access points for customers will go a long way in this regard. Our focus will remain on improving the bottom-line rather than being led by increases in market share.

Micro insurance will come under greater focus in the new year as we focus our sights on the SME and rural sector. The company believes that this next frontier of insurance will enable us to play a key role in ensuring that the concept of social insurance gains ground in the country. Sustainable operations have been at the heart of our operations and our foray into micro insurance will further strengthen the ethnical pillars on which the company stands.

Asian Alliance Insurance boasts of one of the youngest and most dynamic insurance teams in the country and we expect this asset to play a vital role in areas of innovating new products and services, while making the company future ready beyond the new insurance regime of 2015.

Value Creation - Information Technology

The year under review proved to be extremely challenging, as the role of Information Technology (IT) in the business was heightened with the profitability of the company increasing during the year. The company achieved profitability beyond the initial forecasts for the year and this entailed the IT department to hit the ground running from the very first quarter.

The 20 to 30 percent modest growth we had envisioned snowballed into an almost 100-200 percent growth. This necessitated an urgent expansion of IT capacity to accommodate the additional business volumes. However, over the last two years, a constant reengineering of our IT capabilities has infused agility and scalability, which has empowered the system to adapt and respond to change in rapid succession as and when needed.

During the year, the IT servers and storage capacity were further enhanced to accommodate future envisaged growth and thereby improved the efficiency, effectiveness of the systems and processes used by the staff to deliver fast, efficient and timely service. The network infrastructure was also enhanced to deliver flexibility and a seamless experience for the end user, ultimately benefitting the customer.

Partner in Strategic Value Creation

In a key development during 2013, we took a strategic decision to invest in the specialized Life Actuarial software to enhance decision-making for Life business. This software was successfully deployed without any hurdles and has added tremendous value to the actuarial function. Although external consultants were hired to operate the software, we have now successfully achieved technology transfer and actuarial modelling is being conducted successfully in-house. This technology has ushered in powerful strategic advantages to the company while proving to be cost-effective, time saving and helping in crucial scenario testing.

iWorks Prophet Software

Furthermore, an independent ISYS audit was conducted by audit firm KPMG during the period under review to identify process improvements needed in our systems and their recommendations are currently being implemented.

During the year, a key value addition in the in-house system development was the development of a mobile application on the Android platform for motor assessors to collect and upload online information with regard to motor accidents. This value addition has reduced time taken for claims settlement drastically compared to the earlier scenario and has considerably enhanced customer service levels.

Home screen of the motor claim assist system

Main menu of the motor claim assist system

Value Creation - Information Technology

Partner in Profitability

More importantly, the overhaul in customer service systems during the year has ensured that the IT division has played a vital role through the year by supporting these improvements in our systems and processes. Before any product launch, the IT team is consulted for viability and suggestions on how customers can be facilitated in the best manner. As a partner in the company's growth, we have succeeded in viewing any enhancements from a business oriented perspective to ensure any investments in technology are optimised and impact the bottom-line of the company in a positive manner. The IT function has become an enabling factor in the company as we further speeded up digitizing of documents.

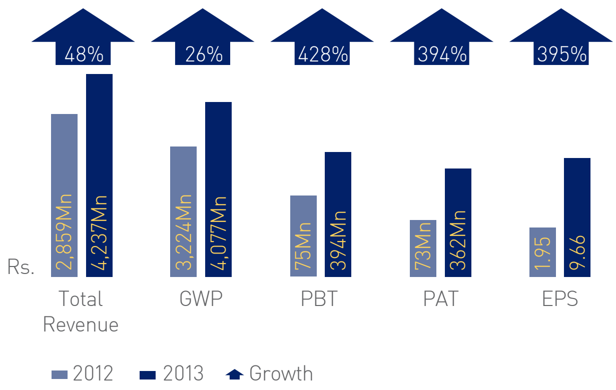
Future Ahead

Looking ahead, information security remains a pivotal concern for the IT department. Safeguarding data becomes all the more compelling in the light of the segregation of insurance into two separate entities in 2015. We are only too aware of the demand for enhanced security during the changeover process and are geared to meet the requirements for a seamless transition.

Another area of concern post 2015 will be the dearth of IT professionals in the insurance industry as the number of insurance entities will almost double. Retention of key IT staff familiar with the demands of the insurance business is being addressed proactively by the IT division in conjunction with the Human Resources division.

As the company progresses to evolve into a knowledge company, the IT function takes on greater importance and we are fully prepared to meet the challenges ahead.

Financial Value Creation



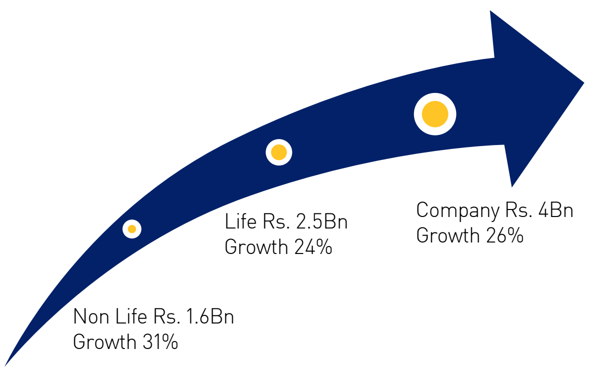
Performance Overview

2013 has been an exciting year of change and growth for Asian Alliance as it surpassed Rs.4Bn mark in Gross Written Premium (GWP) for the first time in the company's history. The strong financial position of your company was further underscored by over Rs.7Bn total assets.

Growth in combined GWP was 26% from Rs.3.2Bn in 2012 to Rs.4Bn in 2013. The Company was able to increase its profit before tax by fivefold with a profit after tax of Rs.362Mn compared to Rs.73Mn in 2012.As a result the total shareholder's equity of the company crossed the Rs.1.8Bn mark for the first time.

Financial Performance

Gross Written Premium

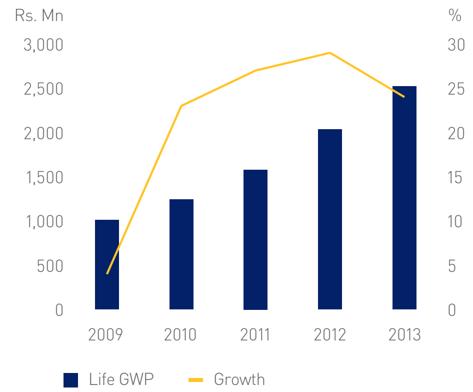


The company achieved Gross Written Premium of Rs.4Bn in 2013, an increase of 26% from Rs.3.2Bn in 2012. Your Company was well above the estimated industry consolidated premium growth of 9% at the end of year 2013.

The Life Insurance business was the highest contributor to GWP growth of the company recording a GWP of Rs.2.5Bn, with an increase of 24% compared to the previous year's achievement of Rs.2Bn.Life GWP growth of your company was more than double compared to the estimated Industry growth rate at the end of 2013.

In Life insurance the average premium size per policy sold now stands at Rs.76,000 up from Rs.74,000 in the previous year.

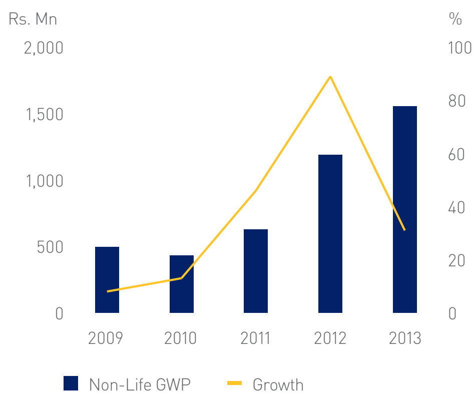
LIFE GWP GROWTH



First year premium growth 21%, Renewal premium growth 26%.

Top line achievement of Non Life insurance business also contributed to post a significant growth in company GWP by surpassing the Rs.1.5Bn mark with a growth of 31% compared with the correspondent period achievement of Rs.1.2Bn. The Non Life division has achieved more than three-fold growth compared to the estimated industry growth of 9% in 2013.

NON-LIFE GWP



Class wise contribution to GWP- Motor 55%, Miscellaneous 33%, Fire 9% and Marine 3%.

Financial Value Creation

An analysis of the class wise performance of the Non Life insurance business indicates that motor class dominates with a contribution of 55% to the Non Life GWP followed by Miscellaneous 33%, Fire 9% and Marine 3% respectively contributing to achieve the GWP growth.

Class 'Mn	2013	2012	Growth
Fire	137	163	(16%)
Marine	46	61	(25%)
Motor	850	620	37%
Misc	523	346	51%
Total	1,556	1,190	31%

Break up of GWP achieved by each channel is shown below;

Channel Rs.Mn	2013	2012	Growth
Corporate Business	803	621	29%
Retail Business	528	495	7%
Small and Medium enterprise	172	25	588%
Direct Businesses	53	49	8%
Total	1,556	1,190	31%

Net Earned Premium

The company surpassed Rs.3Bn mark while the Life arm crossed Rs.2Bn mark and Non Life Insurance crossed Rs.1Bn in Net Earned Premium for the first time by recording Rs.3.2Bn as a company with a growth of 35% compared with the 2012 achievement of Rs.2.4Bn. This significant achievement was predominantly due to GWP growth and customized reinsurance arrangements in both Life and Non Life Insurance business of the company.

Despite the unearned premium charge, the Non Life Insurance sector of the company was able to increase Net Earned premium to Rs.1.1Bn with a significant growth of 61%.The unearned premium reserve of the current year will earn its premium in the following year to meet the future claims and acquisition cost of the policies underwritten in 2013.

The Life division contributed Rs.2.1Bn to the earned premium as against the contribution of Rs.1.7Bn in 2012.

Investment and other operating revenue

Revenue through investments is mainly categorized in to Finance Income, Realized Gains/(Losses) and Fair Value Gains/(Losses).The company recorded a substantial growth in revenue from investments compared to the last year due to aggressive investment strategies. However a majority of the

	2013	2012
Finance Income	599Mn	407Mn
Realized Gains/(Losses)	224Mn	52Mn
Fair value Gains/(Losses)	168Mn	3Mn
Total Investment Revenue	991Mn	462Mn

115%

Life and Non Life Insurance funds were invested in Government securities and other fixed income securities according to the guidelines issued by Insurance Board of Sri Lanka (IBSL).

Investment revenue for the year 2013 was Rs.991Mn making a growth of 115% compared to the previous year, where 60% of investment income for the year earned through Finance Income which mainly consists of income on Government securities and dividend income. Overall the combined fund base amounted to Rs. 6.2Bn as at 31st December 2013, and consisted of fixed Income securities of 67%, Unit Trusts of 7% and 26% of equity.

Insurance Claims and Benefits

Insurance claims and benefit expenses are the main costs of an insurer. Gross benefits and claims paid during the period under review increased by 61% from Rs.803Mn in 2012 to Rs.1,293Mn in 2013.This growth reflects the manner in which your company diligently paid out policyholder claims while maximizing shareholder wealth.

The Life segment of the company was able to limit its claim ratio at 10% despite the increase in policy maturity and surrender payments by 55% from Rs.55Mn in 2012 to Rs.85Mn in 2013. Total net claims paid of the Life segment amounted to Rs.214Mn at the end of year 2013.

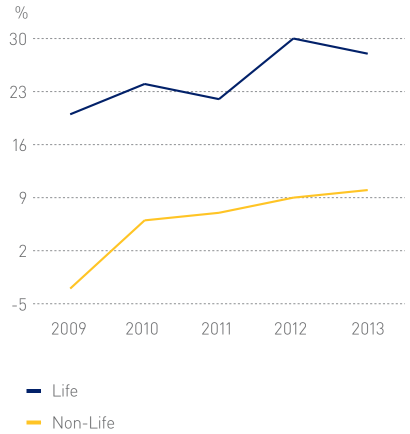
The Non Life insurance claim ratio indicates an 8 percentage point growth compared to the previous year's ratio of 75%. That is predominantly due to few larger businesses with higher value premiums renewed. These policies underwritten in the last quarter of the year, resulting in an unearned premium charge. Another contribution was the increase in net claims paid to Non Life policyholders from Rs.517Mn in 2012 to Rs.910Mn in 2013.

Initiatives have been taken to maintain the Non Life Insurance claim ratio at a satisfactory rate by appointing specialist panel of motor assessors and new reinsurance arrangements commencing 2014.

Net acquisition cost

Net acquisition cost of the company increased by 24% to stand at Rs.712Mn in year 2013. The increase in net acquisition cost was mainly due to growth in new businesses attracted by both Life and Non Life insurance arms of the company while maintaining a high retention ratio. The Life insurance business and Non Life insurance business recorded a net acquisition cost ratio of 28% and 10% respectively.

NET ACQUISITION COST RATIO

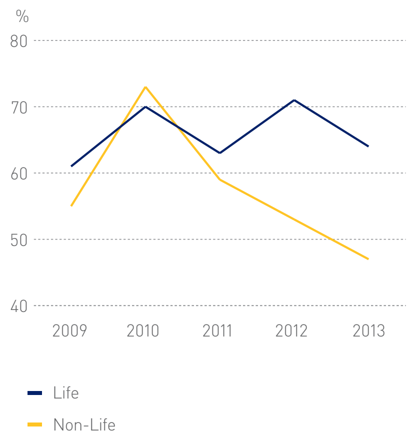


Operating and administration expenses

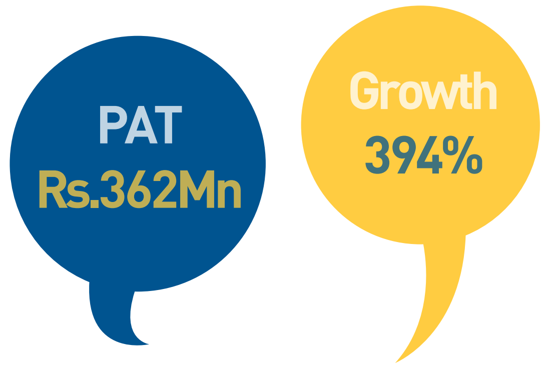
The company was able to restrict its expense growth to 16% compared to the previous year despite the organic growth experienced during 2013.

In particular, close monitoring of expenses enabled both the Life and Non Life Insurance businesses to drag down expense ratios from 71% to 64% and from 54% to 47% respectively in comparison with the year 2012.

EXPENSE RATIO



Profitability



Profit after tax of the company surged to Rs.362Mn at the end of year 2013 which is fivefold higher than profit after tax reported in 2012.

The Life arm of the company recorded a profit of Rs.434Mn where in Life operations contributed by Rs.300Mn and Life shareholder fund contributed Rs.134Mn to boost profit after tax of the Life segment. The contribution from Life operations surplus was calculated by the Consultant Actuary following his valuation of the Life insurance fund at the year end.

The Non Life Insurance segment of the company was able to reduce its loss by 14% compared to the previous year by recording Rs.71Mn loss for the period under review. Aggressive investment strategies and policies led the company to reduce the loss. However the last quarter of 2013, the Non life division was able to shift to a profitable mode. New initiatives were taken to improve the efficiency of operational activities and this growth momentum is expected to be sustained in 2014.

PAT-Rs.Mn	2013	2012	2011	2010	2009
Company	362	73	(198)	368	145
Growth	394%	137%	(154%)	154%	7%

Dividend

The company's healthy financial position enabled it to maintain its dividend pay-out to shareholders in 2013. The Directors have recommended a dividend of Rs.4.80 per share which amounted to Rs.180Mn in total disbursement to shareholders. This translates into a dividend pay-out ratio of 50% during 2013.

Cash flow analysis

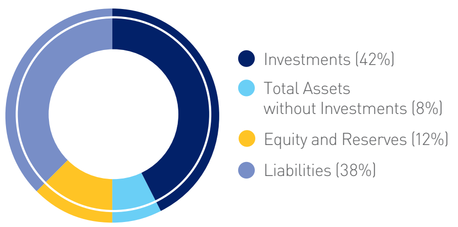
During the period under review net cash flow from operating activities increased by 22% from Rs.826Mn in 2012 to Rs.981Mn in 2013. This growth was largely due to a 32% growth in premium income compared to the previous period.

Net cash used in investing activities during the financial year was Rs.1Bn. This marks a growth of 40%, which led to an increase in financial investments to Rs.6.2Bn, with a 29% growth at the end of 31st December 2013.

Financial Value Creation

Financial position overview

FINANCIAL POSITION COMPOSITION 2013

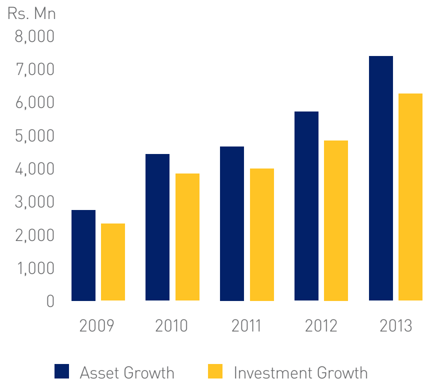


Investment and asset growth

The total investment of the company increased to Rs.6.2Bn, a 29% increase against the corresponding period. A majority of the Life and Non Life Insurance fund was invested in Government securities and other fixed income securities according to the guidelines issued by IBSL. The overall combined fund base amounted to Rs. 6.2Bn as at 31st December 2013, consisting of Fixed Income securities of 67%, Unit Trusts of 7% and Equity of 26%.

Total assets of the company grew by 28% to post a total asset balance of Rs.7.5Bn as at 31st December 2013. Financial investments make up 84% of the total assets of the company.

INVESTMENT AND ASSET GROWTH



Insurance contract liabilities

The company has diligently paid out insurance claims and benefits and allocated revisionary bonuses to its policyholders. The Life fund of the company crossed Rs.3.7Bn during the year and stood at Rs.3,746Mn at the end of the year with a record growth of 29% in comparison with the previous year. The above provision includes bonus to policyholders, solvency and other contingencies as certified by the consultant Actuary.

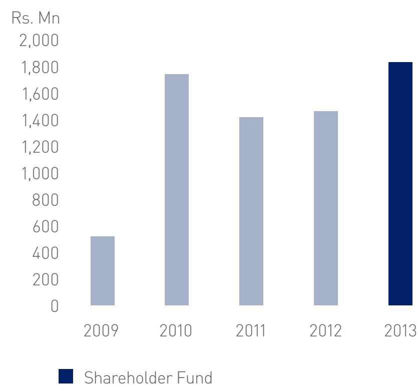
The Non Life Insurance fund liability has also increased to Rs.921Mn with an increase of 35% YoY. The growth in the Non Life Insurance fund was mainly due to unearned premium reserve amounting to Rs.765Mn, reporting a growth of 36%. The provision for Unearned Premium Reserve (UPR), claims outstanding, IBNR and IBNER have been certified by the consultant actuary.

Rs. Mn	2013	2012	2011	2010	2009
Insurance Provision Life	3,746	2,904	2,353	1,929	1,560
Insurance Provision Non Life	921	682	393	276	276

Shareholder fund

The shareholder fund of the company, which comprises of Stated Capital, other reserves and retained reserves, grew by 25% and reported at Rs.1.8Bn at the end of the year. Retained Reserves was the main contributor to the shareholder fund growth.

SHAREHOLDER FUND



Solvency

The company continued to maintain healthy solvency margins in both Life and Non Life Insurance businesses, well above the stipulated solvency margin requirement adding a greater degree of confidence to the security of policyholders.

Statement of Solvency and Approved Assets

Statement of solvency

The statement of solvency for Non Life insurance and Life insurance has been prepared in accordance with solvency margin (Non Life Insurance) Rules-2004 and solvency margin (Life Insurance) Rules 2002 and the amendment rules 18th March 2011 and 24th July 2012, which is in line with the formats stipulated by the IBSL.

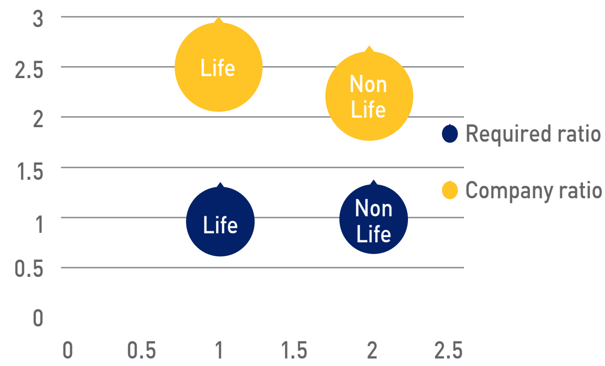
	2013 Rs.'000	2012 Rs.'000
Non Life insurance business		
Value of admissible assets	1,679,066	1,289,432
Amount of total liabilities	1,102,502	836,682
Available solvency margin	576,564	452,750
Required solvency margin	260,425	191,160
Solvency ratio	2.21	2.37
Life insurance business		
Value of admissible assets	4,736,251	3,580,312
Amount of total liabilities	4,277,782	3,311,333
Available solvency margin	458,469	268,979
Required solvency margin	184,898	142,881
Solvency ratio	2.48	1.88

Statement of Approved Assets

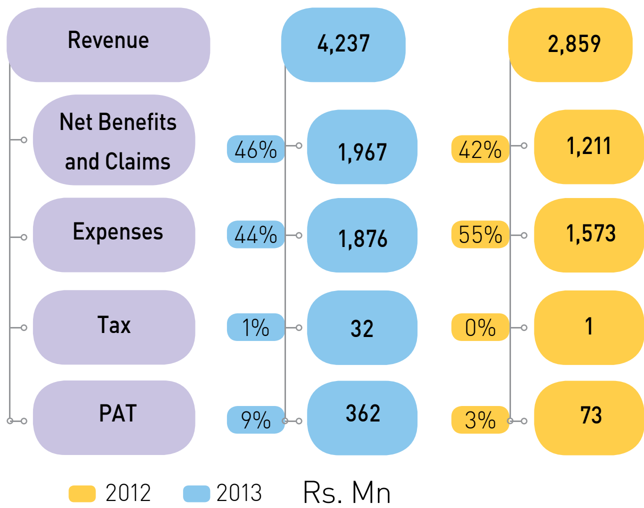
Determined as per section 25 (1) of the regulation of insurance Industry Act, No.43 of 2000 and the Determination made by the IBSL in terms of the said Act.

	2013 Rs.'000	2012 Rs.'000
Non Life Insurance Business		
Approved assets maintained in Non Life insurance Business	818,428	661,080
Technical reserve	781,103	592,088
Approved assets in excess of the technical reserve	37,325	68,992
Approved assets as a % of the technical reserve	105%	112%
Required ratio	100%	100%
Life Insurance Business		
Approved assets maintained in Life insurance business	3,952,102	3,170,510
Life Insurance fund	3,746,464	2,904,345
Approved assets in excess of the Life insurance fund	205,638	266,165
Approved assets as a % of Life insurance fund	105%	109%
Required ratio	100%	100%

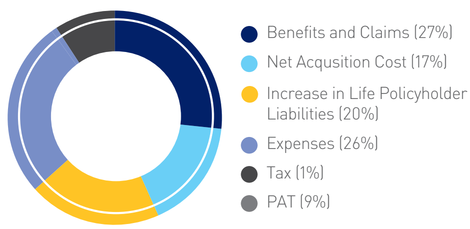
SOLVENCY RATIO



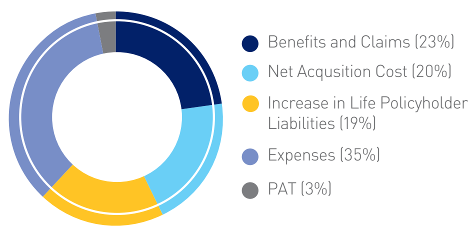
Graphical presentation of the statement of income



COMPOSITION OF REVENUE AND EXPENSES 2013



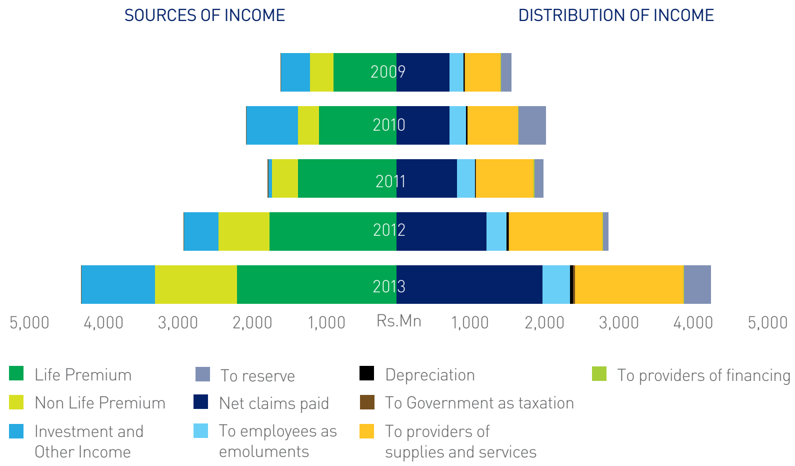
COMPOSITION OF REVENUE AND EXPENSES 2012



Contribution to the National Economy

Source and distribution of income

Source of income	2013	2012	2011	2010	2009
Life Premium	2,138,666	1,707,103	1,321,556	1,037,936	843,499
Non Life Premium	1,101,693	685,393	347,578	277,860	312,552
Investment income	990,793	461,740	50,342	693,023	391,695
Other	5,771	4,436	9,915	7,748	7,111
	4,236,924	2,858,672	1,729,391	2,016,567	1,554,857
Distribution of income					
Net claims paid	1,966,545	1,211,141	818,502	718,381	719,508
To employees as emoluments	371,972	271,861	241,853	222,189	186,533
Depreciation	37,611	30,727	8,325	19,407	16,448
To Government as taxation (Including deferred tax)	31,802	1,410	3,721	2,568	2,329
To providers of supplies and services	1,454,089	1,263,615	777,321	673,878	477,647
To providers of financing	12,569	6,627	7,398	12,136	7,614
To reserves	362,335	73,290	(127,729)	368,008	144,778
Total	4,236,923	2,858,671	1,729,391	2,016,567	1,554,857



Economic Value Added (EVA)

This is a measure of profitability based on the total invested equity and provides an accurate indication of true economic value generated by the company as opposed to accounting profits.

For the year ended December 31	2013 Rs.'000.
Invested equity	
Shareholders' funds	1,831,694
Earnings	
Profit after tax	362,335
Cost of equity (based on 12 months weighted average Treasury Bill rate plus 3.5% for the risk premium)	14.12%
Cost of average equity	258,635
Economic value added	103,700

Investment Review

Company

The company recorded exceptional gains during the year, in a scenario where both its fixed income and equity portfolios outperformed respective benchmarks by a significant margin. Active trading of its portfolio, which began in 2012, was continued in to 2013, and accurate forecasting of interest rate trends allowed the company to further boost its investment income as a result of continued volatility in the yield curve. Further, the restructuring of the equity portfolio yielded excellent results, wherein investment income from the equity portfolio far exceeded the ASPI growth for the year.

Active management of the bond portfolio proved beneficial to the bottom line of the company for the year 2013, as an environment of fluctuating rates in the range of 150 to 250 basis points allowed the Treasury to take positions based on accurate forecasting on Fixed Income Securities (FIS) based on said fluctuations, and assisted in reaping the benefits of an actively managed FIS portfolio. The year also witnessed tax benefits granted via the budget to listing done during the year, and as a result, the market witnessed listing of Corporate Debt in the Stock Exchange. The company took full advantage of this development and maximised its stake in corporate debt and the resultant income further boosted the bottom line.

The equity portfolio continued to be bullish on investments in the financial services, whilst other investments were disposed off during the year and funds shifted to FIS in order to achieve a higher combined investment income. The remaining equity portfolio performed admirably, achieving over 20% returns for the company through both dividend income and increasing market prices, and it is envisaged that the existing portfolio will continue to perform well in 2014 as well.

Composition of funds

The composition of the funds was monitored on the basis of the respective portfolios and the shareholders' funds, wherein the previous year a capital base was created for the Life fund. This was a pre-empted move by the Management and the Board to comply with the Insurance Board of Sri Lanka (IBSL) regulations, which require a splitting of companies in to separate classes and each class to be supported with a minimum share capital of Rs.500 mn. As such, in the context of investment and for the purpose of monitoring performance of each fund, the composition is as follows;

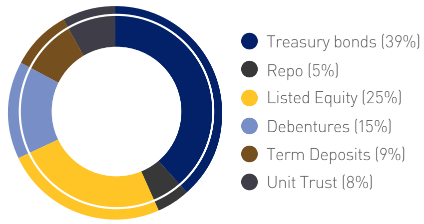
- Life Portfolio
- General Portfolio
- Life Shareholders Fund
- General Shareholders Fund

Life portfolio

The Life Fund as a result of having higher quantum of funds available in FIS was able to take full advantage of the fluctuating yield curve during the year. The rate volatility witnessed at different stages in 2013 allowed the fund to maintain returns significantly over budgeted yields, through capital gains on trading in addition to both interest and discounts. Investment in listed corporate debt was maximised during the year as a result of aforementioned tax benefits being granted to new listings from 2013 onwards. Additional funds were routed to maximise investments in deposits, unit trusts and unlisted corporate debt in order to continue diversification and improve and maintain yields of the funds in line with IBSL guidelines.

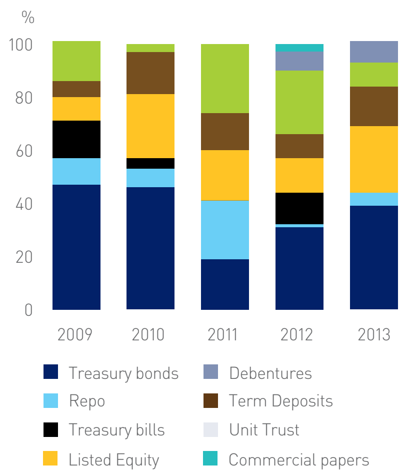
Equity investments of the fund performed admirably to achieve above budgeted returns for the life division, with the restructured portfolio bearing fruit during the year.
The view taken by the Investment Committee to be bullish on the financial sector aid rich dividends, as witnessed by the boost to the bottom line. The asset mix at year end is as follows;

ASSETS - LIFE FUND 2013



The fund grew by 33% due to steady growth of GWP and performance of its investment portfolio, and as a result of above mentioned strategies undertaken by Investment Committee and the Treasury, investment income increased by 51%. The growth in the fund base is shown below;

5 YEAR BREAKDOWN OF ASSETS - LIFE

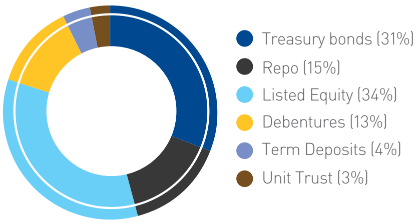


Investment Review

Non Life portfolio

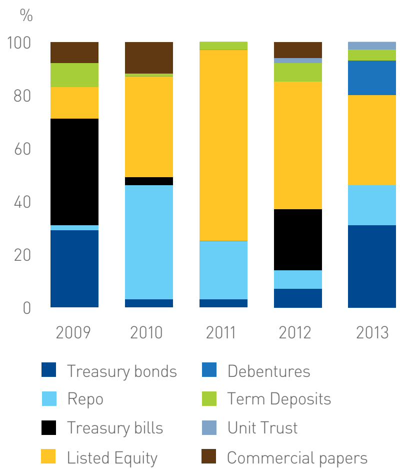
Continued diversification of the FIS portfolio together with active management of the fund resulted in increased returns for Non-Life operations. The equity portfolio continued to be restructured during the year, and excess funds transferred to FIS. In addition, investments in equity were made in fundamentally sound equity investments, which in turn outperformed ASPI for the year. As mentioned, investment in corporate debt was increased to take advantage of attractive rates and tax benefits granted by the fiscal policy. The asset mix of the fund is as follows at year end;

ASSETS - NON LIFE FUND 2013



The investment base grew on the back of continued growth of the Non-Life business, and recorded a growth YoY of 17%, with an impressive growth of investment income of 146% as a result of restructuring both the equity portfolio as well as the FIS portfolio. Growth of the investment base can be seen below;

5 YEAR BREAKDOWN OF ASSETS - GENERAL



Forecast

The Road Map of the Central Bank points to a low interest rate regime being maintained for the coming year, which though beneficial to economic activities and boosting trade, provides lesser opportunities for the increase of investment income. However, notwithstanding the macro level triggers, global triggers such as the tapering of the FEB buyback programme and its effects on the global currency and FIS market and in turn the local market should be taken note of. Treasury is poised to maintain an attractive rate of return to both the company's policy holders and shareholders, and remains committed to maximising returns within the guidelines of the Investment Policy through close monitoring of aforementioned macro factors and Central Bank action taken during the year in terms of policy decisions.

Company's Brand and Evolution

The Evolutionary Path to the Business of Protection

In December of 1999, Asian Alliance Insurance made its presence known in the Sri Lankan insurance industry. We understood that insurance was a new concept to the local consumers who were just beginning to understand how their lives and those of their loved ones could benefit from it. However, their apprehension towards the category made it important for us to be painted in the light of one of their own, someone they could trust – 'A True Sri Lankan Company'.

As the market evolved and the offerings on insurance began to take on a more personalised path into the lives of the consumer, we too believed the time for change had come. In 2003 we offered our customers 'Tailor-made Insurance Solutions' that released them from the bond of paying for privileges they did not intend on using.

As we grew, strength to strength, a mere two years later we established ourselves as the 'Professionals in the Insurance Industry.' We made claims that we were certain and proud to stand by – claims that we were the best in terms of offering precision, care, decision making and support systems to our loyal customers.

Three years later, in 2008, having acquired a substantial amount of customers who depended on our products and solutions to shape their everyday lives and future decisions we decided to make yet another bold statement, another firm step ahead. The new campaign titled 'Partnerships Based on Professionalism' was designed to make the professionals and ultimately the decision makers feel like they were more than just customers who paid premiums on policies – but also partners whose thinking and progress would help define how we crafted solutions for them.

Before we knew it, we were 'Celebrating 10 Years of Being Reassuringly Different'. We had earned a decade of trust through relationships that we had worked on tirelessly. On one end, our relentless efforts had made us a power to be reckoned with and on the other end we realised that with our first 10 years done, our journey had just begun.

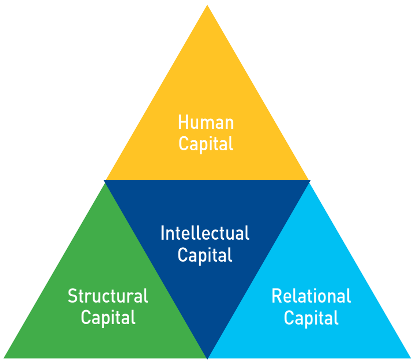
Today 'We are in the Business of Protection' and we have been since 2011. It's a business that more and more consumers are finding important to them and relevant to their ways of life.

Intellectual Capital

For a company to achieve great success, focus on physical capital is not the sole contributor. The intellectual capital of the company also plays a vital role in driving the company towards success. As a company, we always try to strike a balance between our physical and intellectual capital.

At Asian Alliance Insurance, we believe that success of our organization depends on creating, discovering, capturing, disseminating and measuring knowledge. Therefore, we invest in enhancing organisational learning to increase knowledge of our employees that will boost the intellectual capital of the company. Components of intellectual capital consist of human capital, structural capital and relational capital.

The Company defines learning as ongoing, never ending and always changing.



Human Capital

Under human capital, we categorize knowledge, skills, experience and attitude of the workforce to separately identify the level of each variable on an employee wise, department wise and as well as company wise basis.

The company has invested on a continuous basis to enhance the knowledge of the work force by motivating them to sit for insurance examinations. In addition to that, various competency programmes are available for employees to improve their skill in the area of their work. Driving the workforce towards achieving company goals is a hard task to achieve, but the company has been quite successful in this by leveraging on motivational training programmes conducted through the year and by building team spirit within the company.

The sales staff of the company undergoes training and development programmes on a continuous basis to maintain the high levels of competency, since the sales staff are the face of the company contribute to create the initial impression about the company on customers.

Structural Capital

Structural capital consists of supportive non physical infrastructure, processes, organizations image and systems that enable employees of the company to function with a high degree of efficiency. The company has invested on systems and processes to reduce the manual work in underwriting and maintain high level of operational efficiency to deliver satisfactory service to customers.

To reach the fullest potential in intellectual capital, it is vital to maintain high integration between human capital and structural capital. The company was able to develop this integration through investments in state of the art technological systems, for example, Oracle E Business Suite.

As a company with strong structural capital we have a supportive culture that allows individuals to try, fail, learn and try again. This has created a working environment within the company where every employee is working to their maximum potential with a high level of motivation.

Relational Capital

This demonstrates the company relationship with customers, suppliers and communities. Relationship with these external parties can only be managed, they cannot be controlled. Therefore, to improve our relationship with parties, we look outside the company boundaries to build trust with customers, suppliers and community.

As a service oriented organization our key focus is on relationship marketing. The sales staff is well trained on a continuous basis to improve skills in relationship marketing. This marketing method enables the company to improve sales through cross selling and referrals.

In addition to this the retention rate of the company is maintained at the upper end of the industry standard.

We have maintained longstanding relationship with our suppliers that give us the opportunity to reduce the cost per policy and enable us to transfer that saving to policyholders.

Most importantly, the company was able to maintain the integration between human capital, structural capital and relational capital since integration is vital to deliver best in class service to customers and ultimately to enhance the company value.

Human Capital

- Promote participation in insurance examinations,
- Technical skill development programmes and trainings,
- Motivational lectures,
- Leadership development.
- Recruit develop and retain staff with required skills.

Structural Capital

- Investment in ERP system. e.g. Oracle E-Business Suite
- Implementation of HR system,
- Development of a system to gain real time disaster information which strengthened underwriting capacity,
- Mobile application for motor assessors to upload information with regard to accidents.

Relational Capital

- Carried out customer survey and obtained feedback,
- Fully fledged 24 hour call centre,
- Accident on site cash settlement,
- Ensure transparency in every aspect of the business,
- Focus on relationship marketing.

Sustainability Approach

I am proud to state that along with recording strong economic sustainability, we are now well poised to strike the right balance between this and social, employee and environmental sustainability goals for the company.

CEO's Message

I am happy to apprise our valued stakeholders on the occasion of the inauguration of our first comprehensive sustainability report, in accordance with the global GRI principles. Over the last year we have made a very productive effort to put our systems and processes in place to cement our commitment to sustainability throughout the entire value chain. The company believes that it has an obligation to create value for the greater good and we continually invest in our products and services to offer a better value proposition to our customers. Although the overarching sustainable concept of protection is our founding pillar, it is with excitement that we embark on this journey of sustainability to fulfil and exceed stakeholder expectations, which offers us just the right kind of challenge and opportunity to infuse agility and dynamism into the system.

Our Challenges

One of the greatest challenges for AAI has been to up skill, reward and retain our key personnel, so that employees can see the business safely beyond the insurance split scheduled for 2015. Towards this end, we have set in motion a plethora of training programmes, opportunities for learning and enhanced technical knowledge, better remuneration levels and an employee recognition scheme to ensure our employees feel appreciated and valued by the company.

We expect high attrition levels will be one casualty of the new insurance regime although uncertainty still prevails on expected market conditions in 2015. We are preparing our greatest asset – our employees – to be equipped for any eventualities through an array of initiatives that will give the company first mover advantage.

I am proud to state that along with recording strong economic sustainability, we are now well poised to strike the right balance between this and social, employee and environmental sustainability goals for the company. Our investors, Messrs. FMO - NETHERLANDS FINANCEIERINGS - MAATSCHAPPIJ VOOR ONTWIKKELINGSLANDEN N V and DEG - DEUTSHE INVESTITIONS UND ENTWICKLUNGSGSELLSCHAFT MBH, espouse an abiding sustainability agenda and we consider ourselves to be privileged to have such global institutions nurture our sustainability agenda.

Your Company is on an upward growth trajectory and by documenting ethical operations in accordance with the triple bottomline principles enables us to adopt an integrated approach to running the business that reduces any negative impact of our operations on any of our sustainability criteria.

This year's annual report is based on the Global Reporting Initiative (GRI) Reporting Framework G 3.1 Application Level B+ for sustainability reporting. We are committed to enhancing the quality of reporting with every passing year and have already identified gaps for which we will develop sustainable strategies.

We take pride in our progress and always remain in the pursuit of setting higher benchmarks for the company. I would like to thank all my colleagues at AAI as well as our stakeholders for partnering us on our journey towards continued sustainability.

Ramal G Jasinghe
Director / Chief Executive Officer

Company Profile

Asian Alliance Insurance PLC

Asian Alliance Insurance PLC commenced operations in December 1999; today the company has grown from strength to strength to become one of Sri Lanka's leading players in the insurance industry. The company caters to a clientele that consists of corporates and individuals. There are 618 employees in the company. It operates a network of 29 branches located strategically across the island consisting of 19 regional distribution offices, 8 divisional offices and 2 stand alone branches for non life sales.

The Company primarily operates in Sri Lanka. The operating locations within Sri Lanka are given on operational footprint page 10. The headquarters of the company is situated at 7th Floor, Millennium House, 46/58, Nawam Mawatha, Colombo 02,Sri Lanka. The organization is a Public Limited Company registered under the Companies Act No 7 of 2007, Sri Lanka.

Asian Alliance Insurance is ranked 5th in Sri Lanka's Total Life Premium market (source: IBSL Annual Report 2013). Fitch Ratings Lanka Ltd, has assigned a BBB+(lka) Rating to Asian Alliance Insurance based on the performance and internal processes. The rating underscores Asian Alliance Insurance's claims paying ability (CPA), based on the soundness of the Company's operations and financial strength. The secret behind the Asian Alliance Insurance success story lies in its ability to offer tailor-made life insurance solutions to its customers.

Asian Alliance Insurance PLC provides various life and non-life insurance products and services to corporate and individual clients in which is discussed in page 46-56. The company's life insurance products include family healthcare plans, retirement plans, children plans, loan protection plans, group life plans, and individual protection against accidental death and disability. Its non-life insurance products comprise of motor, medical, burglary, travel, professional indemnity, fire and marine, hull, fidelity guarantee.

Every employee at Asian Alliance understands the high levels of professionalism expected from them. They realise and respect the fact that each and every individual is unique. Asian Alliance is a truly Sri Lankan company. A national flag is proudly displayed on the table of every staff member. This symbolizes the Asian Alliance identity and values and it stands testimony to our strength as a group of people committed together as one team, one family.

Providing policyholders free access to the world's 5,000 Best Doctors and several unique packages, including the only individual medical cover offered locally, that covers up to Rs. 2 Mn, are part of Asian Alliance Insurance PLC's (AAI) strategy for large-scale expansion in the health insurance sector, the Softlogic Group-owned company, revealed recently.

Some of the significant changes regarding structure in the company during the period under review were the appointments of Mr. T.M Iftikar Ahamed as the Managing Director and Mr.Jatinder K. Mukhi & Mr. Johannes W.H Richters as two Non-Executive foreign directors.

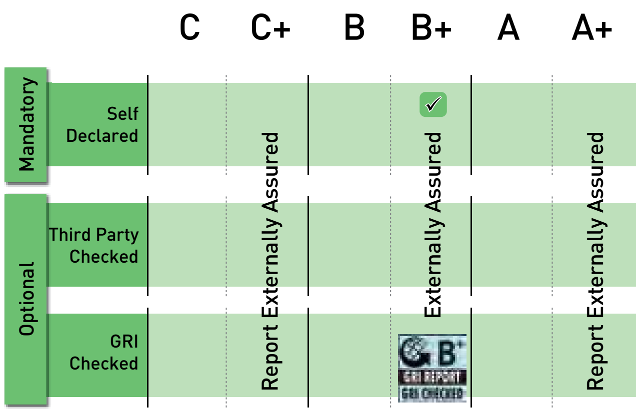
Reporting Sustainability

Reporting Period

Our Sustainability Approach (report) strives to present a comprehensive view of Asian Alliance Insurance's commitment and performance on the triple bottom line approach of economic, environmental and social aspects of the Company's operations for the year ended 31st December 2013. Our initial comprehensive sustainability review was published in 2004 and since then, we have strived to improve our analysis and be more inclusive in our approach to our stakeholders with every passing year. The most recent report was published in February 2012, covering the performance of year 2012. It is our resolve to prove our commitment to sustainability as an integral component of the Annual Report.

Sustainability Reporting Framework and Guidelines

This review is based on the Global Reporting Initiative (GRI) Reporting Framework G 3.1 application Level B+, which is the generally accepted guideline for sustainability reporting.



Defining Report Boundary

This report covers the operations of the company and is compiled in accordance with guidelines laid down by GRI – G3.1

Issue of Materiality: As outlined in the GRI guidelines, the Company recognizes the importance of the materiality concept in the process of reporting our sustainability performance. Materiality is defined in relation to the financial performance, balance sheet values and impact on the stakeholder's interest. The report details economic, environmental and social performance that would significantly influence the assessment and decisions of our stakeholders.

Sustainability Approach

Stakeholder inclusiveness: The Company recognizes that it is compelled to define strategic and key stakeholder groups to ensure materiality in engagement and reporting. Therefore, the Government, the economy, customers, suppliers, employees, environment and community are recognized as key stakeholders.

Sustainability content: This Report presents the company's performance in the wider context of sustainability from the triple bottom line pillars of Prosperity, People and Plant. Inherent in the triple bottomline concept is that all stakeholders - from employees to community, customers to valued business partners, shareholders to the nation at large become a part of the sustainability journey of Asian Alliance Insurance. The report is committed to presenting a truthful and objective analysis of both positive and negative aspects of the Company. This is done so that all our stakeholders are able to gain a comprehensive view of our policies, interactions and processes. The report serves as a tool for us to critically examine our strategies, identify obstacles and strive to smoothen these out.

Comparative information: The Sustainability Report for the financial year 2012 does not, strictly adhere to the guidelines of the GRI. However, this report strictly conforms to the requirements of GRI. The report presents key performance indicators with comparative information for the previous year.

Specific limitations and reporting

Asian Alliance Insurance is a service provider; hence some of the GRI indicators are not applicable. Whenever an indicator is not reported or not applicable or immaterial it is provided in the GRI index with respective reasons.

Standard disclosures in the report

Strategy and Profile: In this section, we provide a high level strategic view of the Company's engagement with sustainability in order to provide context for understanding the Company's performance, such as its strategy, profile and governance.

Management approach and performance indicators: Information in relation to economic, performance has been extracted from the audited financial statements while other internal information has been obtained from the Company.

Independent assurance

Asian Alliance Insurance has recognize the importance of obtaining an independent assurance on the Sustainability Approach (report) from a competent professional firm.

Accordingly, the Company appointed M/s KPMG as independent assurer to the Sustainability Report of 2013, whose assurance report is enclosed in Pages 74 and 75 of the annual report. The Auditors review engagement was carried out in accordance with the Sri Lanka Standard on Assurance Engagements (SLSAE 3000)

Stakeholder feedback form

As organisation devoted to sustainability, we would like to receive your comments/queries and recommendations regarding the company's sustainability activities. If you wish to communicate with us, please fill the "Stakeholder feedback form" given in page 295 and return the page to us.

Contact persons for editorial information

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GRI Statement

Global Reporting Initiative™

Statement
GRI Application Level Check

GRI hereby states that **Asian Alliance Insurance PLC** has presented its report "Statement of GRI Application Level Check" to GRI's Report Services which have concluded that the report fulfills the requirement of Application Level B+.

GRI Application Levels communicate the extent to which the content of the G3.1 Guidelines has been used in the submitted sustainability reporting. The Check confirms that the required set and number of disclosures for that Application Level have been addressed in the reporting and that the GRI Content Index demonstrates a valid representation of the required disclosures, as described in the GRI G3.1 Guidelines. For methodology, see www.globalreporting.org/SiteCollectionDocuments/ALC-Methodology.pdf

Application Levels do not provide an opinion on the sustainability performance of the reporter nor the quality of the information in the report.

Amsterdam, 5 February 2014

B+ GRI REPORT GRI CHECKED

Nelmara Arbex
Deputy Chief Executive
Global Reporting Initiative

The "+" has been added to this Application Level because Asian Alliance Insurance PLC has submitted (part of) this report for external assurance. GRI accepts the reporter's own criteria for choosing the relevant assurance provider.

The Global Reporting Initiative (GRI) is a network-based organization that has pioneered the development of the world's most widely used sustainability reporting framework and is committed to its continuous improvement and application worldwide. The GRI Guidelines set out the principles and indicators that organizations can use to measure and report their economic, environmental, and social performance. www.globalreporting.org

Disclaimer: *Where the relevant sustainability reporting includes external links, including to audio visual material, this statement only concerns material submitted to GRI at the time of the Check on 26 January 2014. GRI explicitly excludes the statement being applied to any later changes to such material.*

Independent Assurance Report

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INDEPENDENT ASSURANCE REPORT TO ASIAN ALLIANCE INSURANCE PLC

Introduction

We were engaged by the Board of Directors of Asian Alliance Insurance PLC (" the Company ") to provide assurance on the following elements of the Sustainability Approach ("Report") for the year ended December 31, 2013:

- Reasonable assurance on the data on financial performance, as reported on pages 81 to 83 of the Report ;
- Limited assurance on key performance Indicators ("KPI") and other information specified on pages 76 to 104 of the Report 2013;

Managements' responsibilities and the criteria applied

Management is responsible for the preparation and presentation of the Report in accordance with the GRI Sustainability Reporting Guidelines as described in page 71 of the Report and the information and assertions contained within it: for determining the Company's objectives in respect of sustainable development performance and reporting, including the identification of stakeholder and material issues, and for establishing and maintaining appropriate performance management and internal control systems from which the reported performance information is derived.

Our responsibilities and compliance with SLSAE 3000

Our responsibility is to carry out a reasonable & limited assurance engagement and to express a conclusion based on the work performed. We conducted our engagement in accordance with the Sri Lanka Standard on Assurance Engagements 3000: Assurance Engagements Other Than Audits or Reviews of Historical Financial Information, issued by the Institute of Chartered Accountants of Sri Lanka.

This Standard requires amongst others that we comply with applicable ethical requirements, including independence requirements, and plan and perform the engagement to obtain reasonable & limited assurance about whether the Report is free of material misstatement.

Summary of work performed

Data on financial performance

A reasonable assurance engagement on financial performance reported on pages 81 to 83 of the Report involves verification that they were properly derived from the audited financial statements of the Company for the year ended December 31, 2013.

Key Performance Indicators

A limited assurance engagement on Key Performance Indicators and other information in the Report consists of making inquiries, primarily of persons responsible for the preparation of information presented in the sustainability report, and applying analytical and other evidence gathering procedures, as appropriate. These procedures included:

- Inquiries of management to gain an understanding of the Company's processes for determining the material issues for the Company's key stakeholder groups.
- Interviews with senior management and relevant staff at group level and selected business unit level concerning sustainability strategy and policies for material issues, and the implementation of these across the business.
- Interviews with relevant staff at corporate and business unit level responsible for providing the information in the Report.

KPMG

- Inquiries about the design and implementation of the systems and methods used to collect and process the information reported, including the aggregation of data into information as presented in the Report.
- Comparing the information presented in the Report to corresponding information in the relevant underlying sources to determine whether all the relevant information contained in such underlying sources has been included in the Report.
- Reading the information presented in the Report to determine whether it is in line with our overall knowledge of, and experience with, the sustainability performance of the Company.
- Visits to selected project sites and branches to review systems and data;

Our conclusion

Based on the procedures performed, as described above, we conclude that

- The data on financial performance, as reported on pages 81 to 83 of the Report 2013 are properly derived from the financial statements of the Company for the year ended December 31, 2013 for which the independent auditors have issued an unqualified audit opinion dated February 13, 2014 on page 181 of this Annual Report;
- Nothing has come to our attention that causes us to believe that the Performance Indicators presented in the Report are not fairly presented, in all material respects, in accordance with the GRI Sustainability Reporting Guidelines as described in pages 76 to 104 of the Report.

Our assurance report is made solely to Asian Alliance Insurance PLC in accordance with the terms of our engagement. Our work has been undertaken so that we might state to Company those matters we have been engaged to state in this assurance report and for no other purpose. We do not accept or assume responsibility to anyone other than Asian Alliance Insurance PLC for our work, for this assurance report, or for the conclusions we have reached.

CHARTERED ACCOUNTANTS

Colombo
February 13, 2014

Sustainability Approach

What sustainability means to Asian Alliance Insurance

Our primary business objective is taking the responsibility of customer's long term risk which our economic and social sustainability ethos has secured. More broadly, insurance business therefore plays a critical role in boosting economic growth and uplifting quality of life, improving living conditions and equitable distribution of wealth.

We believe that sustainability should be a core focus of our business. Hence, we strive to promote a culture where the culmination of insurance should be sustainable growth, which delivers long lasting economic, environmental and social benefits to our stakeholders. Therefore, for Asian Alliance Insurance, sustainability management means minimizing ecological and social risks and thereby causing a positive economic impact, opportunities and continued growth. At the same time, we want to be a model corporate citizen and contribute to an economically stable ecologically responsible and socially just development of our society.

Our approach to materiality

The Company adopts an organic strategy review process that evolves based on the emerging sustainability needs of our stakeholders. In this light, we constantly strive to define our approach to sustainability and are responsive to the fact that the materiality of sustainability issues and our response to them will evolve over time. Our processes include:

- Input from our Risk Management Committee
- Broad-based research and best practices analysis
- Participation in multi-stakeholder initiatives feedback from these processes helped to shape the strategic priorities and key performance indicators against which we are measuring ourselves from 2012.

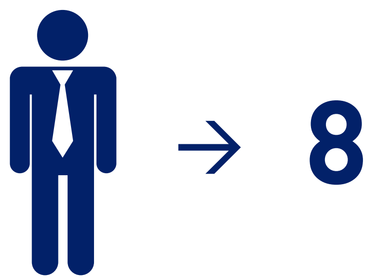
Thus, the materiality assessment process assists the prioritisation of the issues based on their potential impact on our business and their significance to our stakeholders. In turn, this process moulds future strategy development.

CSR committee and charter

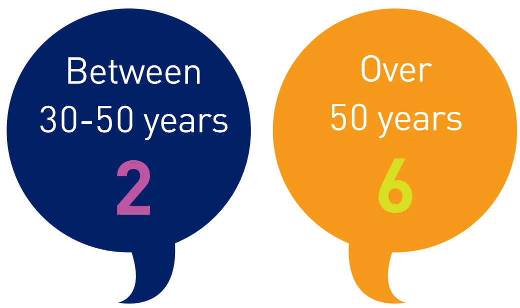
To underscore its commitment to sustainable practices, the Company appointed informal sustainability and CSR committees, comprising of Board nominated members from the Corporate and Exco Members. The Company also appoints executive/operational committees as needed to implement sustainability related activities and CSR projects.

These committees create a valuable platform for debating how corporate goals and strategies can be fused harmoniously with sustainability goals. The committees are tasked with policy development, planning, steering and controlling all sustainability activities and reporting to the Board. The Board along with the committees and senior management reviews the performance and compliance periodically.

> We want to be a model corporate citizen and contribute to an economically stable, ecologically responsible and socially just development of our society.



Our Board by Gender



Our Board by Age

Risk and Governance for Sustainable Business

The Corporate Governance and Risk frameworks play a key role in supporting the operations of the business and provide clear guidance on how authority is exercised within the company.

The Board of Directors is accountable to the shareholders. In contrast to participation in a shareholder-owned company, each shareholder of the organization has an equal voice and vote at our Annual General Meeting, as well as equal opportunity to provide general direction to the Board of Directors.

The Board of Directors is responsible for:

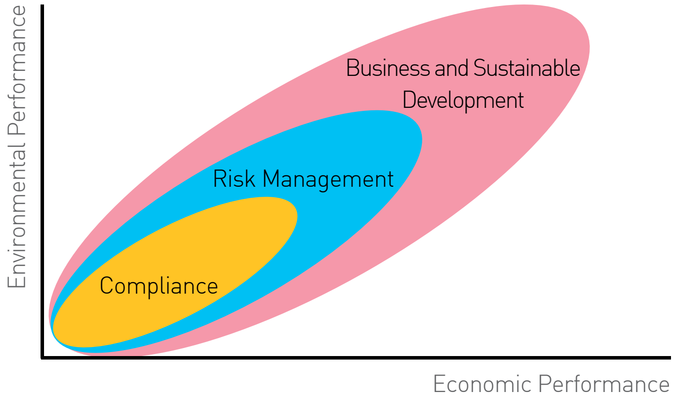
1. Strategic and operational planning
2. Risk management and compliance
3. Financial management and external reporting
4. Promotion of awareness of a risk-based culture and the achievement of a balance between risk and reward for risks accepted.

In keeping with the standards of a democratically operated and transparent organization, there are mechanisms in place for shareholders and employees to submit ideas or provide feedback to the Board of Directors, which include:

- Annual or special general meetings of the companies
- Regional committee meetings
- Quarterly Management Meeting
- Meetings of shareholders and policyholders

The roles of the Chairman and CEO are separate. The Chairman provides firm and objective leadership to the Board. The Board has delegated responsibility for the delivery of the strategy and the day-to-day running of the business to the CEO who in turn has delegated authority to the Executive Committee (Exco).

The Company has established a robust remuneration procedure for Directors and the management to support the strategic aims of a business and enable recruitment, motivation and retention, while also complying with the requirements of regulation.



Our compliance practices and standards to avoid conflicts of interest

We hold the Board and senior management to the highest standards of professional ethics, including the absence of conflicts of interest, by adhering to the Code of Ethics for Insurance Companies (Best Practices) and Employee Code of Conduct.

As an element of the terms and conditions for employment, new hires must acknowledge and agree to comply with our Code of Conduct Statement. This statement serves to remind employees of their obligations pertaining to corporate policies such as harassment, violence in the workplace, health and safety, information security, fraud and privacy.

To aid in the regulation of our business, a Compliance Officer (CO) is in place and this interact with our operational teams to evaluate and implement legislative and regulatory changes as required. A Chief Operating Officer (CCO) is also designated for our company.

Clients are able to report complaints directly to the Ombuds Office. Our internal compliance processes ensure that advisors, broker partners and Licensed Insurance Representatives carry out business in accordance with Government regulations related to licensing, continuing education, and general market conduct.

Performance evaluation of the Board

The success of any business ultimately depends upon the capacity of its directors to provide the vision and direction needed not only to survive, but to develop and prosper. Having recognized this, there is a performance evaluation procedure at AAI where the performance of the Board and its sub committees are evaluated by the Chairman.

Sustainability Approach

Qualifications of Members of the Board

We understand that today's boards need to understand complex issues related to insurance business, actuarial science, accounting, law, stockastic and statistical model and management compensation. The recent financial market crisis has highlighted the need to have high quality board members with integrity, relevant knowledge and expertise.

Sustainability as a Precautionary Approach

We believe sustainability management is an important precautionary approach to economic, social and environmental risk management. The Company applies the precautionary principles mainly from two angles:

- Compliance review with the applicable laws and regulatory requirements.
- Operational policies and procedures.
- Obligation to take anticipatory action to prevent harm of any kind.
- Decisions taken by the company with regard to the application of the precautionary principle should be "open, informed, and democratic" and "must include affected parties".

Compliance Review with applicable laws and regulations:

The Company conforms to statutory guidelines issued by the Insurance Board of Sri Lanka (IBSL), listing Rules of the Colombo Stock Exchange (CSE), and the code of best governance practices issued jointly by the CSE and the Institute of Chartered Accountants of Sri Lanka. The Annual Report informs the regulatory authorities about the company's compliance level of. Operational compliance with the regulation of insurance industry Act under which the Company is established, is supervised by a Compliance Officer.

Operational policies and procedures

The Company has instituted policies and procedures dictated by best practices on risk control in the management of operational risk, market risk and environmental and social risk which serve to impact the sustainability of the company's operations. The company's policies and procedures in this regard are in line with industry and environmental standards and are formulated by the senior management/ management committees and approved by the Board of Directors.

During the year under review, the company underwent review and assessments of various policies, such as social and community participation policy. Further, the company's human resources and staff promotion policies were assessed.

Duty to take anticipatory action to prevent harm

The precautionary principle to reduce environmental and social harm, improve social and environmental conditions and eschew engagement in harmful transaction governs our functioning. Our ethical business model aims to minimize any negative impact of our operations on the company or on its stakeholders. To achieve this sustainability goal, the company has installed a set of sound policies and procedures which monitor our progress.

Decisions applying the precautionary principle must be "open, informed, and democratic" and "must include affected parties."

The company understands that it has to maintain strict transparency as it is accountable to its stakeholders in various aspects of its operations. Apart from adhering to mandatory regulations governing the conduct of a business in the economic, social and environmental sphere, the company reaches beyond these domains to add value to stakeholder lives through its own initiative. By doing so, the company is acknowledging and respecting the rights of stakeholder groups to be protected from any adverse impact of its operations.

Membership in Associations

We actively participate, contribute and share our knowledge with a number of organisations and initiatives, a selection of which is shown below:

- Insurance Board of Sri Lanka (IBSL)
- Insurance Association of Sri Lanka (IASL)
- Sri Lanka Insurance Institute (SLII)
- Colombo Stock Exchange (CSE)
- Financial Intelligent Unit of Central Bank of Sri Lanka (CBSL)
- Institute of Chartered Accountants of Sri Lanka (CASL)

Stakeholders engagement

The Company defines stakeholders as any group or individual who affects or is affected by our activities. Customers, investors, suppliers, employees, community and the environment are our key stakeholders. Since our business is founded on the core tenet of protection, our business philosophy is already closely aligned to engendering sustainability into our DNA. The process of identifying and addressing stakeholder groups concerns has helped us hone our understanding of stakeholder priorities and to respond to emerging stakeholder concerns. We have also factored in risk management into the core of our operations to ensure that a strong sustainability commitment from all levels of the company helps up eliminate vulnerability to lost opportunities due to stakeholder neglect. We have structured a strong stakeholder engagement process that pre-empts, addresses and resolves any concerns, whilst driving closer links with all stakeholders.

The company's stakeholders offer us valuable insights into various aspects of our business such as feedback on our strategies and so on, and to encourage this collaboration further, we engage closely with the stakeholder group. The relationship with our stakeholders is based on the company and the group a like fulfilling financial obligations for a mutually beneficial relationship. This forms a valuable yardstick for the company in the process of identifying stakeholders.

Our sustainability report aims to address the different needs of the stakeholder group which could be in contrast to each other in some instances. By sustaining a strong relationship with stakeholder both indirect and direct, the company is able to offer a 360 degree view of the company's plans and achievements to fulfil expectations of all stakeholders.

Our Stakeholders	Key Expectations / Commitments	Method of engagement and frequency	Our response strategies
Investors	➲ Increased return on Investment ➲ Better interaction ➲ Protect and facilitate the rights and ensure fairness and transparency ➲ Complying with all statutory and regulatory requirements ➲ Ensuring adequate and timely communication	➲ Annual General Meeting (Annually) ➲ Corporate website (All year) ➲ Email access to management team (All year) ➲ Quarterly Reports (Quarterly)	➲ Regular email feedback of performance to investors who request same ➲ Improved website
Customers	➲ Enhancing accessibility to our services to all segments in society in all districts and provinces ➲ Adequate lead time between placing order for goods / services and delivery date ➲ Satisfaction ➲ New products to meet the evolving needs	➲ Meetings (As required) ➲ Daily interactions at customer Centres ➲ Complaint Box(All year) ➲ Corporate website (All year) ➲ Customer Forums (As required)	➲ Customer Call Center ➲ Systematic upgrading of extension offices to customers centres to provide better service

Sustainability Approach

Our Stakeholders	Key Expectations / Commitments	Method of engagement and frequency	Our response strategies
Employees	• Ensure a healthy work life Balance • Provide a rewarding career • Build ownership by engaging employees in our business	• Branch managers conference (Quarterly) • HR ISYS system provides end to end solution (daily) • Emails (daily / weekly) • Intranet (daily) • Staff gatherings (need basis) • Open door policy for communication throughout the organization (Daily) • Evaluation based on Balance Score Card (Annually) • External Evaluation "Great Place to Work" is a global research, consulting and training firm (Annually)	• The system was modified to allow access through the internet on a 24 x 7 basis from any location at the user's convenience • Maintaining diversity and providing equal opportunity
Environment	• Manage Carbon footprint	• Carbon footprint (Annually)	• Recycling of used items • Green building and eco friendly practices • Funding for Horton Plains – distributing eco friendly bags
Suppliers	• On time settlement of invoices (in line with agreed terms) for services provided / rendered • Implementation of a procurement procedure with internal controls and decision making based on market information in a transparent and fair manner for all qualified and registered suppliers	• Equality when selecting • Registration of Suppliers (Annually)	• Appointment of committees to address supplier issues • Workshops on sustainable business practices and guidance on implementation
Community	• Improve the welfare of the community by supporting health and safety related community activities which vary based on geographic location / priorities in the area	• Sponsorships (Need basis) • Employee involvement in local community projects (Need basis) • Identify Customer need through Customer Care Centre (CCC) unit (All year)	• Leverage IT to minimize impact on environment • Health awareness programmes • Blood Donation programme • Sponsorships for Harley Owners' Group Charity Tour of Sri Lanka • Mahabimani Sponsorships Project • School Certificate Sponsorships Project

PROSPERITY

Our goal is to serve as broad a range of customers as possible, serving their different needs in the interest of Insurance whenever and wherever they desire. We make our financial services accessible to all, regardless of economic standing, ethnic origin, disability or other factors.

Our approach

Our Mission is to provide financial security for Sri Lankans and their communities. We are one of the fastest growing financial services employers in Sri Lanka. Operating in locations across the country, we provide job opportunities from coast to coast. A significant portion of our operating expenses is comprised of taxes. In addition to job creation and taxes, we contribute to building a strong economy through investments and supplier purchases.

We provide peace of mind to our clients, who know that their insurance needs are covered in the event of a loss. As a responsible and values-based financial services provider, we follow conservative investment management practices to ensure the stability of our business. Our goal is to serve as broad a range of customers as possible, serving their different needs in the interest of insurance whenever and wherever they desire. We make our financial services accessible to all, regardless of economic standing, ethnic origin, disability or other factors. This includes both tools and technologies that facilitate access to companying services.

We use our products and services as well as our network and our core competencies to provide greater access to Insurance services. This creates a competitive advantage for the Company and stimulates demand for our Insurance services.

FINANCIAL INDICATORS

DIRECT ECONOMIC VALUE CREATION (EC1)

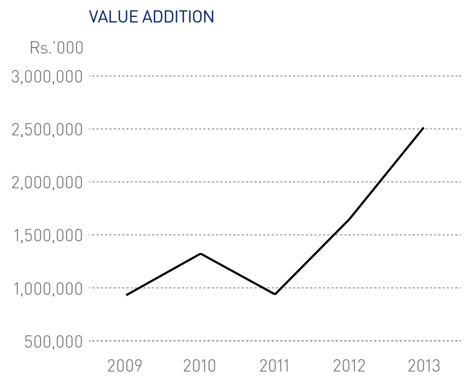
The Value Addition shows the total wealth created and how it is distributed, taking into account the amounts retained and reinvested in the Company for the replacement of assets and for expansion programmes.

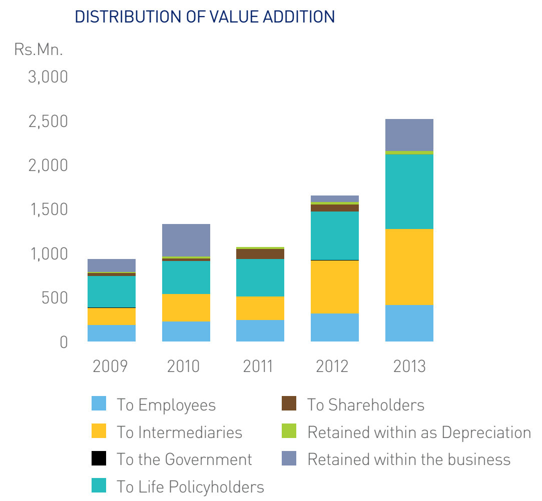
The value creation for each stakeholder group is discussed below.

Value Addition and Distribution (Rs.'000)	2013	2012	2011	2010	2009
Net Earned Premium	3,240,359	2,392,495	1,669,134	1,315,796	1,156,051
Other Revenue	996,564	466,175	(10,245)	700,771	398,806
Reinsurance Commission Income	103,294	95,503	119,315	65,286	66,884
	4,340,217	2,954,173	1,778,204	2,081,853	1,621,741
Net Insurance benefits and claims	(1,124,426)	(659,802)	(394,847)	(349,424)	(363,081)
Cost of External Services	(702,251)	(646,940)	(444,865)	(409,376)	(327,801)
Value Addition	**2,513,540**	**1,647,431**	**938,492**	**1,323,053**	**930,859**

Sustainability Approach

Value addition and distribution (Rs.'000)		2013		2012		2011		2010		2009	
To Employees	Salaries and other benefits	**412,291**	**16%**	315,626	19%	241,853	26%	222,189	17%	186,533	20%
To Intermediaries	Insurance Commission	**855,829**	**34%**	596,641	36%	260,230	28%	308,319	23%	190,987	21%
To the Government	Taxes	**3,355**	**0%**	4,810	0%	4,411	0%	3,673	0%	4,388	0%
To Life Policyholders	Increase in insurance Provision - Life	**842,119**	**34%**	551,339	33%	423,656	45%	368,957	28%	356,427	38%
To Shareholders	Dividends paid	**-**	**0%**	75,000	5%	112,500	12%	32,500	2%	31,298	3%
Retained within the business	Depreciation	**37,611**	**1%**	30,727	2%	23,571	3%	19,407	2%	16,448	2%
Retained within the business	Retained Reserves	**362,335**	**14%**	73,290	4%	(127,729)	(14%)	368,008	28%	144,778	16%
		2,513,540	**100%**	1,647,433	100%	938,492	100%	1,323,053	100%	930,859	100%





Value allocated to our customer

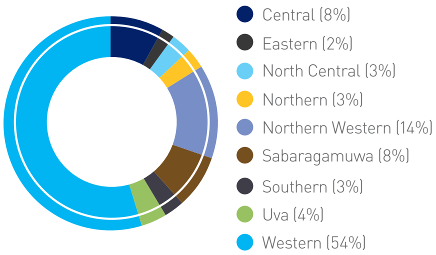
The Company's fulfils its promise of ensuring diversity by catering to all socio-economic and geographic segments from the outset. Our focus on the SME and Micro segments of the market remains unwavering since our inception. We take pride in helping to enrich and improve quality of lives of customers in this segment.

Our product portfolio (FS 6)

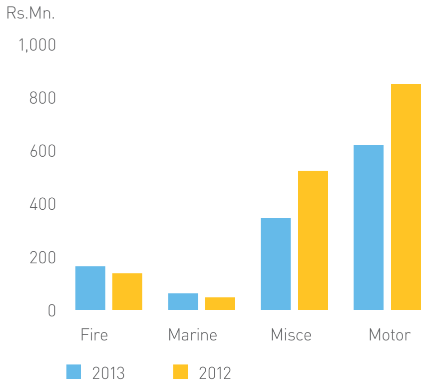
Gross written premium by specific region 2013

GWP by Province wise (Rs.'000)	Non Life	%	Life	%
Central	58,613	4%	201,386	8%
Eastern	10,780	1%	61,631	2%
North-Central	1,910	0%	78,939	3%
Northern	2,099	0%	76,663	3%
Northern Western	40,731	3%	336,748	14%
Sabaragamuwa	8,340	1%	210,853	8%
Southern	32,821	2%	72,855	3%
Uva	789	0%	108,407	4%
Western	1,400,303	89%	1,372,801	55%
Grand Total	1,556,386	100%	2,520,283	100%

GWP BY PROVINCE



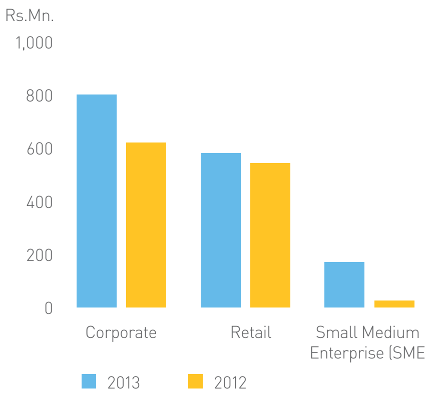
GROSS WRITTEN PREMIUM - NON LIFE



Gross written premium by sector - Non Life

GWP category (Rs.'000)	2013	2012
Corporate	803,066	621,483
Retail	581,802	544,235
Small Medium Enterprise(SME)	171,518	24,673
Grand Total	1,556,386	1,190,391

GROSS WRITTEN PREMIUM BY SECTOR



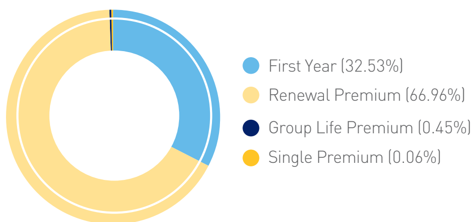
Gross written premium by class

Non Life -GWP (Rs. 000)	2013	2012
Fire	137,271	162,902
Marine	45,535	61,291
Misce	523,507	346,495
Motor	850,073	619,704
	1,556,386	1,190,392

Gross written premium - Life

Life GWP (Rs. '000)	2013	2012
First Year	819,837	678,745
Renewal Premium	1,687,633	1,338,800
Group Life Premium	11,269	11,794
Single Premium	1,543	4,744
	2,520,283	2,034,084

LIFE GWP COMPOSITION



New business growth

Our customer value base has increased in the year 2013 Life by 21%. Substantial earnings were achieved from new business in SME Non Life, marking a growth of 595% (2013 - Rs. 171,518, 2012 - Rs. 24,673). Growth is measured on the basis of the premium received from new business.

Type (Rs.'000)	2013	2012
Life	819,837	678,745

21% Life New Business Growth

New products for the year 2013

Asian Alliance Personal Protection

Target market

Asian Alliance Personal Protection policy provides financial support in the event of the policyholder becoming unable to work because of unforeseen accidental injury.

Special features

Coverage for the policy holder for Death and Permanent total disablement due to accident is Rs.1Million. This policy includes funeral expenses for immediate family members and the hospitalization cash grant for the policy holder in the event of accident or sicknesses.

Asian Alliance Child Protection

Target market

This policy covers accidental death and total permanent disablement of parent or guardian whilst protecting income benefit to the child, accidental benefit to the child and hospitalization benefit for the child in the event of an accidental injury or sickness is covered in the policy.

Special features

This policy covers accidental death and total permanent disablement of the parent or guardian whilst protecting the income benefit to the child, accidental benefit to the child and hospitalization benefit for the child in the event of an accidental injury or sickness is covered in the policy. Critical Illness cover for 10 specified illnesses is subject to a waiting period of 90 days from the commencement of cover up to the event limit.

Asian Alliance Health Card

In 2013, a new 'Health card' product was introduced. The Life card is called AAA+ Card and the Non Life Card is called the Asiri Alliance Card.

Now, customers can directly make their claims and minimize delays. These healthcare benefits underscore our commitment to offer protection to customers from long term harmful risks.

We have a range of tailor-made insurance solutions to meet the needs of individuals and commercial segments.

The product responsibility section on Page 97 of the report provides more details on how the company succeeds in creating value for its customers.

Value allocated to our investors

Our strategic approach

Our long term vision for the company is driven by the loyalty and trust placed by the shareholders in the company. Responding to their faith and confidence in the company, we ensure that the company strikes the perfect pitch between our achieving our vision and enhancing shareholder wealth, thereby delivering to our shareholders the secure promise of high returns on investment whilst fulfilling their expectations. Further, we are also mindful of the social, economic and environmental imperatives we need to engage in to demonstrate our corporate stewardship. The three pillars of economic, social and environmental sustainability define our company's vision and mission, and drive our every effort to create a sustainable organization.

The Company is committed to delivering and maximizing shareholder value, which continuing to strive towards achieving the Company's objectives.

The progress achieved during the year in respect to commitments to our investors are summarized in the table below.

Area	KPI - 2013	Growth
Return on investment	Growth in GWP	**26%**
	Profit After tax	**394%**

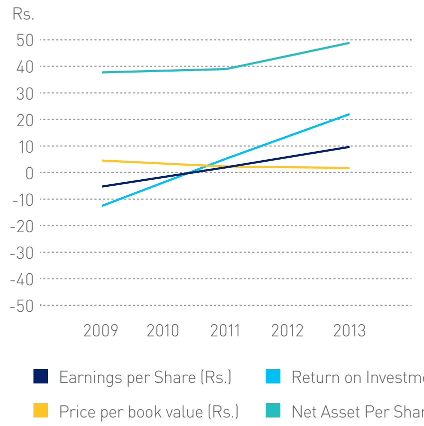
To ensure sustainable growth of the business the following initiatives were taken,

- Continued reinsurance arrangement with established reinsurance with at least +BBB credit and Financial Strength rating
- Implementing robust internal controls and compliance frameworks
- Review and improve risk management framework

	2013	2012	2011
Earnings per Share (Rs)	**9.66**	1.95	(5.28)
Price per book value (Rs)	**1.75**	2.28	4.51
Return on Investment (ROCE) (%)	**22.01**	5.19	(12.55)
Net Asset Per Share (Rs)	**48.85**	38.97	37.73
PE Ratio (No of times)	**8.85**	45.64	(49.85)

Further details provided in the Investment Review page 65

VALUE ALLOCATED TO OUR INVESTORS



Value allocated to our people

The company adds value to its employees through a structured and transparent process of promotions and recruitments to the permanent staff cadre. Our commitment to offer equitable access to our products and services has spurred the opening of new branches at Trincomalee and Vavuniya, whilst reaching out to under-developed regions that lack adequate access to financial and insurance services.

Number of employees promoted in 2013

Division	No of employees
Corporate	11
Life	43
Non Life	12
Total	66

Number of employees recruited in 2013

Year	No of employees
2013	248

All hiring is done locally and the proportion of senior management hired from the local community at significant locations of operation. (EC7)

Value allocated to our intermediaries/field staff

Our Advisors who go out into the field form a crucial segment of the company's operations, as they function as ambassadors of the company when they reach out to potential and existing customers. As our frontline staff, we ensure Advisors are fully equipped with the necessary skills and training to reinforce our reputation by delivering trust and security to customers.

Sustainability Approach

The company offers advanced training and development opportunities to the Advisors whilst facilitating their success with international recognition schemes and precision sales tools and techniques.

Advisor/ Freelance Growth	2013	2012	%
No of Advisors - Life	**965**	736	31%

During the year, Life Advisor staff were strengthened by as much as 31%. This workforce benefited from substantial commissions, incentives and travelling allowances. During the year, Non Life freelance staff numbers declined because most of the freelance staff shifted to Non Life sales permanent cadre, where they receive the same benefits as full time employees of the company.

Investment to improve Training skills of the Sales Force

All advisors and freelance staff receive continuous training through the year. The Table below indicates the number of Field staff who participated in training activities training

Covering Areas	No of Advisors participated
Develop the industry belief	792
IBSL Compliance Requirements	368
Prospecting	296
Making appointments	342
Sales interview (trial)	232
Designing solutions	161
Focus developing market value	114
Introduce leadership skills	148
Business development	292
Recruitment and selection	174
Field coaching	198
Activity monitoring and feed back	102
Performance management	298
Service excellence	164
Total	**3681**

Empowerment of the Sales Force

The company's Life Advisors have been equipped with a motor-cycle and an ipad to provide better precision service to customers.

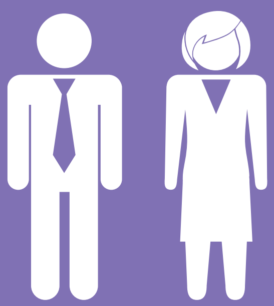
Reward and Recognition exceeds

The annual awards night is one of the most eagerly anticipated events in the AAI calendar and proves to be a motivational tool for sales staff in the company. At this event, the best performing staff are recognized and rewarded for their dedication to exceed their sales targets and for proffering the highest quality service to customers. AAI pays tribute to its high performing achievers every year. In keeping with this, AAI concluded the Sales Convention 2013 awards night on a high note at Water's Edge Hotel- Battaramulla.

High Achievers Felicitated at Sales Convention 2013

Life Advisors who received Motor Cycles

PEOPLE



Employees are the driving factor behind Asian Alliance Insurance's swift ascendancy as one of leading players in the industry.

PEOPLE – CULTURE AND WORK PRACTICES

The specific aspects under the category of labour practices are based on internationally recognized universal standards, including:

- United Nations Universal Declaration of Human Rights;
- United Nations Convention: International Covenant on Civil and Political Rights;
- United Nations Convention: International Covenant on Economic, Social, and Cultural Rights;
- Convention on the Elimination of all Forms of Discrimination against Women (CEDAW);
- ILO Declaration on Fundamental Principles and Rights at Work
- The Vienna Declaration and Programme of Action.

The labour practices Indicators also draw upon the two instruments directly addressing the social responsibilities of business enterprises: the ILO Tripartite Declaration Concerning Multinational Enterprises and Social Policy, and the Organisation for Economic Cooperation and Development.

Our Approach

Employees are the driving factor behind Asian Alliance Insurance's swift ascendancy as one of leading players in the industry. Today, the company possesses one of the youngest and most dynamic insurance teams in the industry. The company has invested in strategic areas to develop and grow talent through a corporate culture of continuous learning. When our employees evidence that we, their employer, is ensuring their career progression and enhancement of skills sets, it sets the stage for power-packed performances by field staff and back office employees. By strengthening their technical and soft skills, it is a mutually beneficial environment for all involved.

In an overriding industry mood of uncertainty, AAI ensured employee morale was boosted by ensuring an optimal work life balance in tandem with training in technical and behavioural soft skills, personal grooming through about 80 training programmes in 2013. Elements such as lateral thinking and faster decision making were stressed upon.

Training and awareness

In 2012, AAI commissioned Randstad India to customize an independent employee satisfaction survey that would measure employee perceptions and offer insights for future reference. Conducted for the first time ever in its 12 years of existence, we were delighted to note that employee participation was very high, at 85%, with employees fearlessly commenting on various factors about the Company and its policies. The survey highlighted the need for strengthening certain areas.

The main objectives to carry out this survey were,

- To build a great workplace for the employees and in due course position the company as an Employer of Choice
- To understand what the building blocks of a great workplace are, how trust can be built in organizations and what the key dimensions of determining trust levels within an organization are.

- To benchmark itself against local and international benchmarks in order to identify areas of strengths and challenges.
- To prioritise areas and design actions plans to leverage current processes and practices.

Further, the company was ranked 4th in 'Best Employer of Choice' in the financial services sector, by a research carried out by the LMD magazine. A special article on the company was featured in the LMD April 2013 issue.

Mentoring programme (LA 12)

In keeping with global best practices in HR, the Balanced Score Card Method is used to monitor the performance of the employees annually. 100% of employees receiving regular performance and career development reviews.

Team Strength and Provincial Distribution

Staff Strength (LA 1,13)

The total staff strength stood at 618 in 2013, which indicates a marginal increase of 11%. The rate of appointment increased to 40% in 2013.

Total Workforce by Employment types

The executive cadre accounted for largest segment during the year at 220, followed by clerical staff of 200, assistant manager levels staff of 186.

Team by employment (No. of Employees)	2013	2012
AGM & Above	12	12
Asst Manager & Manager	186	147
Executive	220	181
Clerical	200	217
Total	618	557

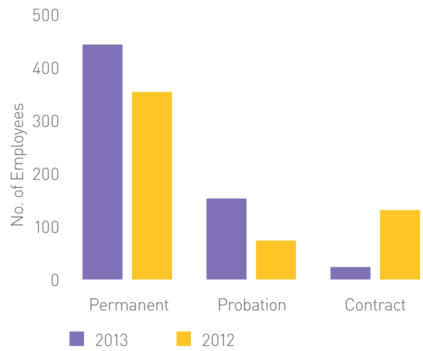
TEAM BY EMPLOYMENT TYPE

Total Workforce by employment contract

Permanent employees accounted for the majority of employees in the company.

Team by employment (No. of Employees)	2013	2012
Permanent	443	353
Probation	152	73
Contract	23	131
Total	618	557

TEAM BY EMPLOYMENT TYPE

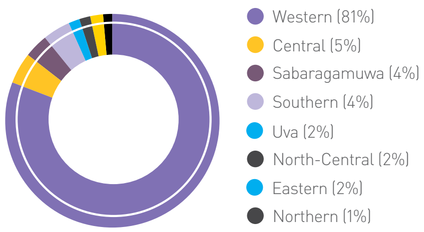


Staff distribution by region

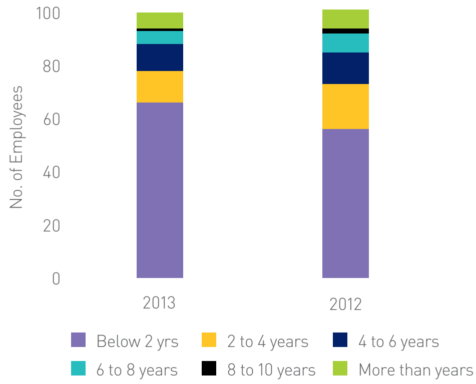
We offer qualified youth from all parts of the company the opportunity to work for the company. The company has made rapid gains in recruiting candidates in the North and East over the last year, who neither to had inadequate access to lucrative job opportunities in the past.

Provincial Distribution of our team (No. of Employees)	2013
Western	500
Central	30
Sabaragamuwa	22
Southern	26
Uva	10
North-Central	11
Eastern	11
Northern	8
Total	618

STAFF DISTRIBUTION



SERVICE EXPERIENCE OF EMPLOYEES



Age wise analysis of employees

AAI enjoys one of the youngest teams in the industry. About 84% of the team is under 30 years of age. During the year, the highest number of appointments took place between the age group of 20-30 years.

Age Category	2013
Under 30	358
30-50	238
Over 50	22
Total	618

Service experience of employees

As a direct result of high employee satisfaction levels, AAI has able to retain 30% of its staff who have been employed with the company for 4 years and more

Service Experience of Employees	2013	2012
Below 2 yrs	**408**	311
2 →= service→ 4	**73**	94
4 →= service→ 6	**63**	67
6 →=service→ 8	**33**	37
8 →=service→ 10	**6**	11
More than 10 yrs	**35**	37
Total	**618**	557

Team remuneration, benefits and turnover

Team remuneration (LA3)

Remunerations levels in the company rose during the year, with the company disbursing Rs. 412 Mn in cumulative remuneration which includes overtime, bonus, medical, gratuity and EPF/ETF amounts. Apart from the competitive remuneration levels offered by the company, attractive benefits are extended to full-time employees.

All full-time staff are eligible for a staff medical scheme which covers staff on a 100% basis comprehensive medical scheme. The full-time staff are automatically covered under a Life insurance scheme. In keeping with its commitment to employee welfare, the company offers a death donation and funeral assistance scheme, in the event of family bereavement.

Further, a bonus is granted biannually to employees. The year marked a significant increase in salaries by as much as 31%. This rise was driven by an increase in the number of permanent staff from 353 in 2012 to 443 in 2013. Interestingly, there was a marked improvement in the number of female recruits endeavour, with 11 (2013 - 227, 2012 - 216) more being inducted into the company in 2013.

Your Company is an equal opportunity employer. The Company's salary scales do not discriminate in terms of gender. Annual pay increments are based on performance. (LA 14)

Sustainability Approach

New appointments employee (LA 2) during the year of 2013

New Appointments	2013
AGM & Above	2
Asst Manager & Manager	43
Executive	120
Clerical	83
Total	248

Occupational health & safety (LA 7)

The company uses tools such as education, training counselling, prevention and risk control programmes to assist workforce, their families and community members regarding various diseases.

Promoting health and well being

Staff medical Plan : The company embarked on an important initiative of providing a staff medical scheme to ensure well being of its employees. The scheme covers all medical, dental and spectacle expenses. It also covers ayurvedic medical care.

Staff welfare scheme

Free donations are extended to employees in the event of family bereavement. By doing this, Staff Life insurance scheme

All employees are insured with a life cover, to offer a sense of security and well being to face the future. The company shoulders the burden of responsibility on behalf of the employee.

Disaster management Training programmes

Non life sales term, non life operational manager, finance and IT managers SM and above underwent training at the Disaster management Training Centre

Occupational Health & Safety	2013	2012
Staff covered by the Medical plan	100%	100%
Occupational injury	0	0
No of occupational diseases	0	0
No of lost day rate	0	0

Engendering a Spirit of Fellowship & Sportsmanship

The company encourages staff to develop cultural and sporting talents as it creates camaraderie and promotes a sense of team spirit among employees.

Annual Get-together

The annual get-together is a highly anticipated day in the AAI calendar and the annual get-together was held at the Galadari Hotel on 13th December 2013. The event was fun-filled and every employee present, from the senior management to clerical staff cherished the evening's proceedings as part of one AAI family.

Dance Floor

AAI Sports Club

AAI Company Cricket team participated in six-a-side match organised by the Sri Lanka Insurance Institute.

Winners of SLII six-a-side Cricket Match

Religious Activities

A Pirith Ceremony was held at Kurunagala Branch organized by it's employees.

Dress-down Day

Last Friday of the month is the designated dress down day and proves to be a great leveller for all staff cadre.

Training and development (LA11)

Talent management

One of the greatest building blocks of our people management performance, the company is passionate about grooming next generation leaders by leveraging on training programmes and by extending greater responsibility. Putting in place succession planning for the team and manager roles to ensure long-term performance.

Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.

Investment in training and development

A total of 58 training programmes were conducted during the year to ensure specific skills were reinforced and emphasized in key staff members.

Overseas training

The company invested Rs. 3 million in overseas training for 8 employees during the year, as compared to 5 employees in 2012. This training provides much needed exposure to key personnel and affords insights into alternative approaches to the same challenges.

Overseas programs 2013

Name of the Training/Seminar/ Workshop/Conference	Investment Value in Rs.
Individual Life Insurance marketing course	284,000
MDRT	435,067
Risk Management Seminar	180,044
Singapore International Reinsurance Conference	407,000
Young Executives	1,494,000
7th Asian CFO Summit	300,682
Total investment for overseas training	3,100,793

Orientation program (SO 3,4,7,8)

Training is conducted once every month for fresh recruits. The two-day training encompasses company, products, policies, various divisions and future goals. All employees are inducted into the Code of Ethics and Code of Conduct as part of the organization's anti-corruption policies and procedures. No complaints were reported during the year under review regarding legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes.

There were no complaints reported during the year under review for fines of any significant monetary value or non-monetary sanctions for non-compliance with laws and regulations.

Training for team building

Cooperation and understanding between staff members forms the pivot for successful outcomes. The company carries out regularly out bound training for strategic team building service. In keeping with this, the executive staff underwent a demanding team building session at the Air Force Auditorium Ratmalana in 2013, which reinstated the valuable qualities of collaboration across different functions in the company.

Nurturing Valuable Resources

Star Awards

The company re-launched 'Star Awards' for high performing employees. Employees who exceed their sales targets and achieve exemplary results receive a citation from the company and have their photograph prominently displayed in the office, thereby offering them recognition and appreciation from the company and their peers.

As a motivational tool for other staff members, the names of the Best Performers for the 1st half of 2013 are displayed at the Head Office

Training on Team Building - Sri Lanka Air Force, Ratmalana

Quarterly management meeting

Employee performance was analysed based on the Balanced Scorecard concept, at a meeting held at the Air Force Museum auditorium on 24th April 2013. Only manager and above levels were eligible to participate.

Staff Congress 2013

The Staff Congress was held with the aim of educating employees on all aspects of the company, in particular, its past, present and future, and to understand how they can play a role in its ongoing sustainability.

Educational Opportunities

A culture of learning pervades the organization, as employees are given various incentives to study for technical chartered insurer status exams. During 2013, 2 staff member achieved Chartered Insurance status. At the Diploma exam in 2013, AAI was proud to have the highest number of employees who completed the diploma successfully. Educational loans are also offered to employees.

Specialized Training programmes

Asiri Alliance Product Training:

Special Training was held at Excel world to enhance knowledge and understanding of the Non Life Sales Force about the new Asiri Alliance Health card.

Hydro Power Plant Training

Hydro Power Plant Training was held at the Gampola Hydro dynamic Group of Companies. This training programme was aimed at Non Life underwriting staff. The objective of the programme was to offer a thorough understanding of underwriting Hydro Power Plant Policy.

Underwriting this policy requires specialized knowledge about risk, application and mitigation factors.

This training further offered insights into fire, miscellaneous and marine policy underwriting.

Professional Etiquette Training

The executive cadre members received training on grooming and dining etiquette by Mrs. Damini Peiris from Rain Bore Resources Lanka at the Sri Lanka Institute of Insurance.

Training session on professional etiquette by Mrs. Damini Peiris

Quarterly management meeting

Staff Congress 2013

Sustainability Approach

Hydro Power Plant Training

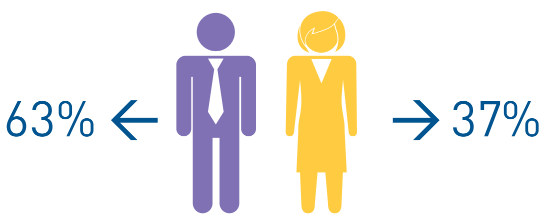
Training Hours (LA 10)

By employment type - No of Hours	2013	2012
AGM and Above	372	1,732
Asst Manager and Manager	3,461	3,573
Executive	4,009	3,257
Non Executive	2,144	3,534
Total	9,986	12,096
Avg Training hrs per Employee	16	21
Type of Training by - No of Programmes		
Internal Training	22	12
External Training	30	35
Overseas Training	6	5
Total No of Programmes	58	**52**

Diversity and equal opportunity

Gender analysis

AAlis an equal opportunity employer and ensures an equitable gender ratio. The recruitment of females improved by 5% during the period under review and marks the company's march towards eventually realizing an equal gender ration.



Diversity- by Gender Participation (LA1)	Male	Female
AGM and Above	12	-
Asst Manager and Manager	153	33
Executive	109	111
Non Executive	117	83
Total	391	227
Diversity - New appointment By Age		
Below 20yrs	6	6
20yrs to 30yrs	75	76
30yrs to 40yrs	52	9
40yrs to 50yrs	18	3
Over 50yrs	3	-
Total	154	94
Rate of New Appointment	39%	41%
Team by employment contract		
Permanent	287	156
Probation	93	59
Contract	11	12
Total	391	227
Diversity - Turnover By Age		
Below 20yrs	1	2
20yrs to 30yrs	62	64
30yrs to 40yrs	31	6
40yrs to 50yrs	17	2
Over 50yrs	2	0
Total	113	74
Rate of Turnover	29%	35%
Training Programmers by Gender (hrs)	1,200	1,380

PEOPLE - HUMAN RIGHTS

Labour, and indigenous rights.

The international legal framework for human rights is comprised of a body of law made up of treaties, conventions, declarations and other instruments. The corner stone of human rights is the International Bill of Rights which is formed by three instruments:

i) The Universal Declaration of Human Rights (1948);

ii) The International Covenant on Civil and Political Rights (1966); and

iii) The International Covenant on Economic, Social and Cultural Rights (1966).

These are the first reference points for any organization reporting on human rights. In addition to these three key instruments, the international legal framework for human rights is underpinned by over 80 other instruments: ranging from soft declarations and guiding principles to binding treaties and conventions, and ranging from universal instruments to regional.

There is growing global consensus that organizations have the responsibility to respect human rights. Human rights Performance Indicators require organizations to report on the extent to which processes have been implemented, on incidents of human rights violations and on changes in the stakeholders' ability to enjoy and exercise their human rights, occurring during the reporting period.

Our approach

We seek recruits who display the greatest potential to make a worthwhile contribution to our organization. A number of factors contribute to an individual's eligibility for a position, most importantly their knowledge and skills as required for the job. Any form of discrimination within employment procedures, or directed against employees, potential recruits, or clients is contrary to our corporate values and policies.

Investment and procurement practices (HR2)

All significant suppliers and contractors have undergone screening on human rights and actions taken by Asian Alliance Insurance.

Child Labour (HR6)

The company does not hire anyone below the age of 18 years and also does not engage in any form of child labour in accordance with the principles of the United Nations Universal Declaration of Human Rights and in adherence to its protocols;

Zero tolerance for forced or compulsory labour (HR 7)

The company's operations do not pose a risk for forced or compulsory labour in any way.

PEOPLE – SOCIAL RESPONSIBILITY

Society Performance Indicators focus attention on the impacts organizations have on the local communities in which they operate, and disclosing how the risks that may arise from interactions with other social institutions are managed and mediated. In particular, information is sought on the risks associated with bribery and corruption, undue influence in public policy-making, and monopoly practices. Community members have individual rights based on:

- Universal Declaration of Human Rights;
- International Covenant on Civil and Political Rights;
- International Covenant on Economic, Social and Cultural Rights; and
- Declaration on the Right to Development.

While there is ongoing debate about collective community rights, indigenous and tribal peoples have collective rights recognized by ILO Conventions 107 and 169 and the UN Declaration on Indigenous Rights. In terms of identity, these peoples' rights are based on both the collective and the individual. Their right to free, prior and informed consultation in order to seek consent is a fundamental right expressly recognized in the reference points above.

Our Approach

Our AAI structure and values lead us to put the needs of our customers at the forefront. As a responsible insurer, we want to do our part to increase the safety of our communities across Country. We also provide the general public and our clients with information about insurance that promotes understanding of both the insurance options that can protect their lives and property, and the insurance industry more generally.

Transparency and sound governance provide the framework for building and maintaining trust with all our stakeholders. Through our Board of Directors and senior managers are held to the highest levels of professional ethics. Regulatory issues, compliance and legislative changes are managed and monitored by the Compliance Officer (CO).

We foster strong relationships with government organizations. Advocacy efforts are a key method for encouraging progress on issues that influence our business. .

School Certificates Project

During the period under review, the company continues to support the state education sectors through its School Certificates Project, which aims to shoulder the burden of the sector while developing the next generation of achievers.

The company engages closely with schools to develop professionalism in future leaders by playing an active role in sports events, international competitions, prefect days, prize giving ceremonies, talent shows and other annual events.

The company bears the total cost of printing school certificates for these events so that noteworthy achievements of these deserving children do not go unappreciated.

During the year, the company strengthened its engagement by distributing 53,465 certificates for 48 number of schools.

Blood Donation Programme

The company's annual blood donation programme was held in Kurunagala Branch . The response from the company's staff was overwhelming where employees and their family members donated blood at the drive.

Blood Donation program held at Kurunegala

Donation and Sponsorships

Harley Owners' Group Charity Tour of Sri Lanka

The Harley Owners Group Dubai Chapter toured Sri Lanka in August 2013. A group of 10 bikers together with their Harleys travelled to various parts of Sri Lanka to experience all that the country has to offer. The ride across the country was planned for the worthy charitable cause to raise awareness among the public of the importance of education and generate funds to enrich the lives of underprivileged children of Sri Lanka. This was in collaboration with the Hemas Outreach Foundation.

Harley Owners Group before the charity tour

Mahabimani

Mahabimani 2013 was organized by institute for Construction Training and Development (ICTAD) and National Construction Association of Sri Lanka (NCASL) under the supervision of Ministry of Construction, Engineering Service, Housing and Common Amenities.

Speedy development is taking place in various fields within the prevailing economic and political environs in Sri Lanka and these organizations and the ministry are generating a renaissance of the local construction industry. They have identified this as the most suitable period to put into effect new creative concepts for the future welfare of the construction industry in the country.

Mahabimani 2013 national award ceremony was held at 5 December 2013 with the presence of His Excellency President Hon. Mahinda Rajapaksa.

Winners receiving the award

The islandwide competition was conducted in 10 categories and first three of these categories were awarded and recognized. AAIPLC provides Asian Alliance Personal Protection insurance for winners (30) as silver sponsor of the event.

Key performance indicators – Social Responsibility

Event - Promoting educational, cultural and sport activities 2013	
School Certificates Project	
No of Certificate	48
Investment in Rs.	1,305,573
Donation and sponsorships	
Mahabimani 2013 – Personal Protection Policy value in Rs.	5,000,000
Total Investment for social Wellbeing in Rs.	6,305,573

PEOPLE - PRODUCT RESPONSIBILITY

Product Responsibility Performance Indicators address the aspects of a reporting organization's products and services that directly affect customers, namely, health and safety, information and labelling, marketing, and privacy.

These aspects are primarily covered through disclosure on internal procedures and the extent to which these procedures are not complied with.

Our approach

Delivering value-added Products & Services that offer maximum benefits in the short, medium and long term: (EC9)

- Our product strategy takes care of long term 'living' risk as much as it does in the event of policyholder's demise. We engage with our customers to educate them about possible living risks, so that they can take adequate precautions against possibilities of accident, disability and poor health. Our response is to protect our customers risk with responsibility.
- Frequent awareness programmes and workshops are held at corporate and individual levels.
- Our Advisors visit individuals to explain the importance of safeguarding against daily practices that could cause accident and injury
- Life insurance benefits were doubled from Rs. 1 million to Rs. 2 million:

  The company also introduced the Investment Protection Plan(IPP) which proves to be a prudent strategy for customers to grow their savings whilst ensuring security of investment.

- Guaranteeing high rate of returns on investment:

  The Company has built its reputation on a strong foundation of protection and we demonstrate our commitment to this core philosophy by offering customers' investment back with full guarantee. AAI holds the distinction of offering the highest IRR in the industry

- Analyze customer concerns and customize solutions to meet and exceed individual needs:

  For Life products we avoid selling named products because we do not believe in a 'one size fits all' insurance product. Every customer has different needs and requirements and our field staff are adept at designing suitable policies for each customer. Our advisors are empowered with a basket of skills and tools to help them devise the best policy to suit customer needs.

Distribution strategy

During the year we expanded our distribution network for added customer convenience by linking up with Companies, Web-based sales and broker channels. We have deployed multiple channels so that customers can access our services with ease.

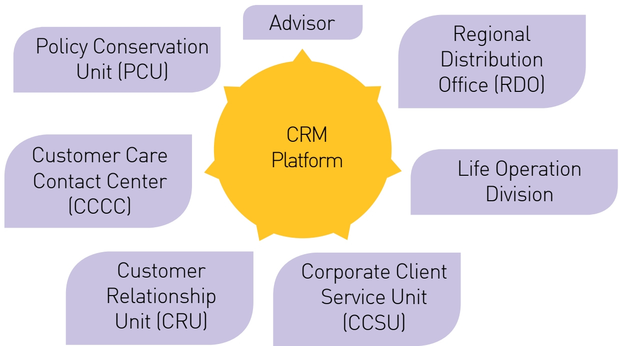
Personalized Service

Our distribution strategy succeeds in bridging the gap between product and customer. Since the company has a risk based sales platform, we offer a unique one-on-one sales experience for customers which involves educating them, identifying their needs, and then designing a customized policy.

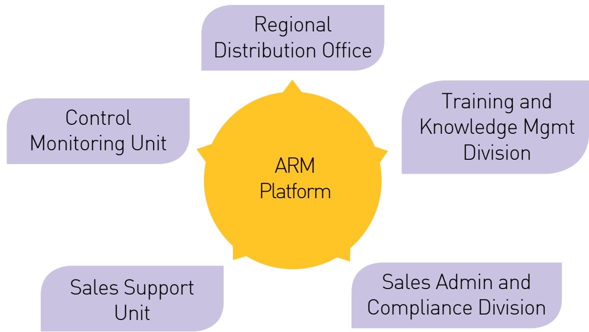
- Focused customer engagement system to build strong relationships

  Once the Advisors have sold the policy to a customer, a separate division moves in to follow up on each and every policy until its maturity. The Customer Relationship Unit (CRU) maintains direct contact with customers and updates them on due payments, benefits, and so on. We have a separate Corporate Customer Care Unit to service corporate customers.

- To ensure customer retention, we leverage strongly on the CRM (Customer Relationship Management) platform that we have implemented. Our ARM (Advisor Relationship Management) platform is also strengthened regularly. To ensure the CRM link remains unbroken, we have appointed Regional Advisors as well, who offers support to ARMs and customers.



Customer Relationship Management Process



Advisor Relationship Management Process

Improving customer service

In order to reduce the lead time between sending and receiving Life Insurance Policy documents to the respective policyholders, the Company was able to upgrade the normal courier service to speed post courier service by joining hands with the Department of Post.

Mr. Lalith Weerakoon from AAI handing over the first set of documents to Speed post courier service introduction ceremony held at Central Mail Exchange (CME) under the patronage of Post Master General Rohana Abeyratne.

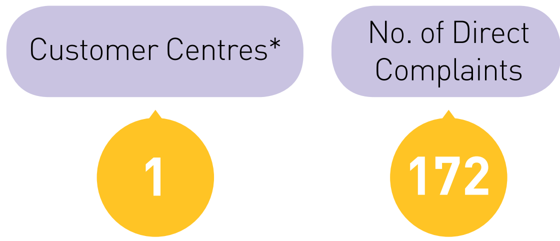
Ethical Advertising (PR 7)

No product-based advertising is engaged in by the company. We are against using reverse psychology in one advertising (that scares customers into purchasing insurance policies by showing worst case scenarios). Instead, we invest in educating and familiarizing potential customers about how insurance can benefit their lives.

AAI complies with all statutory laws and regulations relating to the disclosure of information on products and services provided by the company.

Formalized customer complaint system (PR7,8)

A customer complaint register is maintained in every branch. And these customer complaints are reviewed every month at the senior managers' meetings.



**Only Customer Care Centre complains are considered*

A separate system is maintained to track customer complaints, which are then resolved by the Customer Care Centre.

Strong risk and governance framework (PR3,4,7)

The nature of Life insurance products is such that they require significant amount of personal information to be disclosed by the customer, such as medical history, salary levels and so on. . Therefore, AAI is deeply concerned about maintaining the highest standards of security to protect privacy of its customers.

No manual entries are carried out in the company and all documents are scanned and stored digitally. This digitalization has reduced delays in the approvals and claims settlements. Easy access to documents has also improved underwriting function with 100% accuracy.

No significant fines for non-compliance with laws and regulations concerning the provision and use of products and services were received during the year.

Deploy latest technology enabled value-added services for customers

Most customers make use of the Asian Alliance Insurance-Online Payment Website to make their Annual Premium payments. The number of users paying via Mobile Payment methods is on the rise. Online assessment for Motor and Pet insurance is also possible.

Number of premium payments received through the E- platform

Customer Accessibility	No of Transactions
No of credit card transactions	8,572
No of direct deposit through banks	80,120
No of cheque payments	153,517
WEB	562
Total transactions done by E- facilities	242,209

Ambalangoda Branch opening - Non Life

Invite customer feedback (PR5)

Customer feedback is collected via the customer care centre, website and Advisors. A separate customer feedback visit is done annually. In 2013, around 20,000 customers were visited personally by Advisors and feedback obtained during the 'International customer service week'. Also, our strong CRM platform enables us to receive direct customer feedback and allows us to respond within 2-3 working days.

During the year customer satisfaction surveys were conducted on three different Perspectives. Such as,

- Corporate image
- Our claim settlement
- Our communication

According to the result 99.2% of the customer satisfaction is achieved for corporate image. Our communication and our claim settlement recorded 98% and 65% satisfaction scores of respectively.

Customers are altered via SMS for due payments, birthdays of their spouses and children, and to deliver New Year wishes. Our call centre contacted about 50,000 customers during the year.

Improve access points for customers

We successfully expanded our presence in the suburbs of Colombo and in the northern and eastern regions of the island. New branches were opened in Ambalangoda, Minuwangoda, Embilipitiya, Trincomalee, Mawanella and Vavuniya.

Customer health and safety (PR2)

No complaints were received during the year for non-compliance with regulations or voluntary codes concerning health and safety impacts of products and services during their life-cycle.

Survey criteria	Corporate image	%	Our claim settlement	%	Our communication	%
Excellent	187	36.9	108	21.3	177	34.9
Very Good	218	43.0	125	24.7	227	44.8
Good	98	19.3	94	18.5	95	18.7
Poor	0	0.0	12	2.4	4	0.8
Not A	4	0.8	168	33.1	4	0.8
Sample size	507		507		507	

PERSONAL STATEMENT FROM OUR VALUABLE CUSTOMERS

Hotelier

"I've been with AAI since 2010. I'm completely satisfied with the services provided by the company."

Professional

"Since 2011, my whole family is covered by AAI Life insurance. I know they are in safe hands now."

"I trust on AAI, I'm happy I took the correct decision when selecting my insurance cover."

Entrepreneur

"For 3 year AAI served us well. Looking forward to be in the company for more years"

Businessman

PLANET

Waste management and management of paper consumption were prioritised this year. All inter-departmental communications were effected via emails and internet, thereby reducing the use of memos.

ENVIRONMENTAL RESPONSIBILITY

The aspects in the environment indicator set are structured to reflect the inputs, outputs, and modes of impact an organization has on the environment. Energy, water, and materials represent three standard types of inputs used by most organizations. These inputs result in outputs of environmental significance, which are captured under the aspects of emissions, effluents, and waste. Biodiversity is also related to the concepts of inputs to the extent that it can be viewed as a natural resource. However, biodiversity is also directly impacted by outputs such as pollutants.

The aspects of transport and products and services represent areas in which an organization can further impact the environment, but often through other parties such as customers or suppliers of logistics services.

Compliance and overall aspects are specific measures the organization takes to manage environmental performance.

Our Approach

The company's E and S policy includes the management approach for Environment and Social engagement. Each approach is summarized below.

Materials used by weight/volume

Waste management and management of paper consumption were prioritised this year. All inter-departmental communications were effected via emails and internet, thereby reducing the use of memos. We are also seeking avenues simplify underwriting process to minimize documentation. The company accrued considerable savings on print cartridges, maintenance of equipment and time spent in distribution, handling and filling of documents. Going forward, we will continue to improve this ratio further.

Paper consumption - save trees, resources and reduce emission 2013	
No of paper Used - Pkts* (EN1)	1,080
Weight of paper Used - Kgs* (EN1)	12,312
Waste paper disposed for recycling - Kgs* (EN2)	1,641

13%

Percentage of materials used that are recycled input materials.

*Only significant branches are considered (Colombo 03, Colombo Metropoliton, Head Office and Valiant branches)

GHG Emission due to paper disposal is 4.59 tCO2e/year

Energy aspect

Electricity and water consumption (EN6)

The energy indicators cover the five most important areas of organisational energy use, which include both direct and indirect energy. Direct energy use is energy consumed by the organization and its products and services. Indirect energy use, on the other hand, is energy that is consumed by others who are serving the organization.

Internal indices were established to monitor efficiency in water and electricity consumption. Valuable energy saving initiatives were leveraged on by the company. Listed below are few such initiatives:

- sending SMS texts instead of written reminders to pay premiums
- energy efficient lighting systems
- provision of laptops for all members in the senior management carder
- sending e-receipts to reduce paper usage
- replacing point of sale material with digital presentations
- eco-friendly disposal of electronic items
- regular maintenance and service of the company's vehicle fleet to reduce emissions
- Intensify cautious of our water conservation efforts
- All windows tinted for energy conservation (Optimal lighting quality and air conditioning)
- Central air conditioners switched off at 6 pm and smaller air conditioning units operated as need arises
- LCD monitors used for energy conservation (Most staff are equipped with lap tops and LCD monitors at work stations

Electricity, Water 2013

Save Electricity, Water 2013	
Electricity consumption Units (KWz)* (EN 3)	121,260
Electricity consumption - Units per employee*	402
Water consumption Ltr* (EN8)	90.456
Water consumption Ltr - Per employee *	0.3005

Only significant branches are considered (Colombo 03, St. Michael's , Head Office and Valiant branches)

Transport (EN 29)

With regards to staff transport and emission control during the year under review, the total mileage relating to official business, travel and transport stands at 11, 110 kms. The Company upholds its rule that employees have to travel in one vehicle if attending the same meeting. During recruitment, greater preference is given to applicants from the surrounding areas, which not only benefits the local community but also reduces the need for travel thereby saving fuel and reducing emission levels in the atmosphere.

No of Employees	Daily Travel – km
0 ← 10	41
10.01 ← 25	142
25.01 ← 35	38
35.01 ← 50	23
50.01 ← 70	6
70.01 ← 90	1
90.01 ←	2
	253

Total Travelling km's for Head Office Staff	11,110.8
Avg travelling per employee per day (Home-office-home) Head Office - Km **	43.92

*** Only for Head Office*

Total Tonnes of CO2 Equivalent due to staff Transportation - 139.311

Direct energy consumption by primary energy source (EN3)

Vehicle Type	Fuel Litres
Company Jeep	4463
Company Van	1659
Total Diesel usage for Head Office Travel	6122

Emissions from employee business travels (EN17)

Tonnes of CO2	8.72
Tonnes of CH4	0.02
Tonnes of N20	26.65

Total GHG emissions for air business travel in Tonnes of CO2 Equivalent- 35.39

Enhancing knowledge on conserving the environment

In keeping with our passion for protecting our beautiful world, our 2014 calendar pictures the natural resources we should all strive to protect. By engaging our stakeholders with this calendar, we hope to invoke pride in and the need for protection of these rich resources. This concept of Protect Your Beautiful World' emanates from our every action, which is founded on the platform of 'protection'. This highly sought-after calendar appeals to all stakeholders who feel drawn to the important messages enshrined in the calendar.

This theme resonates in all our environmental and social responsibility initiatives. Thus, the company took this message to the popular tourist destination of Nuwara Eliya, where strategically placed hoardings reiterated the message and urged tourists and residents alike to preserve the pristine beauty of the tourist hotspot.

Horton Plains Project (EN 26)

The company continues its nature preserving project of providing an eco-friendly paper bag to tourists who visit World's End free of charge. Special project was launched with the Sri Lanka Department of Wild Life Conservation with the motive and mission of ensuring sustainability of the world heritage site. The use of plastic and polythene is banned in the area as it proves a threat to the bio diversity of the region. These eco-friendly bags are provided in four different sizes.

Being passionate and taking pride in preserving our Nature - Horton Plain Project

This initiative takes the theme of 'Protect Your Beautiful Environment' theme further. The attractive bags are proving to be a valuable souvenir of the visit to Horton Plains.

Natural asset protection projects- Horton Plain Project 2013 (EN30)

No of bags distributed	9,000
Investment value of the project in LKR.	269,149

The company is thus making a valuable contribution to preserving the region's natural beauty.

Monitoring and follow up

Carbon footprint

Sri Lanka Carbon Fund (SLCF) undertook the carbon footprint analysis and audit for the Company in January 2014. The Greenhouse Gas (GHG) Accounting Protocol of the World Business Council for Sustainable Development (WBCSD) , and IPCC Guidelines were used as a guide for this analysis. All operational emissions of the company including the emissions related to electricity use, the use of office consumables, employee commuting and business travels were analysed as Scope 1, Scope 2 and Scope 3 emissions in terms of tonnes of CO2 Equivalent.

According to the analysis, the net carbon footprint of Asian Alliance Insurance for the year 2013 is 334.991 tCO2e/year. scope 1 emissions 14.93 tCO2e/year, Scope 2 emissions of 140.6tCO2e/year and the Scope 3 emissions 179.386 tCO2e/year. Reporting Scope 3 emissions is optional as for the revised GHG protocol. But to get a more understanding about those emissions, major emission categories reported under scope 3 was reported.

Scope 1 - Emissions due to business transportation

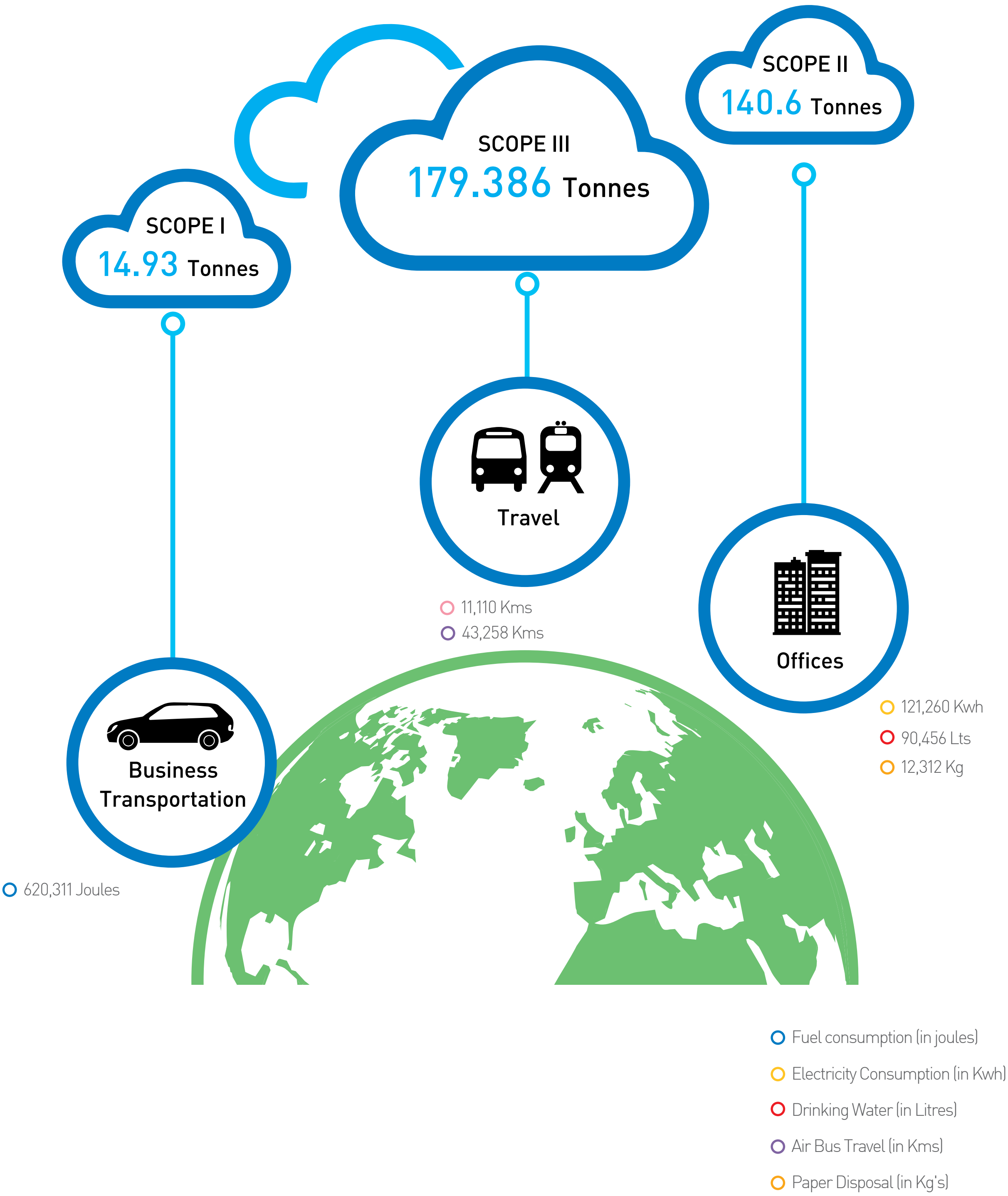
Scope 2 - Emissions due to purchased electricity

Scope 3 - Emissions due to purchased water for drinking purpose

Sustainability Approach

ASIAN ALLIANCE INSURANCE GHG EMISSIONS

Net carbon footprint 334.991 tCO_{2e} / year



Certificate of Carbon Footprint

Sri Lanka Carbon Fund

Carbon Footprint Certificate

Sri Lanka Carbon Fund

Certifies that Carbon Footprint Analysis

of

The following Branches of Asian Alliance Insurance PLC
for the year 2013

- Head office
- Valiant Tower Branch
- IBM Building
- Colombo Central Branch
- Colombo Metropolitan

has been assessed and approved in accordance with the requirements of
Greenhouse Gas protocol
developed by
World Business Council for Sustainable Development
& World Resource Institute.

Certificate No	**: SLCF/CFP/0002**
Date of Certification	**: 13/02/2014**
Period of Assessment	**: 01.01.2013 - 31.12.2013**
Scope of Certification	**: All operations within Sri Lanka**

Carbon Footprint - 2013

Scope 1 - Direct GHG Emissions	: 14.93 tonnes of CO_2 equivalent
Scope2 - Electricity indirect GHG Emissions	: 140.6 tonnes of CO_2 equivalent
Scope 3 - Other indirect GHG Emissions	: 179.386 tonnes of CO_2 equivalent

Sri Lanka Certified Carbon CO_2 Sri Lanka Carbon Fund

Managing Director
Sri Lanka Carbon Fund

Global Reporting Initiatives Index

Global Reporting Initiative (GRI) guidelines help to structure the content of you sustainability report. The 2013 Sustainability Report is self-declared Externally Assured by KPMG and GRI-checked at a GRI-G3.1 Application Level 'B+'. It includes select metrics from the GRI Financial Services Sector Supplement. See www.globalreporting.org for more information about the GRI.

STANDARD DISCLOSURES PART I: Profile Disclosures					
Profile Disclosure	Disclosure	Level of Reporting	Location of disclosure	Reason for omission	Explanation for the reason for omission
Strategy and Analysis					
1.1	Statement from the most senior decision-maker of the organization.	●	MDA Page 70		
1.2	Description of key impacts, risks, and opportunities.	●	MDA Page 70, CEO's Review Page 22-23		
Organizational Profile					
2.1	Name of the organization.	●	MDA Page 71		
2.2	Primary brands, products, and/or services.	●	MDA Page 49 - 51, 53		
2.3	Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures.	●	MDA Page 71		
2.4	Location of organization's headquarters.	●	MDA Page 71		
2.5	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	●	MDA Page 71		
2.6	Nature of ownership and legal form.	●	MDA Page 71		
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	●	MDA Page 83, Operation Foot Print Page 10		
2.8	Scale of the reporting organization.	●	MDA Page 71, Financial Reports 118 to 112, Decade at a glance 210-211		
2.9	Significant changes during the reporting period regarding size, structure, or ownership.	●	MDA Page 71		
2.10	Awards received in the reporting period.	●	MDA Page 88		
Report Parameters					
3.1	Reporting period (e.g., fiscal/calendar year) for information provided.	●	MDA Page 71		
3.2	Date of most recent previous report (if any).	●	MDA Page 71		
3.3	Reporting cycle (annual, biennial, etc.)	●	MDA Page 71		
3.4	Contact point for questions regarding the report or its contents.	●	MDA Page 72		
3.5	Process for defining report content.	●	MDA Page 71		
3.6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers). See GRI Boundary Protocol for further guidance.	●	MDA Page 71		

Profile Disclosure	Disclosure	Level of Reporting	Location of disclosure	Reason for omission	Explanation for the reason for omission
3.7	State any specific limitations on the scope or boundary of the report (see completeness principle for explanation of scope).	●	MDA Page 72		
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations.	○		Does not exist	Company does not have any joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations.
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report. Explain any decisions not to apply, or to substantially diverge from, the GRI Indicator Protocols.	●	MDA Page 71 (GRI - G 3.1)		
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g.,mergers/acquisitions, change of base years/ periods, nature of business, measurement methods).	○		Does not exist	No such requirements arose during the year
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	●	MDA Page 72		
3.12	Table identifying the location of the Standard Disclosures in the report.	●	MDA Page 106 - 117 (This GRI index)		
3.13	Policy and current practice with regard to seeking external assurance for the report.	●	MDA Page 72, Corporate Governance Page 143 - 144		
	Governance, Commitments, and Engagement				
4.1	Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight.	●	Corporate Governance Page 122-123		
4.2	Indicate whether the Chair of the highest governance body is also an executive officer.	●	MDA Page 77		
4.3	For organizations that have a unitary board structure, state the number and gender of members of the highest governance body that are independent and/or non-executive members.	●	MDA Page 76, Corporate Governance Page 124		
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	●	MDA Page 77,		

● Fully ◖ Patially ○ Not Reported

Global Reporting Initiatives Index

Profile Disclosure	Disclosure	Level of Reporting	Location of disclosure	Reason for omission	Explanation for the reason for omission
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organization's performance (including social and environmental performance).	●	MDA Page 77		
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided.	●	MDA Page 77		
4.7	Process for determining the composition, qualifications, and expertise of the members of the highest governance body and its committees, including any consideration of gender and other indicators of diversity.	●	MDA Page 78, Corporate Governance Page 125, 138		
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation.	●	MDA Page 77, Page 01		
4.9	Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles.	●	MDA Page 77		
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.	●	MDA Page 77		
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organization.	●	MDA Page 78		
4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses.	●	MDA Page 76		
4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organizations in which the organization: * Has positions in governance bodies; * Participates in projects or committees; * Provides substantive funding beyond routine membership dues; or * Views membership as strategic.	●	MDA Page 78		
4.14	List of stakeholder groups engaged by the organization.	●	MDA Page 79-80		
4.15	Basis for identification and selection of stakeholders with whom to engage.	●	MDA Page 79		
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	●	MDA Page 79-80		
4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting.	●	MDA Page 79-80		

Profile Disclosure	Disclosure	Level of Reporting	Location of disclosure	Reason for omission	Explanation for the reason for omission
	STANDARD DISCLOSURES PART II: Disclosures on Management Approach (DMAs)				
G3.1 FSSS DMAs	**Disclosure**	**Level of Reporting**	**Location of disclosure**		**Further comments**
DMA PS	Disclosure on Management Approach PS				
Aspects	Product Portfolio	●	MDA Page 82-83		
FS1	Policies with specific environmental and social components applied to business lines.	○	Not material		
FS2	Procedures for assessing and screening environmental and social risks in business lines.	○	Not material		
FS3	Processes for monitoring clients' implementation of and compliance with environmental and social requirements included in agreements or transactions.	○	Not material		
FS4	Process(es) for improving staff competency to implement the environmental and social policies and procedures as applied to business lines.	●	MDA Page 91-93		
FS5	Interactions with clients/investees/business partners regarding environmental and social risks and opportunities.	●	MDA Page 97		
	Audits	●	Corporate Governance Page 143-144		
	Active Ownership	●	MDA Page 71		
DMA EC	Disclosure on Management Approach EC				
Aspects	Economic Performance COMM	●	Macro Economic Overview Page 34-38		
	Market presence	●	Insurance Industry Overview Page 39-42		
	Indirect economic impacts	●	MDA Page 97		
DMA EN	Disclosure on Management Approach EN				
Aspects	Materials	●	MDA Page 101		
	Energy	●	MDA Page 102		
	Water	●	MDA Page 102		
	Biodiversity	○	Not material		
	Emissions, effluents and waste	●	MDA Page 103		
	Products and services	●	MDA Page 103		The Company's product and service portfolio is continuously screened for environmental impact under the E and S policy.
	Compliance	○	Not material		
	Transport	●	MDA Page 102		
	Overall	●	MDA Page 103		

● Fully ◖ Patially ○ Not Reported

Global Reporting Initiatives Index

G3.1 FSSS DMAs	Disclosure	Level of Reporting	Location of disclosure	Further comments
DMA LA	Disclosure on Management Approach LA			
Aspects	Employment	●	MDA Page 87	
	Labor/management relations	○	Not material	
	Occupational health and safety COMM	●	MDA Page 90	
	Training and education	●	MDA Page 91-94	
	Diversity and equal opportunity	●	MDA Page 94	
	Equal remuneration for women and men	●	MDA Page 89	
DMA HR	Disclosure on Management Approach HR			
Aspects	Investment and procurement practices	●	MDA Page 95	
	Non-discrimination	○	Not material	
	Freedom of association and collective bargaining	○	Not material	
	Child labor	●	MDA Page 95	
	Prevention of forced and compulsory labor	●	MDA Page 95	
	Security practices	●	MDA Page 95	
	Indigenous rights	○	Not material	
	Assessment	○	Not material	
	Remediation	○	Not material	
DMA SO	Disclosure on Management Approach SO			
Aspects	Local communities	○	Not material	
	Corruption	●	MDA Page 92	
	Public Policy	○	Not material	
	Anti-competitive behavior	●	MDA Page 92	
	Compliance	●	MDA Page 87, 92	
DMA PR	Disclosure on Management Approach PR			
Aspects	Customer health and safety	●	MDA Page 99	
	Product and service labelling	●	MDA Page 98	
FS15	Policies for the fair design and sale of financial products and services.	○	Not material	
	Marketing communications	●	MDA Page 98	
	Customer privacy	●	MDA Page 98	
	Compliance	●	MDA Page 98	

Product and Service Impact			
Indicator	**Disclosure**	**Level of Reporting**	**Location of disclosure**
Product portfolio			
FS6	Percentage of the portfolio for business lines by specific region, size (e.g. micro/SME/large) and by sector.	●	MDA Page 82-83
FS7	Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose.	○	Not material
FS8	Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose.	○	Not material
Audit			
FS9	Coverage and frequency of audits to assess implementation of environmental and social policies and risk assessment procedures.	○	Not material
Active ownership			
FS10	Percentage and number of companies held in the institution's portfolio with which the reporting organization has interacted on environmental or social issues.	○	Not material
FS11	Percentage of assets subject to positive and negative environmental or social screening.	○	Not material
FS12	Voting polic(ies) applied to environmental or social issues for shares over which the reporting organization holds the right to vote shares or advises on voting.	○	Not material
Economic			
Economic performance			
EC1COMM	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	◖	MDA Page 81-82
EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change.	○	Not material
EC3	Coverage of the organization's defined benefit plan obligations.	●	Financial Report Page 144
EC4	Significant financial assistance received from government.	○	Company does not receive financial assistance from Government.
Market presence			
EC5	Range of ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation.	○	Not material
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	○	Not material
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.	●	MDA Page 85

● Fully ◖ Patially ○ Not Reported

Global Reporting Initiatives Index

Indicator	Disclosure	Level of Reporting	Location of disclosure/ Direct Answers
Indirect economic impacts			
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	○	Not material
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.	●	MDA Page 97
Environmental			
Materials			
EN1	Materials used by weight or volume.	●	MDA Page 101
EN2	Percentage of materials used that are recycled input materials.	●	MDA Page 101
Energy			
EN3	Direct energy consumption by primary energy source.	●	MDA Page 102 (Total Diesel usage for Head Office Travel in jouales 620,344.65)
EN4	Indirect energy consumption by primary source.	●	MDA Page 102
EN5	Energy saved due to conservation and efficiency improvements.	○	Not material
EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.	●	MDA Page 102
EN7	Initiatives to reduce indirect energy consumption and reductions achieved.	○	Not material
Water			
EN8	Total water withdrawal by source.	●	MDA Page 102
EN9	Water sources significantly affected by withdrawal of water.	○	Not material Since our core business processes do not utilise water.
EN10	Percentage and total volume of water recycled and reused.	○	Not material Since our core business processes do not utilise water.
Biodiversity			
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	○	Not a material issue and not applicable to type operations.
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	○	Not applicable to our business as our operations have no direct impact on bio diversity rich habitats.
EN13	Habitats protected or restored.	○	Not material
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity.	○	Not material
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.	○	Not material

Indicator	Disclosure	Level of Reporting	Location of disclosure/ Direct Answers
Emissions, effluents and waste			
EN16COMM	Total direct and indirect greenhouse gas emissions by weight.	●	MDA Page 104
EN17	Other relevant indirect greenhouse gas emissions by weight.	●	MDA Page 104
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.	○	Not material
EN19	Emissions of ozone-depleting substances by weight.	○	Not material
EN20	NOx, SOx, and other significant air emissions by type and weight.	○	Not material
EN21	Total water discharge by quality and destination.	○	Not material
EN22COMM	Total weight of waste by type and disposal method.	○	Not material
EN23	Total number and volume of significant spills.	○	Not material
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.	○	Not material
EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff.	○	Not material
Products and services			
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	●	MDA Page 103
EN27	Percentage of products sold and their packaging materials that are reclaimed by category.	○	Not material
Compliance			
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	●	AAI did not incur any significant fines, penalties or non-monetary sanctions for non-compliance with any environmental laws and regulations.
Transport			
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce.	●	MDA Page 102
Overall			
EN30	Total environmental protection expenditures and investments by type.	●	MDA Page 103

● Fully ◖ Patially ○ Not Reported

Global Reporting Initiatives Index

Indicator	Disclosure	Level of Reporting	Location of disclosure
Social: Labor Practices and Decent Work			
Employment			
LA1	Total workforce by employment type, employment contract, and region, broken down by gender.	●	MDA Page 88, 94
LA2	Total number and rate of new employee hires and employee turnover by age group, gender, and region.	●	MDA Page 94
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	●	MDA Page 89
LA15	Return to work and retention rates after parental leave, by gender.	○	Not material
Labor/management relations			
LA4	Percentage of employees covered by collective bargaining agreements.	○	Not material since AAI does not have any collective bargaining agreements with there employees.
LA5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements.	○	Not material since AAI does not have any collective bargaining agreements with there employees.
Occupational health and safety			
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs.	○	Not material
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region and by gender.	●	MDA Page 90
LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	○	Not material
LA9	Health and safety topics covered in formal agreements with trade unions.	○	Not applicable since AAI does not have any trade unions
Training and education			
LA10	Average hours of training per year per employee by gender, and by employee category.	●	MDA Page 94
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	●	MDA Page 91-94
LA12	Percentage of employees receiving regular performance and career development reviews, by gender.	●	MDA Page 88

Indicator	Disclosure	Level of Reporting	Location of disclosure
Diversity and equal opportunity			
LA13	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity.	●	MDA Page 76, 88-94
Equal remuneration for women and men			
LA14	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation.	●	MDA Page 89
Social: Human Rights			
Investment and procurement practices			
HR1COMM	Percentage and total number of significant investment agreements and contracts that include clauses incorporating human rights concerns, or that have undergone human rights screening.	○	Not material
HR2	Percentage of significant suppliers, contractors and other business partners that have undergone human rights screening, and actions taken.	●	MDA Page 95
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	○	Not material
Non-discrimination			
HR4	Total number of incidents of discrimination and corrective actions taken.	○	Not material
Freedom of association and collective bargaining			
HR5	Operations and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and actions taken to support these rights.	○	Not applicable
Child labor			
HR6	Operations and significant suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor.	●	MDA Page 95
Prevention of forced and compulsory labor			
HR7	Operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor.	●	MDA Page 95
Security practices			
HR8	Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations.	●	Security Coordinators are employees to monitor the security functions which are outsourced.

● Fully ◖ Patially ○ Not Reported

Global Reporting Initiatives Index

Indicator	Disclosure	Level of Reporting	Location of disclosure
Indigenous rights			
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken.	○	Not applicable. No incidents of violations were reported during the year.
Assessment			
HR10	Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments.	○	Not material
Remediation			
HR11	Number of grievances related to human rights filed, addressed and resolved through formal grievance mechanisms.	○	Not material
Social: Society			
Local communities			
SO1 (FSSS)	Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting.	○	Not material
SO1 (G3.1)	Percentage of operations with implemented local community engagement, impact assessments, and development programs.	○	Not material
FS13	Access points in low-populated or economically disadvantaged areas by type.	○	Not material
FS14	Initiatives to improve access to financial services for disadvantaged people.	○	Not material
SO9	Operations with significant potential or actual negative impacts on local communities.	○	Not material
SO10	Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities.	○	Not material
Corruption			
SO2	Percentage and total number of business units analyzed for risks related to corruption.	●	MDA Page 92
SO3	Percentage of employees trained in organization's anti-corruption policies and procedures.	●	MDA Page 92
SO4	Actions taken in response to incidents of corruption.	●	MDA Page 92
Public policy			
SO5	Public policy positions and participation in public policy development and lobbying.	●	Not applicable. The Policy is not to donate or sponsor political activities.
SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.	●	Not applicable. The Policy is not to donate or sponsor political activities.
Anti-competitive behavior			
SO7	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes.	●	MDA Page 92

Indicator	Disclosure	Level of Reporting	Location of disclosure
Compliance			
SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	●	MDA Page 92
Social: Product Responsibility			
Customer health and safety			
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.	○	Not material
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.	●	MDA Page 99
Product and service labelling			
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	●	MDA Page 98
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes.	●	MDA Page 99
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	●	MDA Page 99
FS16	Initiatives to enhance financial literacy by type of beneficiary.	○	Not material
Marketing communications			
PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.	●	MDA Page 96, 98
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes.	●	MDA Page 98
Customer privacy			
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	●	MDA Page 98
Compliance			
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	●	MDA Page 99

● Fully ◖ Patially ○ Not Reported

→ Stewardship

Our governance structure serves as a compass for the Board to steer the company towards achieving its business objectives and delivering value to shareholders. ←

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EVOLVING INTO THE FUTURE

Corporate Governance

On behalf of the Board of Directors I must emphasize our dedication to safeguarding and growing your wealth through sustainable business practice that creates value above and beyond financial gains.

Ashok Pathirage

Chairman

Dear Stakeholder,

In 2013, the company's Corporate Governance function complied with the most stringent governance codes, thereby reinforcing the company's credentials for having an efficient corporate governance framework in place. We believe that we owe a responsibility to our valued shareholders and other stakeholders to ensure superlative standards of governance.

The governance framework of the company has been structured to fulfill the company's strategic economic, financial and social obligations. Transparency is the pivot on which our governance framework rests and in keeping with this ethos accountability is continually strengthened across the organization. Our governance structure serves as a compass for the Board to steer the company towards achieving its business objectives and delivering value to shareholders.

The company maintains the highest standards in its financial reporting. This year, we have gone a step further by working towards an integrated report which offers stakeholders a 360 degree view of our operations through the financial period under review.

On behalf of the Board of Directors I must emphasize our dedication to safeguarding and growing your wealth through sustainable business practice that creates value above and beyond financial gains.

This section of the Annual Report details the Corporate Governance framework in existence at Asian Alliance Insurance PLC and the manner in which it ensures adherence to the requirements of the Code of Best Practices of Corporate Governance jointly issued by the Securities and Exchange Commission (SEC) and the Institute of Chartered Accountants of Sri Lanka (CA) and Colombo Stock Exchange (CSE) rules on Corporate Governance. The material contained in this Section of our Report offers an insight into the company's Corporate Governance ethos and the checks and balances in place to practice our governance philosophy.

As valued shareholders we very much value your comments and feedback on the quality and content of this report. I would like to state that to the best of my knowledge this report contains no material violations of Best Practices in aforesaid Governance codes.

Key Highlights - 2013

- The Company strengthened the governance framework by formulating the Risk Committee which comprises of two Executive Directors namely Iftikar Ahammed and Ramal Jasinghe and two independent Non Executive Directors namely Jatinder K Mukhi & Johannes W H Richters.
- Increase the percentage of the Independent Non Executive Directors. (As at 31 December 2013, 83.3% of the Non Executive Directors were Independent Non-Executive as apposed to 50% in 2012)
- Appointment of two Independent Non Executive Directors namely Jatinder Mukhi and Johannes Richters who were appointed by the FMO and DEG financial institutions that are rated "AAA" development banks from the Netherlands and Germany.
- The Company engaged the services of Messrs KPMG on the MIS Audit to establish the integrity of the IT standards of the Company.
- Reinforced the reporting structure of Compliance and Risk function under Audit and Risk Committee respectively.
- Initiated the decision to appoint an in house internal auditor to work with Messrs. Ernst and Young in order to strengthen the Internal Audit function of the Company

A strong corporate governance framework is vital for the sustainable business performance of a company. Asian Alliance Insurance PLC's corporate governance framework encompasses all aspects of our functioning and helps the company not only safeguards interests of all stakeholders, but also serves to attain the company's objectives.

The company places a strong emphasis on complying with the requirements of the Code of Best Practices of Corporate Governance jointly issued by the Securities and Exchange Commission (SEC) and the Institute of Chartered Accountants of Sri Lanka (CA) and Colombo Stock Exchange (CSE) rules on Corporate Governance. Although the organization monitors its compliance with these mandatory requirements, our corporate governance process is intensified further as a system of checks and balances in order to ensure that the company's sound corporate governance practices are in the best interests of all our stakeholders and the organization as a whole.

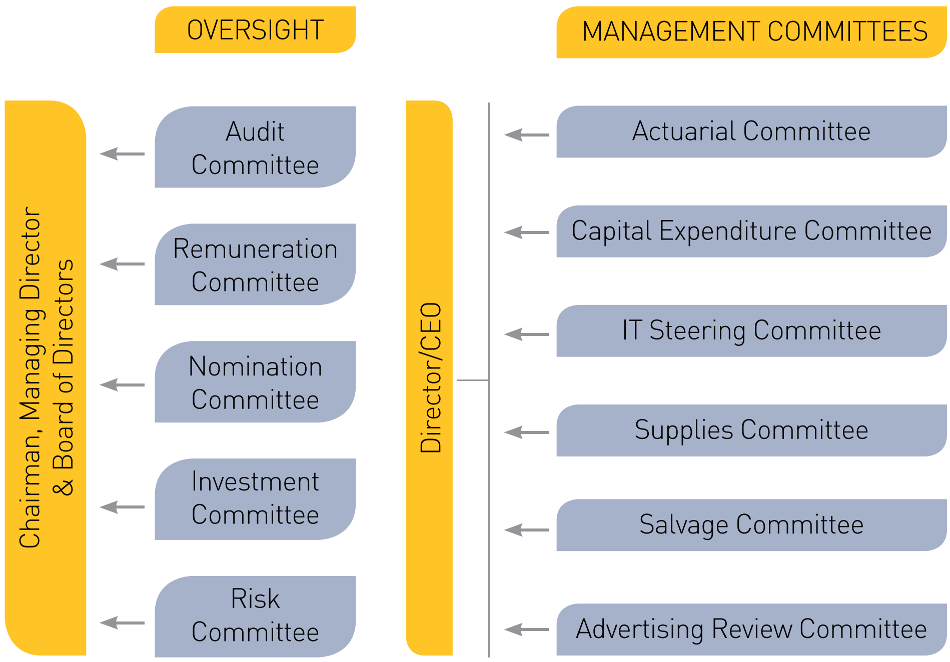
Corporate Governance is the system by which a company governs itself to reinforce public confidence and ensure sustainability of its operations. This consists of, but is not limited to following areas:

Corporate Governance

Corporate Governance Framework

Our corporate governance framework is structured in a manner which reflects both the governing body and the system in which it operates. While it is closely connected to the assignment of rights and responsibilities across the organization and other partners, the framework strives to provide challenge, clarity and accountability to all stakeholders.

The diagram below depicts the company's governance structure



LEADERSHIP

Board of Directors

Structure of the Board

The principal role of the board of Directors in their role as representatives of the shareholders is to oversee the function of the organization and ensure that it continues to operate in the best interests of all stakeholders. At Asian Alliance Insurance PLC, the board function has been apportioned over two formal bodies - a supervisory board and a management board. The supervisory board is responsible for overall strategy and oversight, whilst execution and management is carried out by the management Board, which is led by the Chief Executive Officer Director/CEO, who reports to the Managing Director (MD).

The Board consists of 08 Directors. The Director/CEO and Managing Director are Executive Directors whilst the other directors hold office in Non-Executive capacity. The board meets regularly to determine the Company's operating and financial performance and to provide oversight that the Company is optimizing its resources and is effectively controlled. The specific duties of the board are clearly set out in its terms of reference that address a wide range of corporate governance issues. The Board has to detail specific issues that are specifically reserved for decision by Board members. Some of the important matters requiring Board approval include:

- Company objectives, strategies and business plans;
- Transactions outside delegated limits authority given to the management;
- Financial reporting and internal controls;
- Capital structure ;
- Dividend policy ;
- Investment policy ;
- The constitution of management sub-committees and key business policies, including the remuneration policy.

Powers, duties and responsibilities of the Board

The precise role of the Board is determined by the powers, duties, and responsibilities delegated to it or conferred upon it by the Articles of Association and Companies Act No. 7 of 2007. Members of the board have a duty to act in good faith and exercise their powers in the best interest of policyholders, shareholders and the company as a whole, in compliance with the law. Directors may not allow their own personal interests to come before or in conflict with the interest of the Company and this is reviewed by the Board from time to time.

The entire Board of Directors is collectively responsible for the formulation, implementation and monitoring of business strategies of Your Company. In order to do so, the Board appoints management committees of the main board to assist the main board in fulfilling its stewardship function by reviewing systems of internal control, internal and external audit, risk management, IT system and financial reporting to shareholders.

The main responsibilities of the board include:

Board composition

The Board comprises of the Chairman, Managing Director and six other Directors. Except for the Director/CEO and Managing Director, other Directors hold office in a Non Executive capacity, whereas five Directors of the Non Executive Directors are independent. The Executive Directors, with their experience, knowledge and skills, add to the successful operation of the Company, while the Non Executive Directors' role is to provide a creative contribution to the board by providing objective criticism.

New Board appointments are governed by company policy that is reviewed annually as well as the regulation of the Insurance Act and Companies Act. No. 7 of 2007. Appointments are formal, transparent and subject to Board and shareholder approval. There is a clear division of responsibility to ensure a balance of power, so that no one individual has unfettered powers of decision-making.

- Setting, reviewing, directing, approving and monitoring the corporate strategies.
- Providing guidance to Director/CEO and senior management and ensuring they possess the relevant skills, experience and knowledge to implement the strategies.
- Setting strategic targets and implementation plans and evaluate its effectiveness via periodic Board meetings with the management

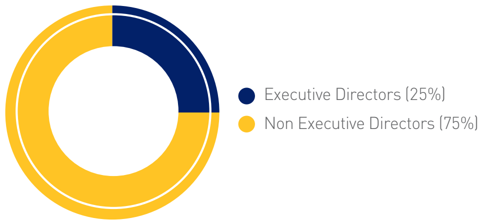
- Ensuring the effectiveness of internal controls and risk management via review of internal audit reports, compliance reports and management letters(external auditors)
- Appointing the Director/ CEO and succession planning of senior management
- Discharging its duties through various sub committees of the main Board

- Monitoring performance against budgets on a regular basis via monthly review of financial performance reports
- Compliance with laws, regulation (IBSL) and statutory payments via review of compliance reports
- Reporting to shareholders on their stewardship

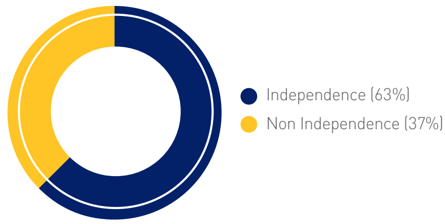
- Reviewing the effectiveness of annual and interim financial statements for reporting purpose
- Reviewing company's values and standards that are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations
- Ensuring the integrity of financial information, internal controls, risk management and financial statements

Corporate Governance

NUMBER OF EXECUTIVE AND NON EXECUTIVE DIRECTORS



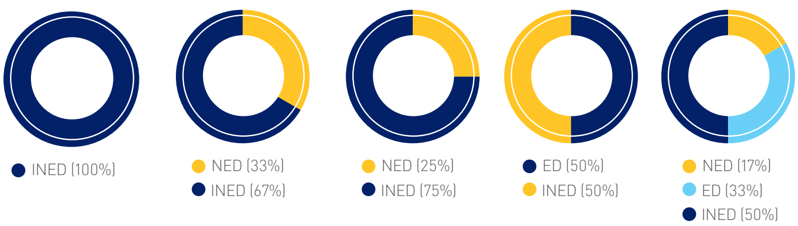
NUMBER OF INDEPENDENT AND NON INDEPENDENT DIRECTORS



Composition of Board & Board Committees as at 2013

Director	Status	Board	Committee Membership				
			Audit Committee	Nomination Committee	Remuneration Committee	Risk Committee	Investment Committee
Ashok Pathirage	Chairman (NED)	✓	×	✓	✓	×	✓
Paul Ratnayeke	Deputy Chairman (INED)	✓	×	✓	✓	×	×
Iftikar Ahamed	Managing Director (ED)	✓	By invitation	×	×	✓	✓
Ramal Jasinghe	Director/CEO (ED)	✓	By invitation	×	×	✓	✓
Sujeewa Rajapakse	INED	✓	✓	×	✓	×	✓
Ray Abeywardena	INED	✓	✓	✓	✓	×	×
Jatinder Mukhi	INED	✓	✓	×	×	✓	✓
Johannes Richters	INED	✓	✓	×	×	✓	✓

ED - Executive Director
NED - Non Executive Director
INED - Independent Non Executive Director



Qualifications of the board members

We understand that today's Boards need to understand complex issues related to insurance business, actuarial science, accounting, law, stochastics statistical and executive pay. The recent financial market crisis has highlighted the need to have high quality Board members with integrity, relevant knowledge and expertise.

As a result, we ensure the introduction of relevant expertise to the Board whenever necessary and this is underscored by the appointment of two overseas independent Non Executive Directors with expertise in the areas of Insurance during the year.

Chairman and Chief Executive Officer (Director/CEO)

The roles of the Chairman and Director /CEO are separate. The Chairman provides firm and objective leadership to the Board. The Chairman presides over Directors' and shareholders' meetings and ensures the smooth functioning of the Board in the interests of good governance. In December 2013 a Managing Director was appointed to the Company and both the MD and Director/CEO are responsible for the delivery of the strategy and the day-to-day running of the business who in turn have delegated authority to the Executive Committee (Exco).

Appointment and re-election of board members

The appointment of new Non Executive Directors as well as Director/CEO to the board is governed by the Articles of Association which is reviewed by the Nomination Committee annually. Newly appointed Directors resign at the first Annual General Meeting (AGM) following their appointment, but are available for re-election by the shareholders at the same meeting. Non-executive Directors are required to resign every three years by rotation, but may stand for re-election at the AGM.

Performance evaluation of the Board

The success of any business ultimately depends upon the capacity of its directors to provide the vision and direction needed not only to survive, but to develop and prosper. Having recognized this, there is a performance evaluation procedure at AAI where the performance of the Board and its sub committees are evaluated by the Chairman. The performance evaluation of the Managing Director is conducted by the Chairman. The performance Evaluation of the Chief Executive Officer, who is an Executive Director, is conducted by the Chairman and Managing Director and it is carried out based on the Balance Score Card.

Directors' remuneration

The Company has established a robust remuneration procedure for Directors and the management to support the strategic aims of a business and enable recruitment, motivation and retention, while also complying with the requirements of regulation.

The remuneration committee delegated responsibility for setting remuneration for all Executive Directors and the Chairman, including pension rights and any compensation payments. The committee also recommend and monitor the level and structure of remuneration for senior management.

Meetings and attendance

The Board meets quarterly to deal with the ordinary business of the Company and on an ad hoc basis as and when necessary. Apart from the above Sub Committee, meetings are held depending on the requirements.

Attendance Register 2013

Director	Board	Audit	Remuneration	Investment	Risk	Nomination
Number of Meetings held	4	6	1	1	1	1
Ashok Pathirage	3	-	1	1	-	1
Paul Ratnayeke	4	-	1	-	-	1
Iftikar Ahamed	4	-	-	1	1	-
Ramal Jasinghe	4	-	-	1	1	-
Sujeewa Rajapakse	3	6	1	1	-	-
Ray Abeywardena	4	5	1	-	-	1
Jatinder Mukhi	4	2	-	1	1	-
Johannes Richters	4	2	-	1	1	-

Corporate Governance

NUMBER OF MEETINGS HELD DURING THE YEAR

Committees of the board

While the entire board remains accountable for the performance and affairs of the company, it delegates certain functions to sub committees and the management to assist in discharging its duties.

The details of the Board Committees are presented in the following table;

Description	Audit Committee	Remuneration Committee	Nomination Committee	Risk Committee	Investment Committee
Chairman	Sujeewa Rajapakse	Ashok Pathirage	Ashok Pathirage	Jatinder K. Mukhi	Ashok Pathirage
Members	Ray Abeywardena Jatinder Mukhi, Johannes Richters	J.H.P. Rathnayake, Ray Abeywardena, Sujeewa Rajapakse	J.H.P. Rathnayake, Ray Abeywardena	Ramal Jasinghe, Iftikar Ahammed Johannes Richters	Johannes Richters Ramal Jasinghe, Iftikar Ahammed, Sujeewa Rajapakse, Jatinder Mukhi
Agenda	Available	Available	Available	Available	Available
Circulation of the agenda and papers	One week in advance	One week in advance	One week in advance	One week in advance	One week in advance
Secretary	Board Secretary	Board Secretary	Board Secretary	Board Secretary	Board Secretary
Invitees	Managing Director, Director/CEO, COO-Life,GM Finance, AGM Finance, Group Head Audit and Risk, Compliance Officer	Managing Director Director/CEO,	-	Managing Director, Director/CEO, COO-Life,GM Finance, AGM Finance, Risk Officer,Group Head Audit and Risk	GM Finance,AGM Finance,Head of Investment
Meeting Frequency	Bi Monthly	Yearly	When required	Quarterly	Quarterly
Availability of Terms of Reference	Available	Available	Available	Available	Available

Description	Audit Committee	Remuneration Committee	Nomination Committee	Risk Committee	Investment Committee
Objectives	Refer Audit Committee report page no. 149	Refer Remuneration Committee report page no. 151	• Propose suitable charter for the appointment and re-appointment of Directors to the Board and to act in accordance with such charter in proposing appointments and re-appointments, • Consider the making of any appointment or re-appointment to the Board, • Provide advice and recommendations to the Board or the Chairman(as the case may be) on any such appointment, • Regularly review the structure, size, composition and competencies (including the skills, knowledge and experience) of the Board and make recommendations to the Board with regard to any changes.	• Assist in the oversight if the review and approval of the companies risk management policy including risk appetite and risk strategy, • Review the adequacy and effectiveness of risk management and controls, • Oversee management process for the identification of significant risks across the company and the adequacy of prevention, detection and reporting mechanisms, • Review the company's compliance level with applicable laws and regulatory requirements, • Review changes in the economic and business environment, including emerging trends and other factors relevant to the company's risk profile, • Review reinsurance treaties annually and advise the board on their sustainability or otherwise.	• Maximize net rate of return, • Maximize safety of investments, • Meet liabilities, • Meet regulatory requirements, • Meet working capital requirements, • Asset and Liability Management.

ACCOUNTABILITY

The Executive Committee as well as the senior management is accountable to the Board. The two primary tools of this accountability are:

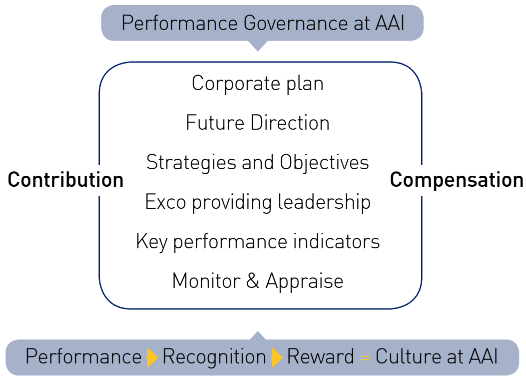
- Organisational and governance strategies and policies
- Established performance objectives relating both to agreed strategies and policies and to strategies and policies involving governance, including efficient risk management.

These tools are updated by the Board as the business of the Company evolves and as market conditions and corporate best practices change. The Executive Committee and Senior management provides regular reporting to the Board on implementation of board strategies and policies and on progress made against performance objectives set by the board. Board control over remuneration provides an instrument for reinforcing Executive Committee and senior management accountability. This is further elaborated under the following headings of performance governance and monitoring and reporting process.

Performance Governance

Performance Governance at AAI is derived from the strategic planning processes to set organisational direction and objectives aimed at successfully managing business risk. The strategic planning process within the Company is a bottom up process, by obtaining the co-operation and contribution from all the staff at different levels by creating a sense of belonging, commitment and by harnessing their creative talents. Based on corporate strategy, the Board sets objectives for the year in consultation with the Exco. In setting the strategies and objectives, the Board reviews the company's vision, mission, competitive position, Internal and external market (SWOT). Based on this information, the Board and the Exco identify the future direction of the company in the plan period and formulate business strategies and objectives to drive AAI within the defined direction.

Every employee at Asian Alliance Insurance is provided with a target linked to objectives and a deadline to achieve the allocated targets. The achievement of these targets is monitored closely at different levels on a periodic basis throughout the year, which demonstrates the management by objective and contribution plus compensation culture within the company. Rewards are strongly linked to performance. Some mechanisms used to evaluate performance are stated below:



- Discussion of company performance at Executive committee meetings based on monthly management information.
- Submission of monthly financial information to the board, mentioning KPIs in comparison with budgets.
- Weekly discussion with management regarding weekly performance and the growth achieved in each week compared to the same week in the previous year.

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

Summary of key objectives, members and frequency of the Management Committees

Description	Salvage Committee	Capital Expenditure Committee	IT steering Committee	Supplies Committee	Actuarial Committee	Advertising Review Committee
Objective	Ensure the salvage from claims are sold at best possible price	Purchasing asset at right quality, at right time & at reliable price considering the cost benefit and budget allocation	Continuously monitor the progress and productivity of IT and MIS of the Company and designing IT policies and make recommendation to Board on IT capital expenditure	Selecting the right supplier considering the quality, price, delivery date	Continuously monitor performance of life fund, product portfolio, and valuation of life fund, expense allocation and regulatory requirements.	Implementing advertising strategies in line with business strategies to protect the professional image of the Company.
Members	AGM- Non Life and GM Finance, DGM- Non-Life and AGM Finance	Director/CEO, COO- Life, AGM Non-Life, GM Finance.	Director/CEO, COO-Life, AGM Non-Life, GM Finance and AGM Finance, AGM ITC	GM- Finance, COO-Life & Head of HR	Director/CEO, Consultant Actuary, AGM – Life, GM Finance , AGM Finance, COO-Life	Director/CEO COO-Life, GM Finance
Frequency of meeting	As and when need arises	As and when need arises	Quarterly	1/2 yearly	Monthly	Quarterly

Monitoring and Reporting Process

Effective board decision-making and monitoring of senior management depends upon the quality and timeliness of the information received by the board and its committees. An informed board will have a reliable and comprehensive internal reporting and monitoring system in place and makes effective use of it. At Asian Alliance Insurance, the respective monitoring and reporting process is laid down in the following manner:

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

CONTROL FUNCTION

It is vital that the Company understands its risks and obligations. This includes having a thorough understanding of:

- Sources of risk, risk types, characteristics, inter-relationships and potential impact on the business,
- Laws and regulations that apply and to the individuals involved in the Company.

Thus it is important that the Company has in place:

- Robust and efficient mechanisms for the identification, assessment, quantification, control, mitigation and monitoring of the risks,
- Suitable strategies, policies and procedures for ensuring compliance with internal strategies and policies, and applicable laws and regulations,
- Appropriate internal controls to ensure that the risk management and compliance policies are observed,
- An internal audit function capable of reviewing and assessing the adequacy and effectiveness of, and the company's adherence to its internal controls as well as reporting on its strategies, policies and procedures.

- Appropriate policies and procedure in order to ensure minimising of making wrong investment decisions
- Suitable IT strategy that align with the business strategy, ensuring that companies stay on track to achieve their strategies and goals, and implementing good ways to measure IT performance
- Right HR Governance which is a systematic approach to management that enables the operation functions to achieve strategic and operational objectives and performance outcomes.
- Precise financial governance through Manual of Financial Authority

Risk Management

The Risk Committee is required to review the effectiveness of risk management via reviewing the internal control systems (whether internal controls are functioning as intended) and audit systems of the Company and assuring the implementation of the recommendations (if appropriate) made by the auditors.

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

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

The use of rating agencies in Risk Management

Rating agencies often evaluate corporate governance structures for the benefit of investors. With increased focus on corporate governance, Asian Alliance Insurance is employing FITCH ratings where the company has obtained BBB+ (lka) stable outlook.

Internal Control Process And Internal Audit

Internal control at Asian Alliance Insurance aims to ensure that business activities are efficient and proficient; that financial reporting is reliable and that applicable laws, regulations and company's internal policies are followed.

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 Company's system of internal controls to mitigate significant risks. The Audit Committee reviews the financial, operational and compliance controls, and risk management systems of Asian Alliance Insurance.

The primary responsibility for providing assurance on the adequacy of internal controls and risk management lies with the management. However, the 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.

Internal audit contributes to the effectiveness of internal controls by ensuring that internal controls take into account the risks facing by the Company 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, that management responses to risks are adequate and effective in reducing the risks to acceptable level (risk appetite level), and that appropriate controls are in place to mitigate risks.

Investment Governance

At Asian Alliance Insurance we believe that corporate governance is an important factor in enhancing the risk/return performance of investment. We are proactive in our approach to investment governance that emphasizes reduction of the risk in taking wrong investment decisions. The investment governance policy of our company provides a framework for making governance decisions that are in the best interest of both the policy holders and shareholders.

Investment Governance structure of the Company.

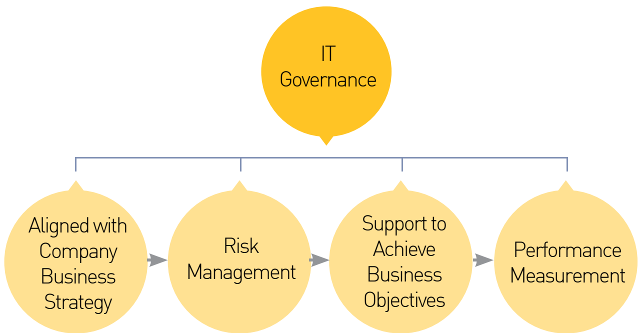
- Existence of critical decision making bodies E.g. Board of Directors, Investment Committee and In-house investment team
- Clear division of roles and responsibilities - approval, supervision and management
- Effective delegation practices
- Existence of decision and/or approval authority limits.
- Adequate knowledge and skill sets - Internally qualified investment personnel.
- Existence of on going education for decision making and investment staff.

- Investment strategy and procedures are reviewed by the Investment Committee at least quarterly and more frequently if required.

IT Governance

IT Governance at Asian Alliance Insurance considered as a part of the overall governance of the company where it is integrated within a wider Enterprise Governance approach and supports the increasing regulatory requirement of Corporate Governance. The IT strategy of the Company is aligned with the overall business strategy of the company, thereby ensuring that the company stays on track to achieve defined objectives and goals. This enables it to measure the performance of IT on the support received to drive the company forward and facilitates an integrated approach to meet regulatory requirements.

The key objectives of driving the IT governance process are aligned with company business strategy, risk management, support to achieve business objectives and performance measurement.



IT standards within the Company are continuously improved with regular reviews by both the executive committee and IT Steering committee. Independent evaluation by Internal/ External audits ensure adherence to key governance objectives at operational and service level. Periodic performance measurement and review guarantee operational performance, ensuring continuous monitoring and the mitigation of current and emerging threats and exploiting opportunities in both external and internal environments. These periodic and continuous reviews facilitate continued improvement of the IT governance processes within Asian Alliance Insurance.

IT controls in Financial Reporting

The accuracy of financial reporting is heavily dependant on a well controlled IT platform. Therefore, at Asian Alliance Insurance, we have implemented the following IT controls over financial reporting to ensure the accuracy and quality of information used for financial reporting.

- Access security controls in order to prevent unauthorised use of the system,
- Based on the MOFA limits all the transactions are carried out with dual authentication,
- New integrated IT system in place, that is, Oracle (E Business Suite), which provides customised reports on time for decision making.
- Periodic backup facility for confidential data & stored it both on-site and off-site of the Company
- Data replication (Real time/online) at SLT-IDC for the purpose of disaster recovery of Life and Non life systems and Oracle (E Business Suite).
- System software controls over the effective acquisition, implementation and maintenance according to industry best practice in system software, security soft ware and utility software.
- All in house system developments and modifications are done according to the well defined change management procedure.

Human Resource Governance

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

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

- To achieve our strategic and business objectives,
- Establish a clear communication and reporting structure,
- Provide a motivating culture by enhancing the transparency of the performance appraisal system,
- Minimise duplication of activities.,
- Training & Education,
- Clear recruitment process,
- Fair treatment is meted out to every employee regardless of sex, race, age and beliefs,
- Transparent in carrying out all HR related activities for processes / policies and procedures.

Employee Code of Conduct

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

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

- Act professionally with courtesy with whomever they come into contact with 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

Governance Over Financial Function

Manual of Financial Authority

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

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

- Recommendation
- Approval
- Payment

The Authorised officer of each stage will be responsible and held accountable to the Board of Directors and the Director/CEO in operational aspect.

External Audit Function

Corporate governance aims to resolve problems which arise from the principal-agent relationship, whereby owners have an interest in maximising the value of their shares – whereas managers tend to be more interested in "the private consumption of firm resources and the growth of the firm". Hence the role of the external auditor is an essential in order to encourage managers to be held more accountable. The Company's External Audit function is carried out by Messrs KPMG, firm of Chartered Accountants. They are responsible for reporting on whether the financial statements are fairly presented in conformity with SLFRs and LKAs. The preparation of the financial statements is the responsibility of management. The Audit Committee sets the principles for recommending the use of the external auditors for non-audit services.

DISCLOSURE AND TRANSPARENCY

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

- Access security controls in order to prevent unauthorised use of the system,
- New integrated IT system in place (that is, Oracle) which provides customised reports on time for decision-making,
- Periodic backup facility for confidential data which is stored both on-site and off-site,
- Replicate server (Real-time, online) at SLT-IDC for the back up of Life and Non Life systems,
- System software controls over effective acquisition, implementation and maintenance (according to industry best practice) of system software, security software and utility software,
- A new firewall has been installed in order to protect the corporate network from external system penetration and threats.

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

SHAREHOLDER RIGHTS AND EQUITABLE TREATMENT

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

Obligations to Other Stakeholders

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

- Security of Compliance with Companies Act No 07 of 2007, Regulation of Insurance Industry Act, No 43 of 2000, Strike, Riot, Civil Commotion & Terrorism Constitution,
- Conducting business honestly and fairly and with due diligence in the best interest of customers and the integrity of the market,
- Strengthening the Financial Position and Solvency Position of the Company in an ongoing manner,
- Ensuring that no conflict of interest arises in the related party transaction,
- Providing adequate disclosures to customers by presenting policies factually and accurately to customers and fairly dealing with the claims,
- Having systems to 'know our customers' and there by adhering to Anti-Money Laundering Rules,
- Always maintaining Privacy & Confidentiality of Customers,
- Compliance with IBSL Regulations on relationships with intermediaries,
- Conducting all activities in a social responsible manner,
- Adhering to the Insurance Board of Sri Lanka Code of Best Practices for Advertising and Marketing Communications.

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

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

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

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

REGULATORY ENVIRONMENT

Asian Alliance Insurance PLC is mainly governed by the regulations of the Insurance Industries Act No 43 of 2000 and its subsequent amendments while being held responsible to the Insurance Board of Sri Lanka. Due to the nature of the company being a public listed entity it is also responsible to the CSE and SEC which rule the entity through ACTs and listing rules. The Company's transactions are oversight by FIU of Central Bank in order to narrow the scope of money laundering which has stipulate procedures and rules by Financial Transactions Reporting Act and Terrorism Act.

Apart from the above, the Company has taken necessary actions to comply with the all applicable statutory payments and returns which are enforced by the Inland Revenue, Central Bank and Registrar General of Companies.

Further, the Compliance Officer should monthly submit compliance checklist along with the Board Pack to the Board and Audit Committee whenever the committee meets. The Company's submission of statutory returns, annual accounts and statutory payments are tabled as follows:

Description	Frequency of submission	Compliance
Insurance Board of Sri Lanka		
Submission of Quarterly Returns	Quarterly	Complied
Submission of cover notes confirming the Reinsurance Arrangements	Annually	Complied
Submission of Risk Assessment Summary	Annually	Complied
Submission of Audited Financial Statements for the year ended 31st December 2012	Annually	Complied
Submission of Annual Statutory Returns for the year ended 31st December 2012	Annually	Complied
Submission of Bi annual compliance certificate as per Circular 18	Bi annually	Complied
Submission of Circular 29	Annually	Complied
CESS payment	Quarterly	Complied
CESS return	Quarterly	Complied
Inland Revenue		
Income Tax Payment and Return	Annually	Complied
VAT payment	- for the period 1st day – 15th day of a month - on or before end of the month - for the period 16th day - end of a month - on or before 15th day of the following month	Complied
Vat return	Quarterly	Complied
Stamp duty payment and return	Quarterly	Complied
PAYE tax payment	Monthly	Complied
PAYE tax return	Annually	Complied
NBT payment	Monthly	Complied
NBT return	Quarterly	Complied
National Insurance Trust Fund		
SRCC and TC payments	Monthly	Complied

Description	Frequency of submission	Compliance
Corp Levy payment & return	Quarterly	Complied
Ministry of Transport		
Road Safety Fund	Monthly	Complied
Motor Traffic Department		
Luxury Tax payment	Monthly	Complied
Central Bank		
EPF payment and return	Monthly	Complied
ETF payment	Monthly	Complied
ETF return	Half yearly	Complied
FIU reporting	Monthly	Complied
Registrar General of Companies		
Annual Accounts	Annually	Complied
Annual Returns	Annually	Complied
Change of Directors and Company Secretary (Form 20)	As required	Complied

Asian Alliance Insurance's compliance with the Code of Best Practice on Corporate Governance issued jointly by the ICASL and SEC

Section No.	Principle	Status	Company's Commitment
1	**The Company**		
A	**Directors**		
A.1	**The Board**		
Principle A.1	**Every public company should be headed by an effective Board.**		
A. 1.1	The Board should meet regularly (at least once every quarter)	✓	The Board meets at least once in every quarter in order to review the company's performance and management committees are held depending on the requirement. The number of Board meetings and management committee meetings held during 2013 and attendance register are given on page 125.
A.1.2	Responsibilities of the Board	✓	Duties and responsibilities of the Board is given on page 123.
A.1.3	Obtaining Independent professional advice	✓	The Board is collectively and individually committed to meet all compliance requirements applicable to the company. Furthermore, the Board is empowered to seek independent professional advice from external parties whilst performing their duties for effective directorship functions at the Company's expense.
A.1.4	Advice and services of the Company Secretary	✓	PR Secretarial Services (Pvt) Ltd is the Corporate Secretary for the Company.
A.1.5	Independent judgment of Directors	✓	All Directors are expected to make decisions objectively and independently in the best interest of the company.

Asian Alliance Insurance's compliance with the Code of Best Practice on Corporate Governance issued jointly by the ICASL and SEC (Contd.)

Section No.	Principle	Status	Company's Commitment
A. 1.6	Dedicating adequate time and effort to matters of the Board and the Company by the Board	✓	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. Refer number of meetings held and attendance on page 125
A. 1.7	Training for new appointments to the Board and existing Directors	✓	Every new Director, who is inducted into the company is given comprehensive training and further existing directors are also provided with training opportunities in order to ensure that they could discharge their duties effectively.
A.2	**CHAIRMAN AND CHIEF EXECUTIVE OFFICER (CEO)**		
Principle A.2	**There should be a clear division of responsibilities at the head of the Company, which will ensure a balance of power and authority.**		
A.2.1	Facts need to be disclosed whenever the Chairman and the CEO are combined	Not Applicable	The Chairman and Managing Director and Director/CEO roles are separate at the Company. Refer Chairman and Chief Executive Officer on page 125.
A.3	**CHAIRMAN'S ROLE**		
Principle A.3	**The Chairman should preserve order and facilitate the effective discharge of Board functions.**		
A 3.1	Role of the Chairman	✓	The Chairman is responsible for leading the Board and for its effectiveness. The Chairman: Maintains the balance of power between Executive and Non-Executive Directors Ensures the appropriate composition of the Board Supports the Managing Director and Director/CEO to manage day-to-day operations of the company. Ensures that the Board is in full control of the Company's affairs Sets agenda for the Board meeting with the support of the Company secretary The Chairman is also the ultimate point of contact for shareholders at the AGM.

Section No.	Principle	Status	Company's Commitment
A.4	**FINANCIAL ACUMEN**		
Principle A.4	**Sufficient financial acumen and knowledge**	✓	The Board consists of qualified, experienced and knowledgeable members on matters of finance. Members of the Board with financial knowledge are as follows : Ashok Pathirage – Over 25 years experience at senior managerial capacities J. H. P Ratnayake- Independent Non-Executive Director, LL.B (University of Colombo), LL.M. (University of London), Attorney-at-Law of the Supreme Court of Sri Lanka, Solicitor of England and Wales Ramal Jasinghe – Executive Director, MBA, University of Sri Jayawardenapura, Chartered Marketer, FCIM, FAMS T. M. Iftikar Ahamed – Executive Director, MBA, University of Wales Mohan Ray Abeywardena – Independent Non-Executive Director, MBA (University of Wales), CIM (UK) Sujeewa Rajapakse – Independent Non-Executive Director, MBA (PIM), FCA Jatinder Mukhi- Independent Non-Executive Director,MBA, University of Technology Sydney, Associate of the Australian Insurance Institute. Johannes Richters- Independent Non-Executive Director, Master Degree in law, University of Amsterdam
A.5	**BOARD BALANCE**		
Principle A.5	**Board balance of Executive and Non-Executive Directors.**		
A.5.1	Sufficient caliber of NEDs	✓	The Board comprise of 06 Non-Executive Directors and 02 Executive Directors .
A.5.2	Independence of NEDs	✓	Five Directors are independent out of the 06 Non-Executive Directors. This is more than the required one-third composition.
A.5.3	Deemed Independent of NEDs	✓	The five independent Non-Executive Directors fulfill the criteria of been deemed independent and free from any business relationship.
A.5.4	Annual declaration of NED's independence or non-independence	✓	Each Non-Executive Director submits a signed and dated declaration annually of his independence or non-independence against specified criteria as set out in Appendix 7A of Colombo Stock Exchange listing rule section 7.10.2(b)
A.5.5	Annual Declaration of NED's independence or non-independence by the Board	✓	The Board's determination of the independence or non independence of each of the directors is declared on pages 172 in the Annual Report.

Asian Alliance Insurance's compliance with the Code of Best Practice on Corporate Governance issued jointly by the ICASL and SEC (Contd.)

Section No.	Principle	Status	Company's Commitment
A.5.6	In the event the Chairman and CEO is the same person, the Board should appoint an independent Non-Executive Directors to be the "Senior Independent Director".	N/A	These roles are separate at the Company
A.5.7	The Senior Independent Director should make himself available for confidential discussions with other Directors who may have concerns .	N/A	Please refer above comment
A.5.8	Conducting meetings with NEDs only	✓	Chairman meets with the NEDs without the presence of Executive Directors, whenever necessary.
A.5.9	Recording of concerns which cannot be unanimously resolved in the Board minutes.	✓	All decisions were taken unanimously during the year.
A.6	**SUPPLY OF INFORMATION**		
Principle A.6	**The Board should be provided with timely information in a form and of a quality appropriate to enable it to discharge its duties.**		
A.6.1	Management has an obligation to provide the Board with appropriate and timely information.	✓	Management provides the Board with timely Financial and Non-Financial information on a regular basis. In addition to this, they provide ad hoc information as requested by the Board.
A.6.2	The minutes, agenda and papers required for Board Meetings should be provided at least 07 days before the meeting.	✓	Board papers, agenda and Board Minutes (previous) to be tabled one week prior to Board meeting.
A.7	**APPOINTMENTS TO THE BOARD**		
Principle A.7	**There should be a formal and transparent procedure for the appointment of new Directors to the Board.**		
A 7.1	A Nomination Committee should be established to make recommendations to the Board.	✓	The Board has appointed a Nomination Committee. It comprises of three Non-Executive Directors. Namely; Ashok Pathirage – Chairman (Non-Executive Director) Paul Ratnayake- Member (Independent Non-Executive Director) Ray Abeywardena – Member (Independent Non Executive Director)
A 7.2	The Board Composition should be assessed annually by the Board.	✓	Board Composition is subject to be reviewed annually and new appointments carried out as necessary.
A 7.3	Upon the appointment of a new Director, the Company should disclose information to shareholders.	✓	Any appointments of new Directors are disclosed to the Colombo Stock Exchange. Further the Annual Report includes profiles of each director which would provide information to the shareholders.

Section No.	Principle	Status	Company's Commitment
A.8	**RE-ELECTION**		
Principle A.8	**All Directors should be required to submit themselves for re-election at regular intervals and at least once every three years.**		
A.8.1	Non-Executive Directors should be appointed for specified terms subject to re-election and to the provisions in the Companies Act	✓	In agreement with the Articles of Association, each Director other than the Managing Director, Director/CEO and any nominee Director will retire by rotation and will stand for re-election.
A.8.2	All Directors, including the Chairman of the Board, should be subject to election by shareholders at the first opportunity after their appointment, and to re-election thereafter at intervals of no more than 03 years.	✓	To comply with the Article of Association, the Directors who have been appointed to the Board during the year hold office until the next AGM, and are required to retire and make themselves available for re-election by the shareholders.
A.9	APPRAISAL OF BOARD PERFORMANCE		
Principle A.9	**Boards should periodically appraise their own performance.**		
A.9.1	The Board should annually appraise itself on its performance in the discharge of its key responsibilities.	✓	The performance of the Board and its sub-committees are evaluated by the chairman.
A.9.2	The Board should also undertake an annual self-evaluation of its own performance and that of its Committees.	✓	The performance Evaluation of the Chief Executive Officer, who is an Executive Director is conducted by the Chairman and Managing Director. The performance evaluation of the Managing Director is conducted by the chairman.
A.9.3	The Board should state how such performance evaluations have been conducted in the Annual Report.	✓	The Performance of the Chief Executive Officer is carried out based on the Balance Score Card.
A.10	**DISCLOSURE OF INFORMATION IN RESPECT OF DIRECTORS**		
Principle A.10	**Shareholders should be kept advised of relevant details in respect of Directors.**		
A.10.1	The Annual Report should include Details of all Directors.	✓	Information regarding Directors is disclosed in the Annual Report. This includes profiles of the Board members (page 26) , details of Directors Interests in Contracts (page 172) , details of Board meetings (page 126) and Board Sub Committee meetings (page 129)
A.11	**APPRAISAL OF CHIEF EXECUTIVE OFFICER (CEO)**		
Principle A.11	**The Board should be required, at least annually, to assess the performance of the CEO.**		
A 11.1	Every fiscal year, the Board, in consultation with the CEO, should set, in line with the short, medium and long-term objectives of the Company, reasonable financial and non-financial targets that should be met by the CEO during the year.	✓	The Board in Consultation with the Director/CEO sets out both Short term and Long term targets for the company that are aligned to the mission and vision of the company. The achievement of each of these objectives is monitored and necessary proactive and reactive action taken.
A 11.2	The performance of the CEO should be evaluated by the Board at the end of each year.	✓	Based on the agreed targets and objectives the performance of Director/CEO is evaluated by the chairman and the Managing Director.

Asian Alliance Insurance's compliance with the Code of Best Practice on Corporate Governance issued jointly by the ICASL and SEC (Contd.)

Section No.	Principle	Status	Company's Commitment
B	**DIRECTORS' REMUNERATION**		
B.1	**REMUNERATION PROCEDURE**		
Principle B.1	**Companies should establish a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his/her own remuneration.**		
B.1.1	The Board should set up a Remuneration Committee to make recommendations to the Board.	✓	A Remuneration Committee has been appointed together with agreed terms of reference, policies and responsibilities of the committee are set out on page 151 of this Annual Report.
B.1.2	Remuneration Committees should consist of Non-Executive Directors and should have a Chairman.	✓	The Remuneration Committee consist of Non- Executive Directors. Details of the committee are provided in the Remuneration Committee Report on page 151
B.1.3	The Chairman and members of the Remuneration Committee should be listed in the Annual Report.	✓	This information is provided in the Remuneration Committee Report.
B.1.4	The Board as a whole should determine the remuneration of Non-Executive Directors, including members of the Remuneration Committee, within the limits set in the Articles of Association.	✓	The details of the Remuneration Committee's composition, policies and responsibilities are set out on page 151 of this Annual Report.
B.1.5	The Remuneration Committee should consult the Chairman and/or CEO and/or professional consultant in discharging their responsibilities.	✓	The Committee consults Managing Director and Director/CEO where necessary and has access to professional consultants.
B.2	**THE LEVEL AND STRUCTURE OF REMUNERATION**		
Principle B.2	**Levels of remuneration of both Executive and Non-executive Directors should be sufficient to attract and retain the Directors needed to run Your Company successfully. A proportion of Executive Directors' remuneration should be structured to link rewards to corporate and individual performance.**		
B.2.1	Remuneration Committee should provide attractive packages to Executive Directors.	✓	The remuneration package of the Managing Director and Director/CEO who are the Executive Directors are with accordance to market rates.
B.2.2	The Remuneration Committee should determine remuneration relative to industry standards and company performance.	✓	The Remuneration Committee studies the industry standards and structures the remuneration package accordingly.
B.2.3	The Remuneration Committee should be sensitive to remuneration and employment conditions and remuneration in the Company or Group when determining remuneration.	✓	Remuneration committee considers the group remuneration levels when deciding the company remuneration package keeping in mind the market rates.
B.2.4	The performance-related elements of remuneration of Executive Directors should be designed and tailored to align their interests with those of the Company and main stakeholders.	✓	Performance related elements of the remuneration package of the Managing Director, Director/CEO and management staff is linked to corporate and individual performance.

Section No.	Principle	Status	Company's Commitment
B.2.5	Executive share options should not be offered at a discount.	N/A	
B.2.6	Remuneration Committee should follow the provisions set out in the code in designing schemes of performance-related remuneration.	✓	Managing Director, Director/CEO and employees at all levels are eligible for an annual performance linked bonus based on achievement of business and profitability targets.
B.2.7	Remuneration Committees should determine appropriate compensation commitments.	✓	There are no terminal compensation commitments other than gratuity payments.
B.2.8	Compensation commitments should be decided, where initial contract does not explicitly provide for them.	✓	As above.
B.2.9	Levels of remuneration for Non-Executive Directors should reflect the time commitment and responsibilities of their role, taking into consideration market practices.	✓	All Non-Executive Directors are paid a monthly Director fee in line with the market practice.
B.3	**DISCLOSURE OF REMUNERATION**		
Principle B.3	**The Company's Annual Report should contain a Statement of Remuneration Policy and details of remuneration of the Board as a whole.**		
B.3.1	Details of the remuneration committee, remuneration policy and aggregate remuneration paid to Directors should be stated in the Annual Report.	✓	The Remuneration Committees' report together with the Remuneration Policy adopted by the company is given on pages 151
C	**RELATIONS WITH SHAREHOLDERS**		
C.1	**CONSTRUCTIVE USE OF THE ANNUAL GENERAL MEETING (AGM) AND CONDUCT OF GENERAL MEETINGS**		
Principle C.1	**Boards should use the AGM to communicate with shareholders and should encourage their participation.**		
C.1.1	All proxy votes should be counted.	✓	The company records proxy votes together with other shareholder votes.
C.1.2	Companies should propose a separate resolution at the AGM for each substantially separate issue.	✓	The adoption of the Annual Report together with the Financial Statements is proposed as a separate resolution.
C.1.3	The Chairmen of the sub committees should be present at the AGM to answer any questions.	✓	The Chairman of the Board ensures that the Chairmen of Board Sub Committees and External Auditors are present at the AGM to answer any queries raised by the shareholders.
C.1.4	Notice of the AGM and related papers should be sent to shareholders before the meeting, within the determined notice period.	✓	The Annual Report together with the notice of meeting and related documents are sent to shareholders at least 15 days prior to the date of the AGM.
C 1.5	A summary of the procedures governing voting at General Meetings should be sent with every notice.	✓	An Agenda including the procedures of the meeting is also sent with the Agenda.

Asian Alliance Insurance's compliance with the Code of Best Practice on Corporate Governance issued jointly by the ICASL and SEC (Contd.)

Section No.	Principle	Status	Company's Commitment
C.2	**MAJOR TRANSACTIONS**		
Principle C.2	**Directors should disclose all proposed corporate transactions, which if entered into, would materially alter/vary the Company's net assets base.**		
C.2.1	Prior to a company engaging in or committing to a 'Major Transaction', Directors should disclose to shareholders all material facts of such transaction.	✓	As per the disclosure requirement of Company's Act, No. 7 of 2007 of section 192, the Board of Directors disclose all transactions that they have with the Company.
D	**ACCOUNTABILITY AND AUDIT**		
D.1	**FINANCIAL REPORTING**		
Principle D.1	**The Board should present a balanced and understandable assessment of the Company's financial position, performance and prospects.**		
D.1.1	The Board's responsibility to present a balanced and understandable assessment extends to interim and other price-sensitive public reports and reports to regulators, as well as to information required to be presented by statutory requirements.	✓	The interim financial statements and Annual Report are published according to Sri Lanka Accounting Standards (SLAS) and circulated to shareholders and Colombo Stock Exchange within the stipulated time period.
D.1.2	The Directors' Report should contain declarations by the Directors.	✓	Directors Report includes a declaration by the Directors addressing the provisions set out in the code.
D.1.3	The Annual Report should contain a statement setting out the responsibilities of the Board for the preparation and presentation of financial statements, together with a statement by the Auditors about their reporting responsibilities.	✓	The Auditors Report is on page 181 and the report containing the Directors responsibilities in the preparation and presentation of financial statements is provided on page
D.1.4	The Annual Report should contain a "Management Discussion & Analysis".	✓	Management Discussion & Analysis section is included on page 32
D.1.5	The Directors should report that the business is a going concern.	✓	This information is set out in the Directors' Report on page 171 of this Annual Report.
D.1.6	If the net assets of the Company fall below 50% of the value of the Company's shareholders' funds, the Directors shall summon an EGM to inform shareholders.	✓	If such a situation does arise, an EGM will be called.

Section No.	Principle	Status	Company's Commitment
D.2	**INTERNAL CONTROL**		
Principle D.2	**The Board should maintain a sound system of internal control to safeguard shareholders' investments and Company's assets.**		
D. 2.1	The Board should review the effectiveness of the internal control system annually.	✓	The Audit Committee regularly monitors the effectiveness of internal controls and the Board is collectively responsible for sound establishment of internal controls. Assurance of this is achieved via meetings between Internal audit and management representatives with the Audit Committee.
D. 2.2	Companies which do not have an internal audit function should from time to time review the need for one.	✓	The Company's internal audit function has been outsourced to an independent auditor - Ernst & Young Advisory Services (Pvt) Ltd, which is permanently stationed at the Company and it reports the audit findings with management responses to the Audit Committee.
D.3	**AUDIT COMMITTEE**		
Principle D.3	**The Board should establish formal and transparent arrangements for considering how they should select and apply accounting policies, financial reporting and internal control principles, and in maintaining an appropriate relationship with the Company's Auditors.**		
D.3.1	The Audit Committee consists of Non-Executive Directors, a majority of whom should be independent.	✓	The Audit Committee comprises of four Independent Non-executive Directors and the Chairman of the Committee is a Fellow Member of Institute of Chartered Accountants of Sri Lanka. The details of Audit Committee's composition and functions are set out on page 149 of this Annual report
D.3.2	The Audit Committee should review the scope and results of the audit and its effectiveness, and the independence and objectivity of the Auditors.	✓	• The Audit Committee contributes to the effectiveness of the internal audit function by: • Reviewing the internal audit budget, staffing and audit plan • Reviewing the material findings of internal audit reviews and management 's response • Reviewing the effectiveness of internal controls, including IT controls and security, overall control environment and accounting and financial controls • Obtaining internal auditors recommendations regarding internal controls and accounting procedure • Reviewing internal auditors appointment, performance and replacement • Reviewing major financial exposures and review the process to monitor, control and reporting such exposures.

Asian Alliance Insurance's compliance with the Code of Best Practice on Corporate Governance issued jointly by the ICASL and SEC (Contd.)

Section No.	Principle	Status	Company's Commitment
D.3.3	The Audit Committee should have a written Term of Reference, dealing clearly with its authority and duties.	✓	The Report set out on page 149 indicates that the committee operates within clearly defined terms.
D.3.4	**DISCLOSURES**		
	The names of directors in the Audit Committee and their independence together with a report from the committee should be provided .	✓	This information is disclosed in the Audit Committee Report which can be found on page 149
D.4	**CODE OF BUSINESS CONDUCT & ETHICS**		
Principle D.4	**Companies must adopt a Code of Business Conduct & Ethics for directors and members of the senior management team and must promptly disclose any waivers of the Code for Directors or others.**		
D.4.1	The Company must adopt a Code of Business Conduct & Ethics for Directors and members of the senior management team . The following important topics need to be addressed : • Conflict of interest; • Corporate opportunities; • Confidentiality; • Fair dealing; • Protection and proper use of company assets; • Compliance with laws, rules and regulations (including insider trading laws); • Encouraging the reporting of any illegal or unethical behaviour.	✓	The company has adopted a Code of Business Conduct that has set guidelines for the Board and Senior Management.
D.4.2	The Chairman must affirm that there is no violation to the Code.	✓	The Report from The Board of Directors on page 171 confirms that there has been no material violations of the Company's Code of Business Conduct and Ethics during the year.
D.5	**CORPORATE GOVERNANCE DISCLOSURES**		
Principle D.5	**Directors should be required to disclose the extent to which the Company adheres to established principles and practices of good Corporate Governance.**		
D.5.1	The Directors should include a Corporate Governance Report in the Annual Report.	✓	This report stands witness to the Board's commitment to the Code of Best Practice on Corporate Governance issued by the ICASL and SEC and the Rule No. 7.10 of Listing Rules issued on Corporate Governance by CSE. Further, the Corporate Governance reports sets out the systems and processes in the company to ensure maximum compliance.

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

Asian Alliance Insurance's compliance with the Corporate Governance rules as per section 7.10 of the listing rules of the Colombo Stock Exchange (Contd.)

Rule No.	Subject	Requirement	Compliance Status	Details
7.10.1(a)	Non- Executive Directors	Two or one-third of the total number of Directors, which ever is higher, shall be Non- Executive Directors	✓	06 out of 08 Directors are Non-Executive Directors.
7.10.2.(a)	Independent Non-Executive directors	Two or one-third of Non- Executive Directors, whichever is higher, shall be independent.	✓	The Board comprises of 05 Independent Non- Executive Directors
7.10.2(b)	Submission of declaration by Non-Executive Directors	Each Non-Executive Directors shall submit a declaration of independence / Non- Independence in the prescribed format	✓	Each Non-Executive Director has submitted his declaration to CSE
7.10.3(a)	Disclosure relating to Directors	Names of the Independent Directors shall be disclosed in the Annual Report	✓	Please refer Annual Report under Board of Directors on page 172
7.10.3(b)	Disclosure relating to Directors	In the event a Director does not qualify as "independent" as per the rules of corporate governance, but if the Board is of the opinion that the Director is nevertheless independent, it shall specify the basis of the determination in the Annual Report	✓	Please refer Directors report on page 172
7.10.3(c)	Disclosure relating to Directors	Directors' brief resume shall be published in the annual report with their expertise in the relevant functional areas.	✓	Please refer page 26 of the Annual Report
7.10.3(d)	Disclosure relating to Directors	In the event of new appointment of directors, a brief resume of such director shall be disseminated to public via Colombo Stock Exchange	✓	Please refer page 26 of the Annual Report
7.10.5	Remuneration Committee	A listed company shall have a remuneration Committee	✓	Please refer page 151 of the Annual Report
7.10.5 (a)	Remuneration Committee – members	The remuneration Committee shall comprise of a minimum of 02 independent Non-Executive Directors or a majority of Independent Non-Executive Directors, whichever is higher	✓	The Remuneration Committee comprises of 03 Independent Non-Executive Directors and 01 Non Executive Directors.
7.10.5 (b)	Remuneration Committee – Functions	The Remuneration Committee shall recommend the remuneration of Chief Executive Officer, GMs and senior managers	✓	Please refer page 151 of this Annual Report

Rule No.	Subject	Requirement	Compliance Status	Details
7.10.5(c)	Disclosure in the Annual Report	The Annual Report shall set out : • Name of the directors of the Remuneration Committee. • The statement of remuneration policy. • Aggregate remuneration paid to Executive and Non- Executive Directors .	✓	Please refer page 151 of this Annual Report Please refer page 151 of this Annual Report Please refer page 267 of this Annual Report
7.10.6	Audit Committee	A listed Company shall have an Audit Committee	✓	Please refer the Audit Committee Report on 149 of this Annual Report
7. 10.6(a)	Composition of Audit Committee	The Audit Committee shall comprise of a minimum of 02 independent Non-Executive Directors or a majority of independent Non-Executive Directors, whichever is higher One of the Non-Executive Directors shall be appointed as the Chairman of the committee by the Board of Directors The Chief Executive Officer (Director/ CEO) and Chief Financial Officer(CFO) shall attend the Audit Committee meetings The Chairman or one member of the Audit Committee should be a member of a recognized professional accounting body.	✓	The Audit Committee comprises of 04 independent Non-Executive Directors . Mr. Sujeewa Rajapakse (Independent Non-Executive Director) acts as the Chairman of the Committee The Managing Director, Chief Executive Director (Director/CEO) and Chief Financial Officer (CFO) attend meetings by invitation. The Chairman of the Audit Committee is a fellow member of Institute of Chartered Accountants of Sri Lanka

Asian Alliance Insurance's compliance with the Corporate Governance rules as per section 7.10 of the listing rules of the Colombo Stock Exchange (Contd.)

Rule No.	Subject	Requirement	Compliance Status	Details
7.10.6(b)	Functions of Audit Committee	The Audit Committee shall oversee : Preparation, presentation and disclosure of the financial statements and ensuring they are in line with the Sri Lanka Accounting Standards. Compliance with financial reporting, Companies Act and other financial reporting regulations and requirements. Internal controls and risk management are adequate to meet the requirements of Sri Lanka Accounting Standards Independence and performance of external auditors. Appointment, re-appointment and removal of external auditors and approve the terms of remuneration and terms of engagement	✓	Please refer the Audit Committee Report on page 149 of this Annual Report
7.10.6(c)	Disclosure in the Annual Report	The Annual Report should disclose: Names of the directors of the Audit Committee How the Audit Committee determines the independence of the auditors and how such determination is made A report by the Audit Committee setting out the manner of compliance with the listing rule 7.10 on Corporate Governance	✓	Please refer the Audit Committee Report on page 149 of this Annual Report

Audit Committee Report

Composition

The Board Audit Committee comprise Sujeewa Rajapakse (Chairman) , Ray Abeywardena, Jatinder.K.Mukhi,and Johannes.W.H.Richters Non Executive Directors of the Company who conducted committee proceedings in accordance with the terms of reference approved by the Board.

The Chairman is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and Society of Certified Management Accountants of Sri Lanka. He is the Managing Partner of BDO Partners a firm of Charted Accountants.

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

Objectives

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

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

Meetings

The Audit Committee conducted six meetings during the year under review. The Managing Director, Director/CEO, Chief Operating Officer-Life and General Manager Finance attended the meetings by invitation. Members of the Executive Committee, Senior Management, Group Head Audit and Risk, 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 Quarterly and Annual Financial Statements of the Company prior to its publication.
- Reviewed the consistency and appropriateness of the accounting policies adopted by the company to ensure compliance with Sri Lanka Accounting Standards (SLFRS)
- Expanded the scope of the Internal Audit consultants role to ensure greater focus on internal controls and risk management .
- Considered the internal and external auditor's reports and direct Management to take appropriate and relevant follow up action on identified control weaknesses and accounting issues highlighted in their report.
- Reviewed the Compliance Report prepared by the Compliance Officer to ensure compliance with Directions of the Insurance Board of Sri Lanka and other regulatory and statutory requirements .

Internal Audit

The Internal audit function is outsourced to Messrs Ernst and Young Advisory Services (Pvt) Ltd.

The Committee monitors the effectiveness of the internal audit function and is responsible for approving their appointment or removal and for ensuring they have adequate access to information required to conduct their audits. During the year the Committee reviewed the internal audit plan and recommended changes and further monitored the progress on regular basis.

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

External Audit

During the year the Committee met with Messrs KPMG, Chartered Accountants its external auditors to discuss the Auditors Management Letter pertaining to the previous year's audit and reviewed the management responses to the issues raised . Discussions were also held in regard to the nature, scope and approach of the audit for 2013 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, Chartered Accountants as required by the Company's Act No 07 of 2007 , confirming that they do not have any relationship with the Company , which may have a bearing on their independence within the meaning of the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and Securities & Exchange Commission of Sri Lanka and the Guidelines for Listed Companies on Audit and Audit Committees issued by the Securities and Exchange Commission of Sri Lanka. In addition the lead Audit Partner is rotated for every five years.

Audit Committee Report

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, Chartered Accountants be reappointed as Auditors for the financial year ending 31 December 2014 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 (CA)

Conclusion

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

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

(Sgd)
Sujeewa Rajapakse
Chairman, Audit Committee
Colombo

13 February 2014

Remuneration Committee Report

Composition and Charter of the Remuneration Committee

The Remuneration Committee comprises Asoka K Pathirage (Chairman), J.H.P.Ratnayeke, Ray Abeywardena, and Sujeewa Rajapakse Non Executiver Directors of the Company.

The Managing Director and Director/CEO attends all meetings by invitation. The Head of Human Resources assists the Committee by providing information required for its decision making process.

Remuneration Policy

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

Responsibilities of the Remuneration Committee

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

Remuneration Committee Meetings

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

Remuneration Package

Employees

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

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

Fixed Components

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

Variable Components

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

Other Employee Benefits

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

Retirement Benefits

There are no retirement benefits to employees other than gratuity.

Remuneration Committee Report

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 and CEO's remuneration 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 is disclosed on Note No 41.3 page 267.

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 173.

Personal Loans for Directors

No Director is entitled for Company loans.

(Sgd)
Ashok Pathirage
Chairman - Remuneration Committee

Colombo.
13 February 2014

Risk Management

Asian Alliance Insurance's approach to risk management aims to protect the Company's capital, enhance value creation, optimise our risk-return profile, support decision making and protect the Company's reputation and brand.

The risk review describes the Company's risk management framework and risk governance, presents an analysis of its main risks, and reports on capital management and capital adequacy. The risk review is an integral part of the financial statements.

Introduction and Overview

Risk is the probability of an event to occur which will have an impact on the achievement of the business objectives of the Company. The purpose of risk management is to identify, measure and effectively manage the risks through adequate monitoring, analysis and mitigation strategies. The risk strategy as a self-contained set of rules - serves as the foundation for the Company's risk management. It is an integral component of the guidelines for risk monitoring and risk steering and is reflected on the various levels of risk management and in the operational guidelines.

Mission and Objectives of Risk Management

The management of these potential exposures is vital for the Company's operation as it can affect the achievement of the Company's strategic, financial and operational objectives. Your Company's objectives towards the implementation of an enterprise wide risk management system are;

- Manage and protect the impact to the Capital level of the company,
- Fostering a culture of risk awareness where risk plays vital role in the successful management growth of the business,
- Aligning risk taking with expertise, core competence and business directives,
- Establishing a risk framework that defines the ownership and accountability of management of the risks identified,
- Implementation of a rigorous risk assessment process to carry out continuous risk identification, control and mitigation process,
- Support the decision making process of the company with reliable and consistent analysis of risk exposures of the company.

A complete implementation of an ERM framework will allow informed risk taking which will optimise the business outcomes including the risk-return profile while ensuring that the company maintains the risks within the level of risk appetite and compliance will all regulations.

Risk Landscape of Asian Alliance Insurance PLC

The risk landscape of the Company encompasses Insurance risks, Investment risks, operational risks and other risks which are provided in figure 1 as follows:

Figure 1: Risk Landscape of Asian Alliance

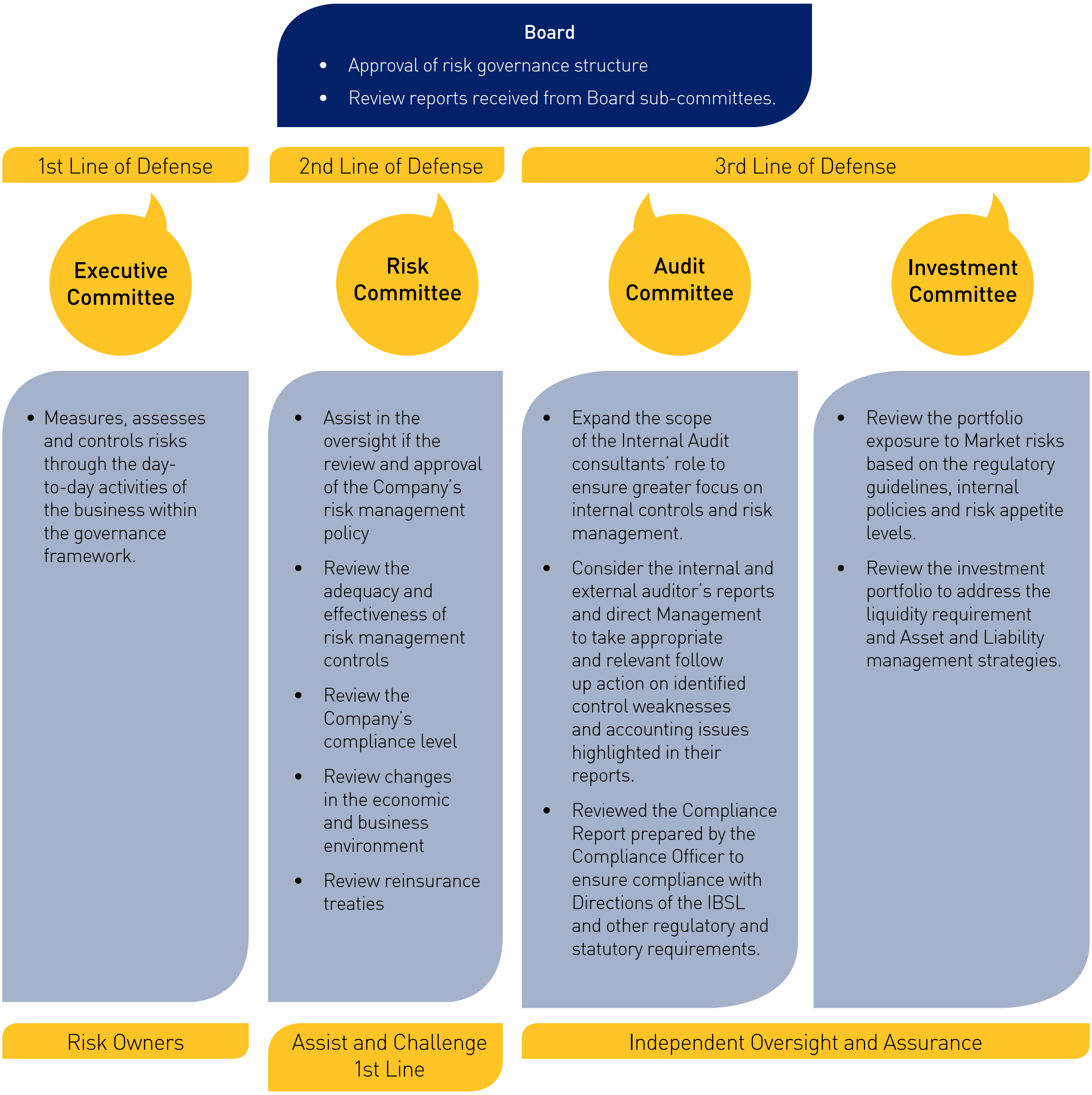
Risk management framework (Governance)

In order to achieve its mission and objectives, the Company relies on its risk management framework.

The interplay of the individual functions and bodies within the overall system is vital to an efficient risk management system. The roles and responsibilities are clearly defined and ensure smooth interaction.

AAI's structure for managing and reporting are given in figures 2;

Figure 2: Simplified Risk Governance Framework of AAI



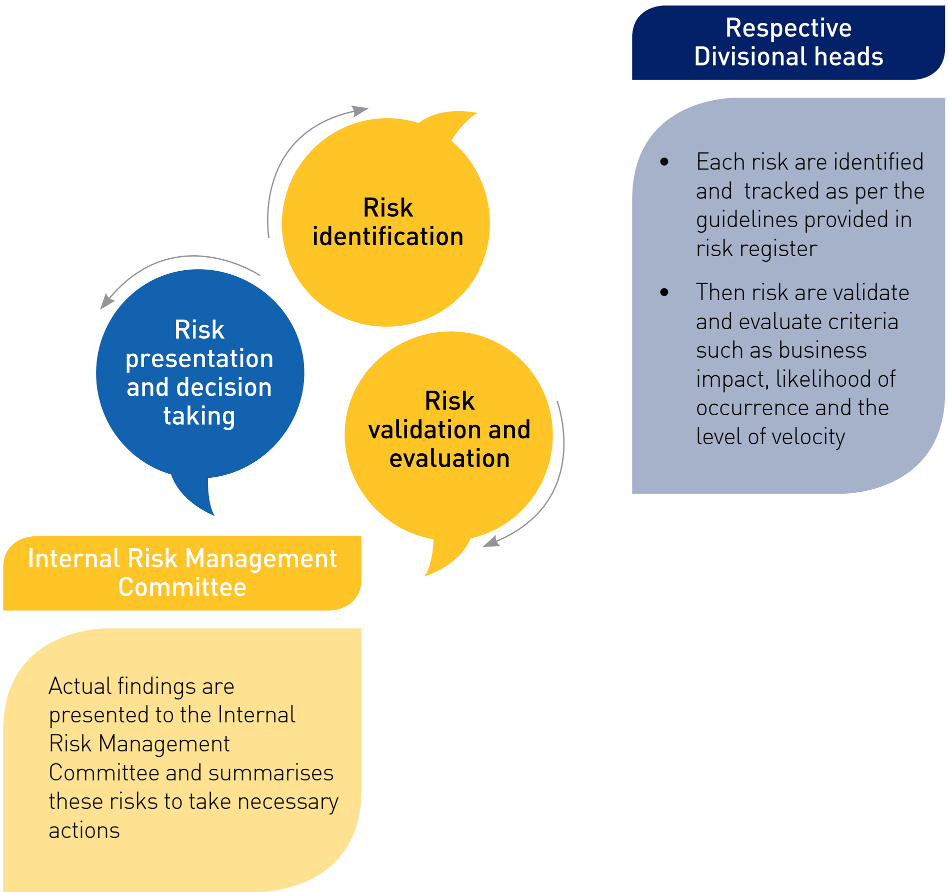
Risk Management

The Company's Internal Risk Management Committee review and summarizing key risks for Board Risk Committee to review. The Company has understood that it is not possible to eliminate all risk and retained some of the risk in order to generate a return in excess of the risk free rate.

The risk retention threshold has been clearly communicated by the Board of Directors. The risk management process helps to understand the risk profile of the Company and synchronies the risk profile with the risk appetite of the Board.

AAI's risk management process is given in Figure 3.

Figure 3: AAI's Risk Management Process



The Risk Register of the Company was formulated and agreed upon by the Internal Risk Management Committee and acts as a framework to allow the management and Board Risk Committee to have a better overview of the major business risks of the company rated using a pre agreed Risk Matrix for the Company.

Risk Register

The Risk Register comprises of the risks identified, refined, along with the detailed action plan on how these risks will be analysed, mitigated and eliminated. The Risk Register encompasses the principle risks that would have a material impact on the company. These risks are regularly reviewed and evaluated based on its impact and likelihood of occurrence. The Risk Manager reports quarterly on its risk profile and risk issues to the Board Risk Committee.

Evaluation of Potential Impact of a Risk

The potential impact of a risk is evaluated based on the impact to the business continuity, profit and the loss of business portfolio. These risks will be rated according to the severity of the impact where the severity of the risk will be rated in terms of the business impact to the above areas of the business.

Assessment of Likelihood of Occurrence

Likelihood of occurrence of risk is examined based on the historical experience and probabilities of occurrence in the current market and economic condition. For all the key risks existing controls are identified and assessed in terms of the benefit and ability.

The heads of relevant functions owns the Risks and the responsible persons are required to provide the action plans on how the high rated risks will be improved and the timelines to achieve these targets.

This enhanced process of risk management was developed through out the year.

Risk Appetite & Tolerances

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

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

Key Risk Indicators

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

Risk Scoring Matrix

The Key Risk Indicators are scored/rated against the impact and likelihood of the risk, using a risk scoring matrix. The impact is assessed under Business Continuity, Profit and Loss of business portfolio. Further rated under four categories such as

- Marginal,
- Significant,
- Critical and
- Catastrophic

The Likelihood is a frequency-based assessment where the risks will be rated according to the probability of the risk occurring. For an instance if the above Risk may have already happened or is possible at some stage in one to 15 year period (1 in 15 event), it will be considered as an event with a likelihood of "Low".

Table 1 provides the risk scoring matrix at Asian Alliance Insurance PLC

Table 1

Severity	IV - Marginal	III - Significant	II - Critical	I - Catastrophic
Business Continuity	← 4 hrs	→ 4 hrs ←1 day	→ 1 day ← 2 day	→ 2 day
Profit	← 5 million	→ 5 m ← 100 m	→ 100 m ← 500 m	→ 500 m
Loss of business portfolio	← 2.5%	→ 2.5% ← 10%	→ 10% ← 25%	→ 25%

Probability	Description	Definition
A	Very High	← 1 week
B	High	→ 1 week ← 3 mth
C	Occasional	→ 3 mtns ← 1yr
D	Low	→ 1yr ← 15 yr
E	Very Low	→ 15 ← 100 yrs
F	Almost Impossible	→ 100 yrs

Traffic Light Indication Matrix

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

Figure 4: Traffic Light Indication Matrix

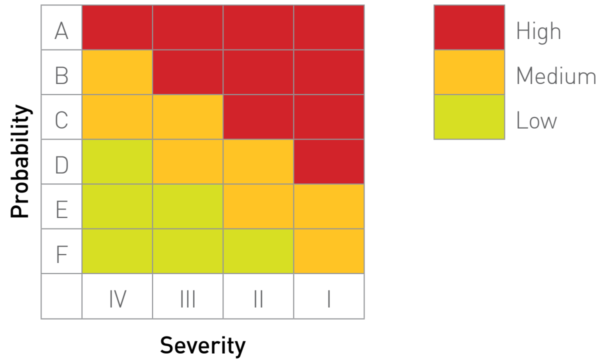


Table below summarises the controls that AAI has implemented to manage the risks excluding the Insurance Risk and Investment risk details of which are provided in Note 37 to the Financial Statement from pages 244 to 261 of this Annual Report 2013

Risk Category	Control
Strategic Deviation in the Company's strategic plan due to changes in the Industry and Macro Environment.	Incorporating the risk management framework during the business planning process of the Company. Quarterly review of the business plan by the Board of Directors to identify any deviation and take timely corrective action.
Reputation An event that affects the Company's brand, thus affecting the operation.	Implementation, review and monitoring of controls for their effectiveness by the Internal Auditors and close monitoring of the regulatory changes by the Compliance department.
People Shortage of qualified Insurance and Actuarial Professionals	Aligning the HR policies to encourage all levels of staffs to continuous educations in these fields. Hiring of foreign consultants to train the internal staffs and assist management in the decision making process.
Systems System security related issues due to lack of system controls and data security.	Regular system audit to improve the control environment.
Socio economic and Political Risk The socio economic and political environment has an impact on the business of insurance as well as the investment climate. An economic downturn could lead to a slowdown in insurance business and payment default among policyholders. Social and political changes could also impact on deterioration in law and order, legal system etc	➲ Review pricing strategy regularly ➲ Use service level as to compete in the market ➲ Review / follow-up cancelation of life policies

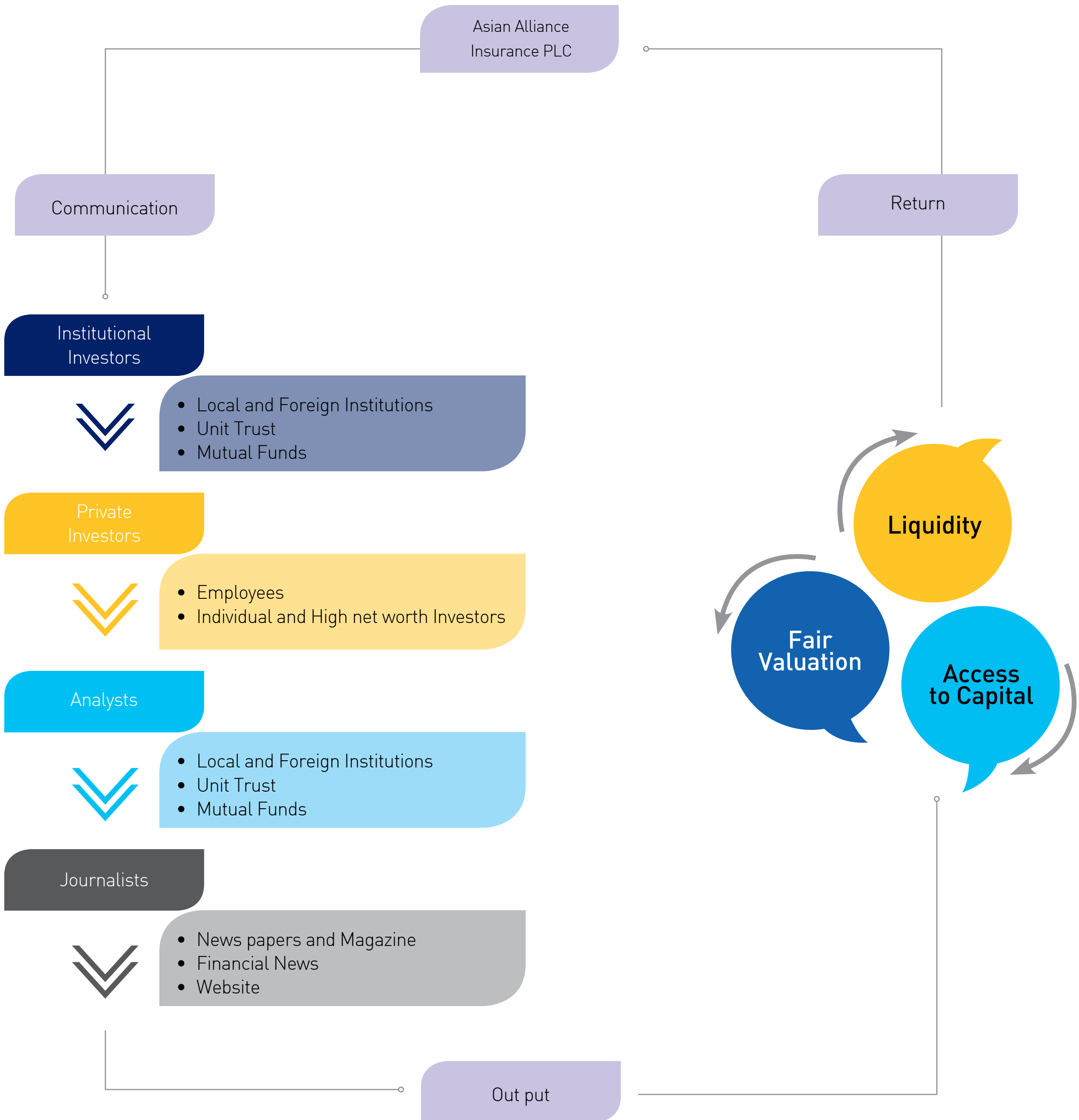
Investor Relations

Introduction to Investor Relation (IR)

We are delighted to present this 'Investor relations' supplement, together with our Inaugural Integrated Annual Report. The investor relation section describes the ongoing activity of companies communicating with the investment community with regulatory and voluntary disclosures during the concluded financial year.

Investor relation is essentially part of stock market life that sees companies interacting with existing shareholders, potential investors, analysts and journalists.

The Company communicated with the investor community based on below mentioned model



Company Activities and Structure

Asian Alliance Insurance PLC is a public limited liability company incorporated in Sri Lanka on 21st 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 commenced Non-Life Insurance business on 01st 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 and Non-Life Insurance.

Our Stock Listing

The Company is listed on the Dirisavi Board of the Colombo Stock Exchange and the sticker symbol for Asian Alliance Insurance PLC shares is 'AAIC.N0000 '.

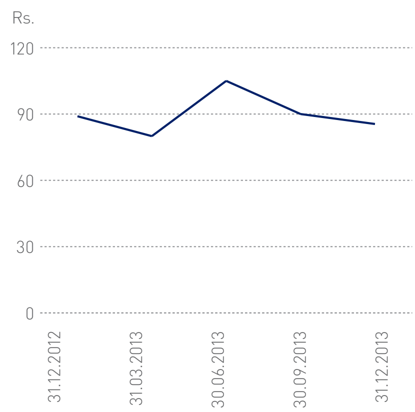
Your Company's Credit Rating Upgraded to BBB+ (Fitch)

The company managed to improve its Claims Paying Ability rating by two notches to end up at BBB+ (Fitch) during the year 2013. As promised, the company continued to take measures to identify areas of improvement and measures taken have been justified through the enhanced rating received. The company will continue to improve its systems and processes along with its bottom line in order to breach the next barrier and enter the realm of 'A' rated companies in the near future. The rating of the company was carried out by Fitch Ratings (Lanka) Ltd

Your Company's Share price volatility for 2013

Adequate corporate disclosures are provided to the financial community by Asian Alliance Insurance in order to allow optimum pricing of Asian Alliance securities. Asian Alliance share price shows a decrease from Rs.89.00 in 2012 to Rs. 88.50 in 2013

Asian Alliance Insurance PLC
Share Price Movement 2013



Compliance with Contents of Annual Report as per Section 7.6 of the Listing Rules of the CSE

The Company has complied 100% with all the requirements of the section 7.6 of the listing rules of the CSE on the contents of the Annual Report and Accounts of a Listed Entity.

The below table summarizes reference to the relevant sections of this Annual Report where specified information can be found, together with the corresponding page reference.

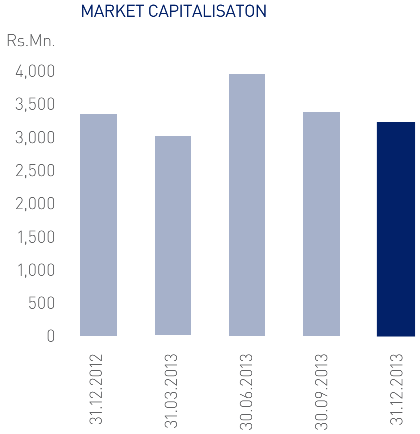
Listing Rule Number	Compliance Requirement	Detail / Reference	Compliance Status
7.6.i	Names of persons who during the financial year were Directors of the entity	The names of persons who held the position of Directors during the Financial year is given in the Annual Report of the Board of directors (refer Page No. 171)	Complied
7.6.ii	Principal activities of the Company	The principal activities of the Company during the year are given in the Annual Report (refer Page No. 169)	Complied
7.6.iii	The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held	The 20 largest shareholders together with their shareholding as at 31st December 2013 is provided on "Investor relation" Section	Complied

Listing Rule Number	Compliance Requirement	Detail / Reference	Compliance Status
7.6.iv	The public holding percentage	The details of the public shareholding are available on (refer Page No. 165)	Complied
7.6.v	A statement of each Director's holding and Chief Executive Officer's holding in shares of the entity at the beginning and end of each financial year	The statement of each Director's holding and Chief Executive Officer's holding in shares is available on (refer Page No. 173)	Complied
7.6.vi	Information pertaining to material foreseeable risk factors of the entity	Information relating to material foreseeable risk factors is provided in the risk management section (refer Page No. 153)	Complied
7.6.vii	Details of material issues pertaining to employees and industrial relations of the entity	The Company did not encounter any issues relating to employees and industrial relations during the year 2013	Complied
7.6.viii	Extents, locations, valuations and the number of buildings of the entity's land holdings and investment properties	Not Applicable	
7.6.ix	Number of shares representing the entity's stated capital	Total number of shares is 37,500,000 which are ordinary shares with voting rights	Complied
7.6.x	A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings in the given categories	The distribution schedule of the number of shareholders and the percentages of their total holdings in the given categories is provided on (Refer Page No. 164)	Complied
7.6.xi	List of ratios and market price information	The list of applicable ratios and the market price information is provided in the "Investor Relation" section	Complied
7.6.xii	Significant changes in the entity's fixed assets and the market value of land, if the value differs substantially from the book value	There were no significant changes in the entity's fixed assets and market value of lands assets and the market value of land, if the value differs substantially from the book value	Complied
7.6.xiii	If during the year the entity has raised funds either through a public issue, rights issue, and private placement	The Company did not raise funds to increase its Stated Capital during the year.	Complied
7.6.xiv	Employee Share Option Schemes and Employee Share Purchase Schemes	There is no 'Employee Share Ownership Scheme' in the Company.	Complied
7.6.xv	Disclosures pertaining to Corporate Governance practices in terms of rules 7.10.3, 7.10.5 c. and 7.10.6 c. of Section 7 of the Rules	The Disclosures relating to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 c, and 7.10.6 c of Section 7 of the rules are given in the Corporate Governance Report (Refer Page No 146 - 148)	Complied
7.6.xvi	Details of investments in related party transactions.	There were no material transactions during the year with any related party of the company other than discloses (Refer Page No. 267)	Complied

Investor Relations

Market Information

	2013	Q4	Q3	Q2	Q1	2012
Market price per share	85.50	85.50	90.00	105.00	80.00	89.00
Existing shares	37,500,000	37,500,000	37,500,000	37,500,000	37,500,000	37,500,000
Shares traded	1,808,324	54,095	92,253	1,349,686	312,290	1,889,431
Value of shares traded	169,638,420	4,660,309	9,309,533	128,848,152	26,820,356	169,316,610
Market Capitalization	3,206,250,000	3,206,250,000	3,375,000,000	3,937,500,000	3,000,000,000	3,337,500,000
Share Price - Highest	107.00	93.50	105.00	107.00	93.00	181.00
Share Price - Lowest	76.00	80.00	80.50	78.00	76.00	66.00
Period End	85.50	85.50	90.00	105.00	80.00	89.00



AAI Market Capitalisation

The Market Capitalisation of Asian Alliance Insurance shares as at 31st December 2013 was Rs. 3.2 billion, valued at the year-end price of Rs.85.50. For the period, the Asian Alliance share price ranged between a low of Rs.76.00 and a high of Rs.107.00, closing the year at Rs.85.50.

Twenty Largest Shareholders

The names and the number of shares held by the 20 largest holders as at 31st December 2013 together with their Shareholding as at 31st December 2012 are given below.

As at 31st December 2013

Name of Share Holder	No.of Shares	%	Rank
Softlogic Capital Plc	21,646,123	57.72	1
Netherlands Financeireings - Maatschappij Voor Ontwikkelingslanden	7,125,000	19.00	2
HSBC Intl Nominees Ltd / State Street Munich c/o SSBT- Deg-Deutsche	7,125,000	19.00	3
Softlogic Finance Plc	547,158	1.46	4
A. L. F. De Mel	132,421	0.35	5
G. C. Goonetilleke	76,550	0.20	6
P. D. R.Weeraratne	57,400	0.15	7
Waldock Mackenzie Ltd / C. D. Kohombanwickrama	44,200	0.12	8
WaldockMackenzie Ltd / L. P. Hapangama	36,000	0.10	9
N. W. S. Financial Services (Pvt) Ltd / Divasa Equity (Pvt) Ltd	35,340	0.09	10
A. S. R.Silva	31,100	0.08	11
M. F. Farook	28,000	0.07	12

Name of Share Holder	No.of Shares	%	Rank
F. R. Muzammil	24,500	0.07	13
C. N. Pakianathan	23,387	0.06	14
Waldock Mackenzie Ltd / Dr.H.S.D. Soysa	19,406	0.05	15
Waldock Mackenzie Ltd / Mr.M.Z.M.Wafi	17,700	0.05	16
Soft Logic Holdings Plc	17,555	0.05	17
Pan Asia Banking Corporation Plc / Mr.D.G.Wirasekara	14,739	0.04	18
C. R. Perera	13,440	0.04	19
Waldock Mackenzie Ltd / Mrs. G. Soysa	13,100	0.03	20

As at 31st December 2012			
Name of Share Holder	**No.of Shares**	**%**	**Rank**
Softlogic Capital PLC	20,748,702	55.33	1
National Development Bank PLC/Soft logic Capital PLC	7,916,667	21.11	2
Soft logic Holdings PLC	7,081,759	18.88	3
Snackings (Pvt) Limited	112,172	0.30	4
Sampath Bank PLC / Boston Capital (Pvt) Limited	77,300	0.21	5
Mr. Gajath Chryshantha Goonetilleke	76,550	0.20	6
Softlogic Finance PLC	69,052	0.18	7
Mr. Pattiyapawulage Don Raj Rohitha Weeraratne	57,400	0.15	8
Mr. Arrumadura Samantha Rayynor Silva	56,400	0.15	9
Mr. Roland Felchlin	55,029	0.15	10
Mr. Vithana Palpita Koralalage Anusha Palpita	40,626	0.11	11
NWS Financial Services (Pvt) Ltd/Divasa Equity (Pvt) Ltd	36,340	0.10	12
Navara Capital Limited	29,500	0.08	13
Mrs. Mohamed Hilmy Fathima Shereen Fazna	28,000	0.07	14
Mr. Asantha Peter Wijeyeratne	25,020	0.07	15
Mr. Fazlur Rahman Muzammil	24,500	0.07	16
Merchant Bank of Sri Lanka PLC/JAS Piyawardena	23,994	0.06	17
Mr. Mohamed Subair Fouzal Haqque	22,200	0.06	18
Mrs. Kodippila Hettiarachchige Nirosha Jeevanikumari	20,000	0.05	19
Seylan Bank PLC / Tharana Gangul Thoradeniya	19,831	0.05	20

Investor Relations

Distribution of Shareholders

Shareholder's Categorized Summary Report

	As at 31st December 2013			As at 31st December 2012		
No of Shares	No. of Share holders	No. of Shares	% of Total	No. of Share-holders	No. of Shares	% of Total
1-1000	580	128,627	0.34	687	137,008	0.37
1001-10000	97	310,021	0.83	207	598,576	1.60
10001-100000	18	485,650	1.30	34	905,116	2.41
100001-1000000	2	679,579	1.81	1	112,172	0.30
1000001- & Over	4	35,896,123	95.72	3	35,747,128	95.32
Total	701	37,500,000	100.00	932	37,500,000	100.00

Shareholders

Shareholder's Categorized Summary Report (Resident & Non Resident)

	Non Resident As at 31st December 2013			Resident As at 31st December 2013		
No of Shares	No. of Shareholders	No. of Shares	% of Total	No. of Shareholders	No. of Shares	% of Total
1-1000	4	1,900	0.013	576	126,727	0.55
1001-10000				97	310,021	1.33
10001-100000	1	12,333	0.087	17	473,317	2.03
100001-1000000				2	679,579	2.92
1000001- & Over	2	14,250,000	99.9	2	21,646,123	93.17
Total	7	14,264,233	100	694	23,235,767	100

Composition of Shareholders

Resident / Non Resident

	As at 31st December 2013			As at 31st December 2012		
Number of Shares	No. of Share holders	No. of Shares	% of Total	No. of Share holders	No. of Shares	% of Total
Resident	694	23,235,767	61.96	923	37,415,959	99.78
Non Resident	7	14,264,233	38.04	9	84,041	0.22
Total	701	37,500,000	100.00	932	37,500,000	100.00

Individual/Institution

	As at 31st December 2013			As at 31st December 2012		
Number of Shares	**No. of Share Holders**	**No. of Shares**	**% of Total**	**No. of Share Holders**	**No. of Shares**	**% of Total**
Individual	635	764,311	2.04	860	1,177,800	3.14
Institutional	66	36,735,689	97.96	72	36,322,200	96.86
Total	701	37,500,000	100.00	932	37,500,000	100.00

Shareholder Base

Asian Alliance Insurance has a diversified shareholder base, both geographically and in the ratio of private to institutional investors. The total number of shareholders decreased from 932 as at 31st December 2012 to 701 as at 31st December 2013. On 31st December 2013 Asian Alliance had 635 registered individual shareholders representing 2.03% from total shares; 97.96% from total shares held by 66 Institutional Shareholders. The vast majority of Asian Alliance shareholders are residents of Sri Lanka.

The top 20 shareholders hold 98.73% of Asian Alliance Shares. The percentage of Shares held by the public as at 31st December 2013 was 2.77% (31st December 2012 - 4.68%)

	2013	2012	2011	2010	2009
EPS	9.66	1.95	(5.28)	13.73	5.73
PER	8.85	45.54	(49.85)	5.84	9.73
Price to Book Value	1.75	2.28	4.51	1.73	2.71
ROCE	22.01	5.52	(12.55)	32.80	31.92
Net Assets Per Share	48.85	38.97	37.73	46.44	20.7

Price Earnings Ratio (PER)

When compared with the previous year, the Price Earnings Ratio as at 31st December 2013 decreased to 8.85 times from 45.54 times. The above table provides the history data of Price Earnings Ratio.

Return on Capital Employed (ROCE)

This Ratio gives the measure of the return that is achieved from capital employed. The return increased than the previous year, adapting to existing market conditions.

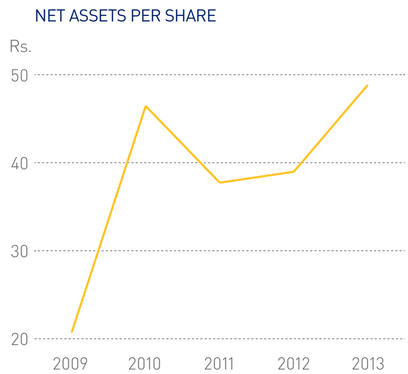
Price to Book Value Ratio

The Price to Book Value Ratio was 1.75 times as at 31st December 2013, a decreased from 2.28 times recorded in 2012.

Earnings per Share

The Earnings per Share for the year ended 31st December 2013 was Rs.9.66, an increase from Rs.1.95 recorded in 2012. The Share Price increased due to Rs.362 Million profit record in 2013, an increase of 394% when compared with the previous year.

Net Asset per Share



Financial Report

Your Company achieved strong performance and carried out strategies focusing on growth, innovation and customer services.

EVOLVING
INTO THE
FUTURE

2014

Financial Calendar

- Interim Report – 1st Quarter 2014, 15 May 2014
- Interim Report – 2nd Quarter 2014, 15 August 2014
- Interim Report – 3rd Quarter, 15 November 2014
- Interim Report – 4th Quarter 2014, End of February 2015

2013

Financial Calendar

- Interim Report – 1st Quarter 2013, 10 May 2013
- Interim Report – 2nd Quarter 2013, 13 August 2013
- Interim Report – 3rd Quarter 2013, 08 November 2013
- Interim Report 4th Quarter 2013, 13 February 2014
- Annual General Meeting 2013, 27 March 2014

Annual Report of the Board of Directors on the Affairs of the Company

Preface

The Directors of Asian Alliance Insurance Plc have pleasure in submitting their report together with the audited Financial Statements of the Company for the year ended 31st December 2013 and the Auditors' Report thereon.

The Financial Statements were accepted and approved by the Board of Directors.

The details set out in the following report provide information required by the Companies Act No 07 of 2007 and the listing rules of the Colombo Stock Exchange of Sri Lanka and are guided by recommended best practices on Corporate Governance. This Report was approved by the Board of Directors at the board meeting held on 13 February, 2014.

Review of Performance for the year ended 31st December 2013

The operations of the Company for the year ended 31st December 2013 are reviewed in the Chairman's Message, Managing Directors' Message, Chief Executive Officer's Message and in Management Discussion and Analysis.

Company Activities and Structure

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

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

The company commenced Non Life Insurance business on 1st December 1999 & 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 Softlogic Holdings Plc which has a direct holding of 0.05 % and indirect holding of 42.31% which amounts to 42.36% in total as at 31 December 2013.

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 pages 175 to 176.

The Financial Statements of the Company are given on pages 184 to 269.

Accounting Policies

The Accounting Policies adopted in preparation of Financial Statements are given on pages 197 to 217 There were no material changes in the Accounting Policies during the year.

Auditors

The Financial Statements for the year ended 31st December 2013 have been audited by Messrs. KPMG ,Chartered Accountants who offer themselves for re-appointment.

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

The fees paid to the Auditors are disclosed in Note No 14.2 on Page 224 to the Financial Statements.

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

Auditors Report

The Financial Statements for the Year Ended 31 December 2013 have been audited by Messrs KPMG, Chartered Accountants and their Report on Financial Statements given on page 181.

Gross Written Premium

The Company has underwritten a total amount of Rs. 4,076,669,115 during the year (2012 - Rs. 3,244,475,607) which is made up of Non Life Insurance amounting to Rs. 1,556,386,107 (2012-Rs. 1,190,391,689) and Life Insurance amounting to Rs 2,520,283,008 (2012 – Rs. 2,034,083,917).

Financial Results

	2013 Rs' 000	2012 Rs' 000
Profit/(Loss) Before Taxation	394,137	74,700
Taxation	(31,802)	(1,410)
Profit/(Loss) After Taxation	362,335	73,290
Dividends Paid	-	(75,000)
(Allocation)/ Reversal for Life Solvency	-	175,000
Actuarial Gains /(Losses) on Retirement Benefits	(2,330)	
Profit / (Loss) Brought Forward	294,526	121,548
Accumulated Profit At the End of the Year	654,531	294,526

Dividends

The Directors have declared an interim dividend of Rs. 4.80 per share for the year ended 31 December 2013, on 13 February 2014.

Property, Plant and Equipment

An analysis of the Property, Plant and Equipment of the Company is disclosed in Note No 18 to the Financial Statements on page 228.

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 2013 was Rs. 1,062,500,000 comprising 37,500,000 fully paid ordinary shares.

Donations

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

Capital Commitments

The Capital Expenditure Commitments as at 31 December 203 is Rs. 17,397,435.

Provisions

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

The Directors have arranged external actuaries to value the Life Fund and the Non Life Claims Incurred But Not Reported and Not Enough Reserved and the Gratuity Liability.

The basis adopted for provisioning is disclosed in Accounting Policy No 3.12 on page 210 to the Financial Statements.

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

Reserves

The reserves consist of Available for Sale Reserve and Retained Reserves. The details and movements of reserves are disclosed in Note 28 and 29 to the Financial Statements on page 238 and in the Statement of Changes in Equity on page 187 to the Financial Statements.

Provision for Taxation

The provision for taxation is computed at the rates as disclosed in Note No 15 on page 225 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 175.

Contingent Liabilities

There were no material contingent liabilities outstanding as at 31st December 2013 , except as disclosed in Note No 40 to the Financial Statements on page 266.

Events after the Reporting Period

No circumstances have arisen since the reporting date, which require adjustments or disclosure in the Financial Statements, except for the event disclosed in Note No 42 to the Financial Statement on page 269.

Corporate Governance and Internal Controls

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

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

Company's compliance with rules on corporate governance are given in corporate governance report on pages 120 to 148.

Risk & Internal Controls

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

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

Compliance with Rules & Regulations

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

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

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

The Audit Committee Report is disclosed in page 149.

Going Concern

After considering the financial position as at the reporting date and considering the future prospects of the Company the Directors have a reasonable expectation that the Company has adequate resources to continue in operations in 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 2013 was 618. (2012– 557)

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.

Board of Directors

The Board of Directors of the Company consists of eight directors with wide financial and commercial knowledge and experience.

The following Directors held office during the year and their brief profiles are given on pages 26 to 27 of the Annual Report.

Mr. Asoka Kariyawasam Pathirage (Chairman)

Mr. James Henry Paul Ratnayeke – Deputy Chairman

Mr.Tuan Mihlar Iftikar Ahamed – Managing Director

Mr. Ramal Githan Jasinghe – Director/CEO

Mr. Sujeewa Rajapakse – Director

Mr. Mohan Ray Abeywardena –Director

Mr. Jatindar.K.Mukhi - Director

Mr.Johannes.W.H. Richters - Director

Rotation of Directors

Mr. Ray Abeywardena retires by rotation in accordance with article 98 of the Articles of Association of the Company and being eligible, offers himself for reelection.

Independent Directors

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

Mr.Sujeewa Rajapakse

Mr. Mohan Ray Abeywardena

Mr. Jatindar.K.Mukhi

Mr. Johannes.W.H. Richters

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

Directors Interest Register

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

Directors Interest In contracts

Directors' interest in contracts both direct and indirect are as follows. The transactions entered with following Companies during the year are disclosed in Note No 41 on page 267.

Name of Director	Position	Company	Relationship
Asoka K. Pathirage	Chairman	Softlogic Holdings Plc	Parent Company
Asoka K. Pathirage	Chairman	Softlogic Information Systems Ltd	Group Company of Softlogic Holdings PLC
Asoka K. Pathirage T.M. Iftikar Ahamed	Chairman Director	Softlogic Capital Plc	Share Holder Company
Asoka K. Pathirage T.M. Iftikar Ahamed	Chairman Director	Softlogic Finance PLC	Group Company of Softlogic Holdings PLC
Asoka K. Pathirage	Chairman	Asiri Hospital Holdings PLC	Group Company of Softlogic Holdings PLC
Asoka K. Pathirage	Chairman	Asiri Surgical Hospitals PLC	Group Company of Softlogic Holdings PLC
Asoka K. Pathirage	Chairman	Softlogic Communication Services (Pvt) Ltd	Group Company of Softlogic Holdings PLC
T.M. Iftikar Ahamed	Director	Softlogic Stock Brokers (Pvt) Ltd	Group Company of Softlogic Holdings PLC
Asoka K. Pathirage Sujeewa Rajapakse	Deputy Chairman Director	National Development Bank PLC	Director related entity
J. H. P. Ratnayeke	Director	Richard Pieris & Company PLC	Director related entity
J. H. P. Ratnayeke	Senior Partner	Paul Ratnayeke Associates	Director Related Entity
J. H. P. Ratnayeke	Chairman	P.R. Secretarial Services (Pvt) Ltd	Director Related Entity
Mohan Ray Abeywardena	Managing Director	Acquity Partners Ltd	Director Related Entity

Directors' Interest in Shares

Name of The Director	As At 31 December 2013	As At 31 December 2012
Asok K. Pathirage	Nil	Nil
J. H. P. Ratnayeke	Nil	Nil
Mohan Ray Abeywardena	Nil	Nil
T.M.Iftikar Ahamed	Nil	Nil
Sujeewa Rajapakse	Nil	Nil
Mr. Ramal G. Jasinghe	Nil	Nil
Mr. Jatinder.K.Mukhi	Nil	Nil
Mr.Johannes.W.H. Richters	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 and Remuneration

The amount of the Directors fees & Remuneration paid during the year is Rs. 12,053,250. (2012- Rs. 7,350,000)

Related Party Transactions

The Directors have disclosed the transactions with Related Parties in terms of Sri Lanka Accounting Standard 24 (LKAS 24), Related Party Disclosures in Note No 41 on page 267 which is adopted in the preparation of these Financial Statements.

Shareholders

The number of registered shareholders' of the Company as at 31st December 2013 was 701. (2012-932)

The distribution and analysis of shareholdings were as follows:

	As at 31st December 2013			As at 31st December 2012		
Number of Shares	No. of Share Holders	No. of Shares	% of Total	No. of Share Holders	No. of Shares	% of Total
1-1000	580	128,627	0.34	687	137,008	0.37
1001 - 10000	97	310,021	0.83	207	598,576	1.60
10001 - 100000	18	485,650	1.30	34	905,116	2.41
100001 - 1000000	2	679,579	1.81	1	112,172	0.30
1000001 - & Over	4	35,896,123	95.72	3	35,747,128	95.33
Total	701	37,500,0000	100.00	932	37,500,000	100.00

Resident / Non Resident

	As at 31 December 2013			As at 31 December 2012		
	No of Share Holders	No of Shares	% of Total	No of Share Holders	No of Shares	% of Total
Resident	694	23,235,767	61.96	923	37,415,959	99.78
Non Resident	7	14,264,233	38.04	9	84,041	0.22
Total	701	37,500,000	100.00	932	37,500,000	100.00

Individual/Institution

	As at 31 December 2013			As at 31 December 2012		
	No of Share Holders	No of Shares	% of Total	No of Share Holders	No of Shares	% of Total
Individual	635	764,311	2.04	860	1,177,800	3.14
Institutional	66	36,735,689	97.96	72	36,322,200	96.86
Total	701	37,500,000	100.00	932	37,500,000	100.00

Annual Report

The Board of Directors approved the Company Financial Statements together with the reviews which forms part of the Annual Report on 13th February 2014. The appropriate number of copies will be submitted to the Colombo Stock Exchange, Insurance Board of Sri Lanka, Sri Lanka Accounting and Auditing Standard Monitoring Board and the Registrar of Companies within the time frame.

Annual General Meeting

The Annual General Meeting will be held at 4th Floor, Central Hospital (Private) Limited, No. 114 Norris Canal road, Colombo 10, on 27th March 2014 at 10.00 a.m.. The notice of Annual General Meeting is given on page 290.

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

On behalf of the Board.

(Sgd.)
Asoka K. Pathirage
Chairman
Colombo
13 February 2014

(Sgd.)
Iftikar Ahamed
Managing Director

Directors' Responsibility to Financial Reporting

The responsibility of the Directors in relation to the Financial Statements of the Company, prepared in accordance with the provisions of the Companies Act, No. 7 of 2007, is set out in the following statement. The responsibilities of the External Auditors in relation to the Financial Statements are set out in the Report of the Auditors, given on page 181 of the Annual Report.

As per the Companies Act, No. 07 of 2007, the Directors of the Company are responsible for ensuring that the Company keep proper books of account of all the transactions and prepare Financial Statements that give a true and fair view of the financial position the Company as at end of each financial year and of the financial performance of the Company for each financial year and place them before a general meeting.

The Financial Statements comprise of the Statement of Financial Position as at December 31, 2013, the Statement of Income, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows for the year then ended and Notes thereto.

The Financial Statements of the Company give a true and fair view of:

1. The state of affairs of the Company as at the date of the Statement of Financial Position; and
2. The financial performance of the Company for the financial year ended 31st December 2013.

In preparing these Financial Statements, the Directors are required to ensure that:

1. Appropriate accounting policies have been selected and applied in a consistent manner and material departures, if any, have been disclosed and explained;
2. Judgments and estimates have been made and that they are reasonable and prudent;
3. All applicable accounting standards as relevant have been followed; and
4. It provides the information required by and otherwise comply with the Companies Act, No. 07 of 2007, Regulation of Insurance Industry Act, No. 43, of 2000 and subsequent amendments thereto and the Listing Rules of the Colombo Stock Exchange (CSE) or requirements of any other regulatory authority.

The Financial Statements of the Company has been certified by the Company's Chief Financial Officer, the officer responsible for their preparation, as required by the Companies Act. In addition, the Financial Statements of the Company has been signed by two Directors the Company on February 13, 2014 as required by the Companies Act and other regulatory requirements. Under the Section 148 (1) of the Companies Act, the Directors are also responsible for ensuring that proper accounting records which correctly record and explain the Company's transactions are maintained and that the Company's financial position, with reasonable accuracy, at any point of time is determined by the Company, enabling preparation of the Financial Statements, in accordance with the Act to facilitate proper audit of the Financial Statements.

The Financial Statements for the year 2013, prepared and presented in this Annual Report have been prepared based on new Sri Lanka Accounting Standards (SLFRS / LKAS) which came to effect from January 01, 2012 are in agreement with the underlying books of account and are in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act No. 07 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, Regulation of Insurance Industry Act, No. 43 of 2000 and amendments thereto, the Listing Rules of the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka (ICASL) and the Securities and Exchange Commission of Sri Lanka (SEC).

The Directors have also taken reasonable steps to establish and maintain appropriate systems of internal controls to safeguard the assets of the Company, prevent and detect frauds and other irregularities, and to secure as far as practicable the accuracy and reliability of records.

Directors are required to prepare the Financial Statements and to provide the Company's External Auditors, Messrs KPMG, Chartered Accountants with every opportunity to carry out whatever reviews and sample checks on the system of internal control they may consider appropriate and necessary to express their independent audit opinion on the Financial Statements.

Further, as required by the Section 56(2) of the Companies Act, No. 7 of 2007, the Board of Directors has confirmed that the Company, based on the information available, would satisfy the solvency test immediately after the distribution of dividends, in accordance with the Section 57 of the Companies Act, No. 7 of 2007, and has obtained a certificate from the Auditors, prior to declaring a Interim dividend of Rs. 4.80 per share for this year, to be paid on 10th March 2014.

The Board of Directors also wishes to confirm that, as required by the Sections 166 (1) and 167 (1) of the Companies Act, they have prepared this Annual Report in time and ensured that a copy thereof is sent to every shareholder of the Company, who have expressed desire to receive a hard copy or to other shareholders a soft copy each in a CD containing the Annual Report within the stipulated period of time as required by the

Rule No. 7.5 (a) and (b) on Continuing Listing Requirements of the Listing Rules of the Colombo Stock Exchange. The Directors also wish to confirm that all shareholders in each category have been treated equitably in accordance with the original terms of issue. Further, the Board of Directors wishes to confirm that the Company has met all the requirements under the Section 07 on Continuing Listing Requirements of the Listing Rules of the Colombo Stock Exchange, where applicable.

Compliance Report

The Directors confirm that to the best of their knowledge, all taxes, duties and levies payable by the Company, all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company, and all other known statutory dues as were due and payable by the Company as at the Reporting date have been paid or, where relevant, provided for.

The Directors further confirm that after considering the financial position, operating conditions, regulatory and other factors and such matters required to be addressed in the 'Code on Corporate Governance' issued jointly by the ICASL and the SEC, the Directors have a reasonable expectation that the Company possess adequate resources to continue in operation for the foreseeable future. For this reason, we continue to adopt the Going Concern basis in preparing the Financial Statements.

The Directors are of the view that they have discharged their responsibilities as set out in this Statement.

On behalf of the board

(Sgd.)
Asoka K. Pathirage
Chairman

(Sgd.)
Iftikar Ahamed
Managing Director

Colombo
13 February 2014

CEO and CFO's Responsibility Statement

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

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

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

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

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

(Sgd.)
Ramal G. Jasinghe
Director/CEO

(Sgd.)
Saliya Wickramasinghe
Chief Financial Officer

Colombo
13 February 2014

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 2013

We have carried out an actuarial valuation of the Long Term Insurance Business as at 31 December, 2013. 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, 2013, 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, 2013, exceed the required actuarial reserves as at 31 December 2013 by Rs.445.401 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. 184.898 million, including the solvency margin for the new reversionary bonus allotted as at 31 December 2013, and is fully provided for.

M POOPALANATHAN
ACTUARY

13 February 2014

Certification of Incurred But Not Reported (IBNR) and LAT Certification - Non Life

TO THE SHAREHOLDERS OF ASIAN ALLIANCE INSURANCE PLC

ASIAN ALLIANCE INSURANCE PLC 31 DECEMBER 2013 NET IBNR AND LAT CERTIFICATION

I hereby certify that the undiscounted Central Estimate of IBNR provision of Rs. 54,352,350 is adequate in relation to the Claim Liabilities of Asian Alliance Insurance PLC as at 31st December 2013, net of reinsurance. This IBNR provision, together with the Case Reserves held by the Company, is expected to be adequate to meet the future liabilities in respect of the Company's reported claims obligations as at 31st December 2013, in many, but not all, scenarios of future experience.

At the end of each reporting period, companies are required to carry out a Liability Adequacy Test (LAT) as laid out in SLFRS 4. The LAT is performed to assess the adequacy of the carrying amount of the Unearned Premium Reserve (UPR). I hereby certify that the UPR of Rs. 764,657,993 is adequate in relation to the unexpired risks, net of reinsurance, of Asian Alliance Insurance PLC as at 31 December 2013 in many, but not all, scenarios of future experience. As such, there is no premium deficiency to be recognised by the Company.

The results have been determined in accordance with internationally accepted actuarial principles. I have relied upon information and data provided by the management of the above company and I have not independently verified the data supplied, beyond applying checks to satisfy myself as to the reasonability of the data.

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

13 February 2014

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www.NMG-Group.com
65 Chulia Street, #37-07/08 OCBC Centre, 049513 Singapore

Report on the LAT - Life

PINNACLE

TO THE SHAREHOLDERS OF ASIAN ALLIANCE INSURANCE PLC

Asian Alliance Insurance Plc

Liability Adequacy Test Opinion Letter - Life

We have been engaged by Asian Alliance Insurance PLC to act as its Independent Actuaries in connection with a liability adequacy test ("LAT") review and opinion letter. We have examined the actuarial assumptions and actuarial methods used in determining projected contract cash flows of existing business as of December 31, 2013. In forming our opinion on projected contract cash flows, we relied upon data prepared by the Actuarial Department of Asian Alliance Insurance PLC as to existing business records, actuarial experience studies and certain other data. We evaluated that data for reasonableness and consistency and our examination included such review of the actuarial assumptions and actuarial methods used and such tests of the projected contract cash flow calculations as we considered prudent and necessary.

In our opinion the projected contract cash flows and associated discounted cash flow reserves at a risk free yield for non-participating business and 12.5% portfolio yield rate for participating business are:

1. Computed in accordance with commonly accepted actuarial standards consistently applied and are fairly stated in accordance with sound actuarial principles.

2. Based on actuarial assumptions which are consistent with actuarial experience studies including any provision for adverse deviation.

3. Make a good and sufficient provision for all un-matured policyholder obligations Asian Alliance Insurance PLC guarantees under the terms of its contracts and an allowance for discretionary non-guaranteed policyholder bonuses.

4. Audited balance sheet assets of SLR's 5,323 million are sufficiently adequate as compared to the discounted cash flow reserves of SLR's 273 million and in contrast to audited balance sheet reserves of SLR's 3,746 million and cash surrender value of SLR's 2,477 million.

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

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

13 February 2014

Independent Auditors' Report

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

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Fax : +94 - 11 244 5872
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+94 - 11 254 1249
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Internet : www.lk.kpmg.com

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ASIAN ALLIANCE INSURANCE PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Asian Alliance Insurance PLC ("the Company"), which comprise the statement of financial position as at December 31, 2013, the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information set out on pages 184 to 269 of the annual report.

Management's Responsibility for the Financial Statements

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

Scope of Audit and Basis of Opinion

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

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

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

Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended December 31, 2013 and the financial statements give a true and fair view of the financial position of the Company as at December 31, 2013 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

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

Kpmg

CHARTERED ACCOUNTANTS
Colombo, Sri Lanka.

13 February 2014

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Statement of Income

For the year ended 31 December	Note	Page	2013 Rs. ' 000	2012 Rs. ' 000	Change %
Gross Written Premiums	7	218	4,076,669	3,224,476	26%
Net Change in Reserve for Unearned Premium	7.2	219	(198,465)	(294,419)	-33%
Gross Earned Premiums	7.3	219	3,878,204	2,930,057	32%
Premiums Ceded to Reinsurers	8	219	(635,878)	(561,571)	13%
Net Change in Reserve for Unearned Reinsurance Premium	8.1	219	(1,967)	24,009	-108%
Net Earned Premiums	8.2	219	3,240,359	2,392,495	35%
Other Revenue					
Finance Income	9	220	598,749	406,702	47%
Net Realized Gains	10	221	224,186	52,426	328%
Net Fair value Gains	11	221	167,858	2,612	6327%
Other Operating Income			5,771	4,436	30%
			996,564	466,176	114%
Total Net Revenue			4,236,923	2,858,671	48%
Benefits, Claims and Expenses					
Net Insurance Benefits and Claims	12	222	(1,966,545)	(1,211,141)	62%
Underwriting and Net Acquisition Cost	13	224	(711,700)	(572,909)	24%
Other Operating and Administrative Expenses	14	224	(1,151,972)	(993,294)	16%
Finance Cost			(12,569)	(6,627)	90%
Total Benefits, Claims and Expenses			(3,842,786)	(2,783,971)	38%
Profit Before Taxation			394,137	74,700	428%
Income Tax Expense	15	225	(31,802)	(1,410)	2155%
Profit for the Year			362,335	73,290	394%
Profit attributable to:					
Owners of the Company			362,335	73,290	
Non-controlling interests			-	-	
Profit for the year			362,335	73,290	
Earnings per Share					
Basic Earnings per Share (Rs)	16.1	227	9.66	1.95	
Diluted Earnings per Share (Rs)	16.2	227	9.66	1.95	
Dividend per Share	17	227	4.80	-	

The Notes to the Financial Statements from pages 197 to 269 which form an integral part of these Financial Statements

Statement of Comprehensive Income

For the year ended 31 December	Note	Page	2013 Rs. ' 000	2012 Rs. ' 000
Profit for the year			362,335	73,290
Other Comprehensive Income				
Net change in fair value of available for sale financial assets			112,476	14,812
Net change in liabilities of insurance contracts arising from fair value changes in available for sale financial assets			121,854	84,962
Net change in fair value of available for sale financial assets transferred to the Statement of Income	10.1	221	(224,146)	(51,149)
Actuarial Losses on Employee Benefits			(2,330)	(314)
			7,854	48,311
Tax on other Comprehensive Income			-	-
Other Comprehensive Income for the year, net of tax			7,854	48,311
Total Comprehensive Income for the year			370,189	121,601
Total Comprehensive Income attributable to:				
Owners of the Company			370,189	121,601
Non-controlling interests			-	-
Total Comprehensive Income for the Year			370,189	121,601

The Notes to the Financial Statements from pages 197 to 269 which form an integral part of these Financial Statements

Statement of Financial Position

As at 31 December	Note	Page	2013 Rs. ' 000	2012 Rs. ' 000
Assets				
Property Plant and Equipment	18	228	158,041	116,104
Financial Investments	19	230	6,242,871	4,831,034
Loans to Life Policy holders and Others	20	234	107,089	81,398
Reinsurance Receivables	21	235	144,058	110,070
Premium Receivables	22	235	464,453	379,720
Amounts due from Related Companies	23	236	259	-
Other Assets	24	236	166,855	138,951
Deferred Acquisition Cost	25	237	89,304	68,192
Cash and Cash Equivalents	26	237	102,228	103,637
Total Assets			7,475,158	5,829,106
Equity and Liabilities				
Equity				
Stated Capital	27	238	1,062,500	1,062,500
Other Reserves	28	238	114,663	104,477
Retained Earnings	29	238	654,531	294,526
Total Equity			1,831,694	1,461,503
Liabilities				
Insurance Contract Liabilities - Life	30	239	3,938,030	3,055,723
Insurance Contract Liabilities - Non Life	31	240	921,221	681,514
Employee Benefits	32	242	46,154	34,398
Reinsurance Payable	33	243	137,583	77,974
Deferred Revenue	34	243	17,820	16,680
Amounts due to Related Companies	35	244	24	39,988
Other Liabilities	36	244	398,032	374,592
Current Tax Liabilities			15,537	-
Short Term Borrowings			50,000	-
Bank Overdraft	26	237	119,063	86,734
Total Liabilities			5,643,464	4,367,603
Total Equity and Liabilities			7,475,158	5,829,106
Net Asset per Share (Rs)			48.85	38.97

The Notes to the Financial Statements as set out on pages 197 to 269 which form an integral part of these Financial Statements.
These Financial Statements are in compliance with the requirements of 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,

(Sgd.)
Asoka K. Pathirage
Chairman

(Sgd.)
Iftikar Ahamed
Managing Director

Colombo
13 February 2014

Statement of Changes in Equity

For the year ended 31 December 2013

	Stated Capital	Other Reserves		Retained Earnings	Total
		Fair Value Reserve	Reserve for life solvency		
	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000
Balance as at 1st January 2012	1,062,500	55,852	175,000	121,548	1,414,900
Profit for the year	-	-	-	73,290	73,290
Other Comprehensive Income for the Year					
Net change in fair value of Available For Sale Financial Assets	-	14,822	-	-	14.822
Net change in liabilities of insurance contracts arising from fair value changes in Available For Sale Financial Assets	-	84,962	-	-	84,962
Net Changes in Available For Sale Financial assets transferred to Statement of Comprehensive Income	-	(51,159)	-	-	(51,159)
Actuarial Losses on Employee Benefits	-	-	-	(314)	(314)
Total Other Comprehensive income		48,625	-	(314)	48,311
Total Comprehensive income for the Year	-	48,625	-	72,976	121,601
Transactions with owners					
Dividend Paid	-	-	-	(75,000)	(75,000)
Transfer of life solvency reserve	-	-	(175,000)	175,000	-
Balance as at 31 December 2012	1,062,500	104,477	-	294,526	1,461,503
Balance as at 1 January 2013	1,062,500	104,477	-	294,526	1,461,503
Profit for the Year	-	-	-	362,335	362,335
Other Comprehensive Income for the Year					
Net Change in Fair Value of Available For Sale Financial Assets	-	112,477	-	-	112,477
Net change in liabilities of insurance contracts arising from fair value changes in Available For Sale Financial Assets	-	121,855	-	-	121,855
Net changes in Available For Sale Financial Assets transferred to statement of income	-	(224,146)	-	-	(224,146)
Actuarial Losses on Employee Benefits	-	-	-	(2,330)	(2,330)
Total Other Comprehensive income	-	10,186	-	(2,330)	7,856
Total Comprehensive Income for the year	-	10,186	-	360,005	370,191
Balance As At 31 December 2013	1,062,500	114,663	-	654,531	1,831,694

Note A

Dividend declared during the period was not taken for calculation of dividend per share in 2012 as it represents the dividend for 2011.

Statement of Cash Flows

For the year ended 31 December,		2013 Rs. ' 000	2012 Rs. ' 000
CASH FLOWS FROM OPERATING ACTIVITIES			
Insurance Premium Received		4,226,129	3,195,989
Reinsurance Premium Paid		(576,268)	(486,149)
Insurance Claims and Benefits Paid		(1,293,089)	(803,118)
Reinsurance Claims Received		232,902	140,068
Payments to Intermediaries to acquire insurance contracts		(807,641)	(614,447)
Cash paid to employees, intermediaries and other suppliers for services and goods		(373,704)	(396,331)
Cash received from sale of Salvages		5,563	6,431
Interest Received		397,397	409,072
Dividend Received		164,305	37,297
Other Operating Cash Flows		(948,418)	(653,871)
Net Cash Generated from Operating Activities (Note A)		1,027,176	834,941
Income Tax paid (Economic Service Charge)		(3,354)	(4,810)
Gratuity Paid		(1,767)	(2,283)
Interest Paid		(12,569)	(2,052)
Net Cash Generated from Operating Activities		1,009,486	825,796
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of Investments		(21,122,164)	(11,620,086)
Proceeds from sale of Investments		20,108,448	10,889,857
Acquisition of of Property, Plant and Equipment		(79,571)	(50,596)
Proceeds from Sale of Property, Plant and Equipment		63	1,380
Net Cash (used in) Investing Activities		(1,093,224)	(779,445)
Net Cash (used in) / Generated from Flow before Financing Activities		(83,738)	46,351
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend Paid		-	(73,050)
Short Term Borrowings		50,000	-
Net Cash Generated from / (used in) Financing Activities		50,000	(73,050)
Net Increase/(Decrease) in Cash and Cash Equivalents	B	(33,738)	(26,699)

For the year ended 31 December,	2013 Rs. ' 000	2012 Rs. ' 000
Notes to Cash Flow Statement		
A. Reconciliation of operating profit with Cash Flows from Operating Activities		
Profit before Tax	394,137	74,700
Adjustments for :		
Increase in Insurance Contract Liabilities - Life	842,119	551,339
Depreciation on Property, Plant and Equipment	37,611	30,727
Provision for Employee Benefits	11,193	8,504
Interest Expense	12,569	2,052
Realized Gains	(224,146)	(51,149)
Fair value Gains	(167,858)	(2,612)
Profit on Sale of Property, Plant and Equipment	(41)	(1,277)
Increase in Other Assets	(181,417)	(192,158)
Decrease in Insurance Contract Liabilities - Non Life	239,707	288,737
Increase in Deferred Acquisition Cost	(21,112)	(28,894)
Increase / (Decrease) in Deferred Revenue	1,140	(32)
Increase in Payables and Other Liabilities	83,273	155,004
Net Cash Generated from Operating Activities	1,027,176	834,941
B. Increase in Cash and Cash Equivalents		
Cash and Cash Equivalents	102,228	103,637
Bank Overdrafts	(119,063)	(86,734)
Net cash and cash equivalents as at end of the year	(16,835)	16,903
Net cash and cash equivalents as at the Beginning of the period	16,903	43,602
Decrease in Cash and Cash Equivalents	(33,738)	(26,699)

The Notes to the Financial Statements as setout on pages 197 to 269 which form an integral part of these Financial Statements

Statement of Income - Segment Review - 2013

For the Year Ended 31 December 2013	Life Insurance Rs. ' 000	Non Life Insurance Rs. ' 000	Company Rs. ' 000
Gross Written Premiums	2,520,283	1,556,386	4,076,669
Net Change in Reserve for Unearned Premium	-	(198,465)	(198,465)
Gross Earned Premiums	2,520,283	1,357,921	3,878,204
Premiums Ceded to Reinsurers	(381,617)	(254,261)	(635,878)
Net Change in Reserve for Unearned Reinsurance Premiums	-	(1,967)	(1,967)
Net Earned Premiums	2,138,666	1,101,693	3,240,359
Other Revenue			
Finance Income	459,253	139,496	598,749
Net Realized Gains	104,664	119,523	224,186
Fair value Gains	145,056	22,802	167,858
Other Operating Income	298	5,472	5,771
	709,271	287,293	996,564
Total Net Revenue	2,847,937	1,388,986	4,236,923
Benefits, Claims and Expenses			
Net Insurance Benefits and Claims	(1,056,220)	(910,324)	(1,966,545)
Underwriting and Net Acquisition Cost	(603,629)	(108,071)	(711,700)
Other Operating and Administrative Expenses	(747,679)	(404,292)	(1,151,972)
Finance Cost	(6,834)	(5,735)	(12,569)
Total Benefits, Claims and Expenses	(2,414,362)	(1,428,422)	(3,842,786)
Profit / (Loss) Before Taxation	433,575	(39,436)	394,137
Income Tax Expense	-	(31,802)	(31,802)
Profit / (Loss) for the Year	433,575	(71,238)	362,335

Statement of Income - Segment Review - 2012

For the Year Ended 31 December 2012	Life Insurance Rs. ' 000	Non Life Insurance Rs. ' 000	Company Rs. ' 000
Gross Written Premiums	2,034,084	1,190,392	3,224,476
Net Change in Reserve for Unearned Premium	-	(294,419)	(294,419)
Gross Earned Premiums	2,034,084	895,973	2,930,057
Premiums Ceded to Reinsurers	(326,981)	(234,590)	(561,571)
Net Change in Reserve for Unearned Reinsurance Premiums	-	24,009	24,009
Net Earned Premiums	1,707,103	685,392	2,392,495
Other Revenue			
Finance Income	307,075	99,627	406,702
Net Realized Gains	48,473	3,953	52,426
Fair value Gains	(8,345)	10,957	2,612
Other Operating Income	231	4,205	4,436
	347,434	118,742	466,176
Total Net Revenue	2,054,537	804,134	2,858,671
Benefits, Claims and Expenses			
Net Insurance Benefits and Claims	(694,456)	(516,685)	(1,211,141)
Underwriting and Net Acquisition Cost	(509,727)	(63,182)	(572,909)
Other Operating and Administrative Expenses	(689,396)	(303,898)	(993,294)
Finance Cost	(5,080)	(1,547)	(6,627)
Total Benefits, Claims and Expenses	(1,898,658)	(885,312)	(2,783,971)
Profit / (Loss) Before Taxation	155,879	(81,178)	74,700
Income Tax Expense	-	(1,410)	(1,410)
Profit / (Loss) for the Year	155,879	(82,588)	73,290

Statement of Financial Position - Segment Review - 2013

As at 31st December 2013	Life Insurance Rs. ' 000	Non- Life Insurance Rs. ' 000	Elimination Rs. ' 000	Company Rs. ' 000
Assets				
Property, Plant and Equipment	92,820	65,221		158,041
Financial Investments	4,826,752	1,416,119		6,242,871
Loans to Life Policyholders & Others	106,618	471		107,089
Reinsurance Receivables	61,774	82,284		144,058
Premium Receivables	46,085	418,368		464,453
Amounts due from Related Companies	-	259		259
Other Assets	95,046	83,926	(12,117)	166,855
Deferred Acquisition Costs	-	89,304		89,304
Cash and Cash Equivalents	94,254	7,973		102,228
Total Assets	5,323,349	2,163,925	(12,117)	7,475,158
Equity and Liabilities				
Equity				
Stated Capital	500,000	562,500		1,062,500
Other Reserves	103,319	11,343		114,663
Retained Earnings	332,199	322,331		654,531
Total Equity	935,518	896,174		1,831,694
Liabilities				
Insurance Contract Liabilities - Life	3,938,030	-		3,938,030
Insurance Contract Liabilities - Non Life	-	921,221		921,221
Employee Benefits	20,502	25,652		46,154
Reinsurance Payable	81,989	55,594		137,583
Deferred Revenue	-	17,820		17,820
Amounts due to Related Companies	24	-		24
Other Liabilities	249,698	160,453	(12,117)	398,032
Current Tax Liabilities	-	15,537		15,537
Short Term Borrowings	50,000	-		50,000
Bank Overdraft	47,588	71,474		119,063
Total Liabilities	4,387,831	1,267,751	(12,117)	5,643,464
Total Equity and Liabilities	5,323,349	2,163,925	(12,117)	7,475,158

Note

During the Year Stated Capital was segregated between Life and Non Life Segments

Statement of Financial Position - Segment Review - 2012

As at 31st December 2012	Life Insurance Rs. ' 000	Non- Life Insurance Rs. ' 000	Elimination Rs. ' 000	Company Rs. ' 000
Assets				
Property, Plant and Equipment	70,073	46,031		116,104
Financial Investments	3,143,117	1,687,917		4,831,034
Loans to Life Policyholders & Others	79,794	1,604		81,398
Reinsurance Receivables	61,140	48,929		110,070
Premium Receivables	7,679	372,041		379,720
Amounts due from Related Companies	-	-		-
Other Assets	72,128	153,048	(86,224)	138,951
Deferred Acquisition Costs	-	68,192		68,192
Cash and Cash Equivalents	90,663	12,974		103,637
Total Assets	3,524,594	2,390,736	(86,224)	5,829,106
Equity and Liabilities				
Equity				
Stated Capital	-	1,062,500		1,062,500
Other Reserves	36,552	67,925		104,477
Retained Earnings	-	294,526		294,526
Total Equity	36,552	1,424,951		1,461,503
Liabilities				
Insurance Contract Liabilities - Life	3,055,723	-		3,055,723
Insurance Contract Liabilities - Non Life	-	681,514		681,514
Employee Benefits	14,851	19,547		34,398
Reinsurance Payable	25,103	52,871		77,974
Deferred Revenue		16,680		16,680
Amounts due to Related Companies	33,567	6,421		39,988
Other Liabilities	289,946	170,871	(86,224)	374,592
Bank overdraft	68,852	17,881		86,734
Total Liabilities	3,488,042	965,785	(86,224)	4,367,603
Total Equity and Liabilities	3,524,594	2,390,736	(86,224)	5,829,106

Statement of Cash Flows - Segment Review - 2013

For the year ended 31 December 2013	Life Insurance Rs. ' 000	Non-Life Insurance Rs. ' 000	Elimination Rs. ' 000	Company Rs. ' 000
CASH FLOWS FROM OPERATING ACTIVITIES				
Insurance Premium Received	2,523,517	1,702,612		4,226,129
Reinsurance Premium Paid	(324,729)	(251,539)		(576,268)
Insurance Claims and Benefits Paid	(324,043)	(969,046)		(1,293,089)
Reinsurance Claims Received	169,540	63,362		232,902
Payments to Intermediaries to acquire insurance contracts	(654,791)	(152,850)		(807,641)
Cash paid to employees, intermediaries and other suppliers for services and goods	(156,696)	(217,008)		(373,704)
Cash received from sale of Salvages	-	5,563		5,563
Interest Received	322,456	74,941		397,397
Dividend Received	115,309	48,995		164,305
Other Operating Cash Flows	(667,499)	(280,919)		(948,418)
Net Cash Inflows from Operating Activities (Note A)	1,003,065	24,111		1,027,176
Income Tax paid (Economic Service Charge)	-	(3,354)		(3,354)
Retiring Gratuity Paid	(597)	(1,170)		(1,767)
Interest Paid	(8,927)	(3,642)		(12,569)
Net Cash Inflows from Operating Activities	993,541	15,945		1,009,486
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of Investments	(15,543,322)	(5,578,842)		(21,122,164)
Proceeds from sale of Investments	14,570,253	5,538,197		20,108,448
Acquisition of of Property, Plant and Equipment	(45,679)	(33,892)		(79,571)
Proceeds from Sale of Property, Plant and Equipment	63	-		63
Net Cash (used) in Investing Activities	(1,018,685)	(74,537)		(1,093,224)
Net Cash Flow before Financing Activities	(25,144)	(58,593)		(83,738)
CASH FLOWS FROM FINANCING ACTIVITIES				
Short Term Borrowings	50,000	-		50,000
Net Cash from Financing Activities	50,000	-		50,000
Net Increase/(Decrease) in Cash and Cash Equivalents	24,856	(58,593)		(33,738)
Notes to Cash Flow Statement				
A. Reconciliation of operating profit with Cash Flows Operating Activities				
Profit before Tax	433,575	(39,436)		394,137
Adjustments for :				
Increase in Insurance Contract Liabilities - Life	842,119			842,119
Depreciation on Property, Plant and Equipment	22,912	14,699		37,611
Provision for Employee Benefits	4,875	6,318		11,193
Interest Paid	8,927	3,642		12,569
Realized Gains	(104,623)	(119,523)		(224,146)
Fair value Gains	(145,056)	(22,802)		(167,858)
Profit on Sale of Property, Plant and Equipment	(41)	-		(41)
Increase in Other Assets	(88,781)	(18,528)	(74.108)	(181,417)
Increase in Insurance Contracts Liabilities- Non Life	-	239,707		239,707
Increase in Deferred Acquisition Cost	-	(21,112)		(21,112)
Increase in Deferred Revenue	-	1,140		1,140
Increase / (Decrease) in Payables and Other Liabilities	29,158	(19,993)	74.108	83,273
Net Cash Inflow from Operating Activities	1,003,065	24,111		1,027,176
B. Increase in Cash and Cash Equivalents				
Cash and Cash Equivalents	94,254	7,973		102,228
Bank overdrafts	(47,588)	(71,474)		(119,063)
Net cash and cash equivalents at end of the year	46,666	(63,500)		(16,835)
Net cash and cash equivalents as at the beginning of the period	21,810	(4,907)		16,903
Increase / (Decrease) in Cash and Cash Equivalents	24,856	(58,593)		(33,738)

The Notes to the Financial Statements as setout on pages 197 to 269 which form an integral part of these Financial Statements

Statement of Cash Flows - Segment Review - 2012

For the year ended 31 December 2012	Life Insurance Rs. ' 000	Non-Life Insurance Rs. ' 000	Elimination Rs. ' 000	Company Rs. ' 000
CASH FLOWS FROM OPERATING ACTIVITIES				
Insurance Premium Received	2,044,791	1,151,198		3,195,989
Reinsurance Premium Paid	(299,779)	(186,370)		(486,149)
Insurance Claims and Benefits Paid	(259,713)	(543,405)		(803,118)
Reinsurance Claims Received	126,349	13,719		140,068
Payments to Intermediaries to acquire insurance contracts	(516,084)	(98,363)		(614,447)
Cash paid to employees, intermediaries and other suppliers for services and goods	(215,557)	(180,774)		(396,331)
Cash received from sale of Salvages	-	6,431		6,431
Interest Received	312,230	96,842		409,072
Dividend Received	14,038	23,259		37,297
Other Operating Cash Flows	(591,249)	(62,622)		(653,871)
Net Cash Inflow from Operating Activities (Note A)	615,026	219,915		834,941
Income Tax paid (Economic Service Charge)	-	(4,810)		(4,810)
Retiring Gratuity Paid	(1,344)	(939)		(2,283)
Interest Paid	-	(2,052)		(2,052)
Net Cash Inflows from Operating Activities	613,682	212,114		825,796
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of Investments	(8,183,328)	(3,436,758)		(11,620,086)
Proceeds from sale of Investments	7,611,298	3,278,559		10,889,857
Acquisition of Property, Plant and Equipment	(31,659)	(18,936)		(50,596)
Proceeds from Sale of Property, Plant and Equipment	-	1,380		1,380
Net Cash from Investing Activities	(603,689)	(175,756)		(779,445)
Net Cash Flow before Financing Activities	9,993	36,358		46,351
CASH FLOWS FROM FINANCING ACTIVITIES				
Dividend Paid	-	(73,050)		(73,050)
Net Cash from Financing Activities	-	(73,050)		(73,050)
Net Increase/(Decrease) in Cash and Cash Equivalents	9,993	(36,691)		(26,699)
Notes to Cash Flow Statement				
A. Reconciliation of operating profit with Cash Flows Operating Activities				
Profit before Tax	-	74,700		74,700
Adjustments for :				
Increase in Insurance Contract Liabilities - Life	551,339	-		551,339
Depreciation on Property, Plant and Equipment	18,010	12,717		30,727
Provision for Employee Benefits	2,589	5,915		8,504
Interest Paid	-	2,052		2,052
Realized Gains	(48,410)	(2,739)		(51,149)
Fair value (Gains) / Losses	8,345	(10,957)		(2,612)
Profit on Sale of Property, Plant and Equipment	(63)	(1,214)		(1,277)
Increase in Other Assets	(5,587)	(176,583)	(9,988)	(192,158)
Increase in Insurance Contract Liabilities - Non Life	-	288,737		288,737
Increase in Deferred Acquisition Cost	-	(28,894)		(28,894)
Decrease in Deferred Revenue	-	(32)		(32)
Increase in Payables and Other Liabilities	88,803	56,213	9,988	155,004
Net Cash Inflow from Operating Activities	615,026	219,915	-	834,941
B. Increase in Cash and Cash Equivalents				
Cash and Cash Equivalents	90,663	12,974		103,637
Bank overdrafts	(68,853)	(17,881)		(86,734)
Net cash and cash equivalents at the end of the year	21,810	(4,906)		16,903
Net cash and cash equivalents as at the beginning of the period	11,817	31,785		43,602
Increase / (Decrease) in Cash and Cash Equivalents	9,993	(36,691)		(26,699)

The Notes to the Financial Statements as setout on pages 197 to 269 which form an integral part of these Financial Statements

Insurance Revenue Account

For the year ended 31 December	2013 Rs. '000	2012 Rs. '000
Life Insurance		
Gross Written Premium	2,520,283	2,034,084
Premiums Ceded to Reinsurers	(381,617)	(326,981)
Net Written Premium	2,138,666	1,707,103
Finance and other Income	571,871	347,434
Net Benefits and Claims	(214,101)	(143,117)
Reserve arisen from Actuarial Valuation	(842,119)	(551,339)
Underwriting and net Acquisition Costs	(603,629)	(509,727)
Expenses	(750,688)	(694,475)
Surplus from life insurance fund	300,000	155,879
Finance and other income not attributable to policyholders	137,400	-
Expenses not attributable to policyholder	(3,825)	-
Profit for the year - Life Insurance	433,575	155,879
Non Life Insurance		
Gross Written Premium	1,556,386	1,190,392
Premiums Ceded to Reinsurers	(254,261)	(234,590)
Net Written Premium	1,302,125	955,802
Net change in reserve for Unearned Premium	(200,432)	(270,409)
Net Earned Premium	1,101,693	685,393
Policy fee income	5,472	4,205
Total Net Revenue	1,107,165	689,598
Net Claims Incurred	(910,324)	(516,685)
Underwriting and net Acquisition Costs	(108,071)	(63,182)
Expenses	(402,903)	(300,232)
Total Benefits, Claims and Expenses	(1,421,298)	(880,099)
Underwriting loss	(314,133)	(190,501)
Finance and other income	281,821	114,537
Non Technical Expenses	(7,124)	(5,214)
Income tax expense	(31,802)	(1,410)
Loss for the year Non - Life	(71,238)	(82,588)
Profit for the year - company	362,335	73,290
Key ratios non life insurance		
Net loss ratio	82.6%	75.4%
Net expense ratio*	45.9%	52.4%
Net combined ratio	128.5%	127.8%

* net of policy fee income

Notes to the Financial Statements

1. CORPORATE INFORMATION

1.1. Reporting Entity

Asian Alliance Insurance PLC (The Company) is a public limited liability Company incorporated and domiciled in Sri Lanka. The Company regulated under the Insurance Industry Act No. 43 of 2000 and amendments thereto. The Company was re - registered under the Companies Act No. 07 of 2007. The Company has the registered office at 7 Floor, Millennium House, 46/58, Nawam Mawatha, Colombo 02.

The ordinary shares of the Company are listed on the Colombo Stock Exchange (CSE). For further information please refer the 'Inner Back cover' of this Annual Report.

1.2. Principal Activities and Nature of Operation

The company is primarily involved in the life and non life insurance business. There were no changes in the nature of the principal activities of the company during the financial year under review.

1.3. Parent Entity and Ultimate Parent Entity

The Company's parent entity is Softlogic Capital PLC. In the opinion of Directors, the ultimate parent undertaking and controlling entity is Softlogic Holdings PLC which is incorporated in Sri Lanka.

1.4. Number of Employees

The staff strength of the Company as at December 31, 2013 was 618 (2012 was 557).

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The financial statements of the Company have been prepared and presented in accordance with Sri Lanka Accounting Standards (Hereinafter referred to as SLAS) prefixed both SLFRs (correspondence to IFRS) and LKAS (Correspondence to IAS), promulgated by the Institute of Chartered Accountants of Sri Lanka (ICASL) and comply with the requirements of the Companies Act No 07 of 2007, the requirements of Sri Lanka Accounting and Auditing Standards Act, No 15 of 1995, the Regulation of Insurance Industry Act, No 43 of 2000 and amendments thereto and the listing rules of the Colombo Stock Exchange.

These Financial Statements include followings;

2.2 Approval of the Financial Statements

The Financial Statements of Asian Alliance Insurance PLC for the year ended 31 December 2013 were authorized for issue by the Board of Directors on 13 February 2014.

2.3 Responsibility for Financial Statement

The Board of Directors is responsible for the preparation and presentation of the financial statements as per the provisions of the Companies Act No.07 of 2007 and Sri Lanka Accounting Standards.

The Board of Directors acknowledges their responsibility as set out in the 'Annual Report of the Board of Directors and Statement of Directors Responsibility'.

2.4 Basis of Measurement

The financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

Item	Basis of measurement	Note	Page reference
Derivative financial instruments	At fair value	19 and 38.2	230 264
Assets Held for Trading	At fair value	19 and 38.2	230 264
Available for Sale Financial Assets	At fair value	19 and 38.2	230 264
Liabilities for defined benefit plan	Present value of the defined benefit obligation determined by actuary	32	242
Policyholders' liabilities	Actuarial-determined values	30	239

No adjustments have been made for inflationary factors effecting Financial Statements.

2.4. a Supplementary Statement - Statement of Financial Position - Life Insurance Fund

Supplementary Statement of Financial Position of Life Insurance Fund together with note are disclosed in page numbers 272 to 275 as per the requirement of the Statement of Recommended Practice (SORP) for Insurance Contracts then applicable, adopted by the Institute of Chartered Accountants of Sri Lanka.

2.5 Functional and presentation currency

Items included in the Financial Statements of the Company are measured using currency of the primary economic environment in which the Company operates (the Functional currency).These financial statements are presented in Sri Lanka Rupees, which is the Company's functional currency.

2.5. a Rounding

All financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand, except when otherwise indicated.

2.6 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 as permitted by the Sri Lanka Accounting Standards – LKAS 1 on 'Presentation of Financial Statements'.

2.7 Going Concern

The management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Further management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on a going concern basis.

2.8 Use of Judgments and Estimates

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

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

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements. Certain Comparative amounts in the Statement of Financial Position and Statement of Income have been reclassified to conform with the current year's presentation as disclosed in Note No. 43 on page 269.

The Company's Statement of Financial Position represents the assets, liabilities and equity of the Non Life insurance business and life insurance business. The Statement of Income reflects the profitability of Non Life insurance business and life insurance business. The supplemental information on pages from 272 to 275 depicts assets, liabilities and reserves of the life insurance fund.

SIGNIFICANT ACCOUNTING POLICIES - STATEMENT OF FINANCIAL POSITION

3.1 Foreign Currency Transactions

Transactions in foreign currencies are translated to the respective functional currencies of the company which is the Sri Lankan Rupees, using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are generally recognised in Statement of Income, except for the differences arising on the retranslation of available – for - sale equity investments (except on impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss).

3. 2. Insurance and Investment Contracts

SLFRS 4 – Insurance Contracts, requires contracts written by insurer to be classified as either "Insurance" or "Investment" depending on the level of insurance risk transferred.

3. 2. 1. Product classification

Insurance Contracts

Insurance contracts are contracts under which one party (the Insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Significant insurance risk exists if an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction). The classification of contracts identifies both the insurance contracts that the company issues and reinsurance contracts that the company holds.

The classification of contracts identifies both the insurance contracts that the company issues and reinsurance contracts that the company holds.

Investment Contracts

Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

Financial risk is the risk of a possible future change in one or more of a specified interest rate, price of the financial instrument, commodity price, foreign exchange rate, index of price or rates, credit rating or credit index or other variable, provided in the case of a non financial variable that the variable is not specific to a party to the contract.

Subsequent Classification

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

Insurance and investment contracts are further classified as being either with or without discretionary participating features ("DPF").

Discretionary participating features (DPF)

DPF is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits that are:

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

Derivatives embedded in an insurance contract or an investment contract with DPF are separated and fair valued through the Statement of Income unless the embedded derivative itself is an insurance contract or investment contract with DPF. The derivative is also not separated if the host insurance contract and/or investment contract with DPF is measured at fair value through the profit and loss.

IBSL regulations and the terms and conditions of these contracts set out the bases for the determination of the amounts on which the additional discretionary benefits are based (the DPF eligible surplus) and within which the company may exercise its discretion as to the quantum and timing of their payment to contract holders. At least 90% of the eligible surplus must be attributed to contract holders as a group (which can include future contract holders) and the amount and timing of the distribution to individual contract holders is at the discretion of the company, subject to the advice of the appointed actuary. All DPF liabilities including unallocated surpluses, both guaranteed and discretionary, at the end of the reporting period are held within insurance contract liabilities, as appropriate.

Product portfolio of the Company

All product sold by the Company are insurance contracts and therefore classified as Insurance Contracts thus the Company does not have any investment contracts within its portfolio as at reporting date.

3. 2. 2. Impact of Unrealised gains and losses on available-for-sale assets on liabilities from insurance contracts

Unrealised gains or losses arise on available – for - sale assets, the adjustment to the liabilities arising from insurance contracts is equal to the effect that the realisation of those gains or losses at the end of the reporting period would have had on those liabilities (and related assets) and is recognised directly in other comprehensive income.

3.3. Financial Instruments

3.3.1 Non-derivative financial assets

The Company initially recognises loans and receivables, and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the company becomes a party to the contractual provisions of the instrument.

In the case of financial assets not at fair value through profit or loss, a financial asset is measured initially at fair value plus transaction costs that are directly attributable to its acquisition or issue.

The company derecognises financial assets when the contractual rights to the cash flows from the asset expire or it transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in a transferred financial asset that is created or retained by the company is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when and only when the company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The company classifies its non derivative financial assets into following categories:

- Fair value through profit or loss (FVTPL);
- Loans and receivables (L&R);
- Held to maturity investments (HTM); and
- Available-for-sale (AFS) financial assets, as appropriate.

The classification depends on the purpose for which the investments were acquired or originated. Financial assets are classified as at fair value through profit or loss where the Company's documented investment strategy is to manage financial investments on a fair value basis, because the related liabilities are also managed on this basis. The available-for-sale and held-to-maturity categories are used when the relevant liability (including shareholders' funds) is passively managed and /or carried at amortized cost. Please refer the table on page 201 for further details on classification of Financial Instruments.

The Company's existing non derivative Financial Assets and their classifications are summarised in the table in next page.

Financial Asset	AFS	HTM	L &R	FVTPL
Treasury Bonds	√	√		√
Reverse repurchase agreements			√	
Quoted Shares	√			√
Unquoted Shares	√			
Corporate Debts	√		√	
Policy loans			√	
Staff and Advisor Loans			√	
Term Deposits			√	
Cash and Cash Equivalents			√	
Reinsurance Receivables			√	
Premium Receivables			√	
Unit Trusts				√

Income and expenses are presented on a net basis only when permitted under SLFRS / LKAS, or for gains and losses arising from a group of similar transactions such as in the Company's trading activity.

(a). Financial Assets at Fair Value through Profit or Loss (FVTPL)

A financial asset is classified as fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the company's investment strategy. Attributable transaction costs are recognised in statement of income as incurred.

Financial assets at fair value through profit or loss are measured at fair value and changes therein, which takes into account any dividend income, are recognised in profit or loss.

Financial assets designated at fair value through profit or loss comprises of quoted equity instruments unless otherwise have been classified as available-for-sale.

(b) Held-to Maturity Financial Assets (HTM)

Financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the company has the positive intention and ability to hold it to maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses.

Held-to-maturity financial assets comprise of debt securities and treasury bonds.

(c) Loans and Receivables (L&R)

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise of investments in unquoted debentures, commercial papers, reverse repos, reinsurance receivables, premium receivables, cash and cash equivalents and Policy loans and other loans.

- ***Reinsurance Receivables***

The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance receivables represent balances due from reinsurance companies. These assets consist of short-term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

- ***Premium Receivables***

Premium receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of premium receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. These include amounts due from insurance contract holders.

- ***Cash and Cash Equivalents***

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

- ***Other receivables and due from related parties***

  Other receivables and dues from Related Parties are recognised at cost less allowances for bad and doubtful receivables.

(d) Available for Sale financial assets (AFS)

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of financial assets.

Available-for-sale financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses on available-for sale equity instruments are recognised in other comprehensive income and presented within equity in the available for sale reserve. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to the statement of income.

Available for sale financial assets comprise of long term unquoted equity investments, investments in reverse repos and investments in treasury bills and bonds.

3.3.2 Non-derivative Financial Liabilities

Initial recognition and measurement

The Company recognised financial liabilities initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

The Company classifies non-derivative financial liabilities into the other financial liabilities category

Financial liabilities at FVTPL

Financial liabilities at FVTPL include financial liabilities held-for-trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, and changes there in recognized in profit or loss. Upon initial recognition, transaction cost are directly attributable to the acquisition are recognized in profit or loss as incurred. The criteria for designation of financial liabilities at FVTPL upon initial recognition are the same as those of financial assets at FVTPL.

Other Financial liabilities

Other financial liabilities including deposits, debt issued by the Bank and the other borrowed funds are initially measured at fair value less transaction cost that are directly attributable to the acquisition and subsequently measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

Composition

Other financial liabilities comprise interest bearing borrowings, reinsurance payables, other liabilities and bank overdrafts.

- ***Reinsurance Payable***

  Reinsurance payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method. Insurance payables are derecognised when the obligation under the liability is settled, cancelled or expired.

- ***Bank Overdraft***

  Bank overdrafts that are repayable on demand and form an integral part of the company's cash management are included as a component of cash and cash equivalents in the statement of cash flows.

3.3.3 Derivative financial instruments

The company holds derivative financial instruments to hedge its interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related and the combined instrument is not measured at fair value through profit or loss.

- ***Separable embedded derivatives***

  Changes in the fair value of separated embedded derivatives are recognised immediately in profit or loss.

- ***Other non-trading derivatives***

  When a derivative is not held for trading and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in profit or loss as a component of income from other financial instruments at fair value through profit or loss.

3.3.4. De- recognition of Financial Instruments

3.3.4.1 De-recognition of financial assets

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

a. The rights to receive cash flows from the asset have expired

b. The Company retains the right to receive cash flows from the asset. But has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement

c. The Company has transferred its rights to receive cash flows from the asset and either- Has transferred substantially all the risks and rewards of the asset, or

d. The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

3.3.4.2. De recognition of Financial Liabilities

The company derecognises a financial liability when its contractual obligations are discharged, cancelled or expired. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when and only when, the company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset or settle the liability simultaneously.

3.3. 5. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

3.3. 6 Amortised cost measurement

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

3.3.7 Fair value Measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

Level 1 Valuation

When available, the Company measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. For units in unit trusts fair value is determined by reference to published bid-values.

Level 2 Valuation

If a market for a financial instrument is not active, then the Company establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Company, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Company calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument, i.e. without modification or repackaging, or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Level 3 Valuation

Any difference between the fair value at initial recognition and the amount that would be determined at that date using a valuation technique in a situation in which the valuation is dependent on unobservable is not recognised in profit or loss immediately but is recognised over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Company and the counter party where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Company believes a third-party market participant would take them into account in pricing a transaction.

Please refer fair value hierarchy disclosed in Note 38.3 on page 265.

3.3. 8. Reclassification of Financial Assets

The Company may reclassify non derivative financial assets (Other than those designated at FVTPL upon initial recognition) in certain circumstances: Reclassification is at the election of management, and is determined on an instrument-by-instrument basis.

(a) Held for Trading Financial Assets

- The Company may reclassify a non-derivative trading asset out of the 'held for trading' category and into the 'loans and receivables' or 'held to maturity categories' if it meets the definition of loans and receivables and the Company has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

- If a financial asset is reclassified, and if the Company subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

(b) Available for Sale Financial Assets

- Out of the 'available for- sale' category and in to the 'loans and receivables' 'held for trading' or held to maturity'. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

- Any previous gain or loss on that asset that has recognised in equity is amortised to Statement of Income over the remaining life of the asset using the EIR if it has fixed maturity period. In the case of a financial asset does not have a fixed maturity, the gain or loss is recognised in the Statement of Income when such asset is sold or disposed of.

- If the asset is subsequently, determined to be impaired, then the amount recorded in equity is recycled to the Statement of Income.

3.4 Impairment

Impairment of Financial Assets

The Company assesses at each reporting date the whether there is objective evidence that a financial asset or a group of financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Objective evidence that financial assets (including equity securities) are impaired can include:

- Significant financial difficulty of the borrower or issuer,

- Default or delinquency by debtor

- It becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganization

- Changes in the payment status of issuers or debtors in the Company

- In the case of equity a significant or prolonged decline in its fair value below its cost

a. Impairment of Financial Assets carried at amortized cost

The company considers evidence of impairment for financial assets measured at amortised cost (loans and receivables and held-to-maturity financial assets) at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Company uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

Measurement of Impairment and recognition

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

Losses are recognised in Statement of Income under 'Allowance for impairment' account against loans and receivables or held to maturity investment securities. Interest on the impaired asset continues to be recognised.

Reversal of Impairment

When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the Statement of Income.

The Company has not experienced any indication of impairment and thus no impairment losses were recognized during the financial year.

b. Impairment of Financial Assets - Available -for-sale

For available for sale financial investments, the Company assesses at each reporting date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available-for-sale, the Company assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the Statement of Income.

Future interest income is based on the reduced carrying amount/impaired balance and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income on such assets too is recorded within 'Finance income'. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the Statement of Income, the impairment loss is reversed through the Statement of Income.

c. Impairment of Financial Assets carried at cost

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

Impairment of Reinsurance receivables

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

The impairment loss is recorded in the Statement of Income.

Impairment of Premium receivables

Impairment losses on premium receivables are the difference between the carrying amount and the present value of the estimated discounted cash flows. The impairment losses are recognized in the Statement of Income.

3.5 Deferred Expenses

3.5.1 Deferred Acquisition Costs (DAC) – Non life

Deferred acquisition costs comprise commissions and other variable costs directly connected with acquisition or renewal of insurance contracts, are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred.

DAC is amortised over the period in which the related revenues are earned. The re-insurers share of deferred acquisition costs is amortised in the same manner as the unearned premium reserve is amortised.

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

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. DAC is reviewed for recoverability based on the profitability of the underlying insurance contracts and when the recoverable amount is less than the carrying value, an impairment loss is recognised in the Statement of Income.

DAC are derecognised when the related contracts are either settled or disposed.

3.5.2. Reinsurance commissions - Unearned commission reserve (UCR) – Non life

Commissions receivable on outwards reinsurance contracts are deferred and amortised on a straight line basis over the term of the expected premiums payable.

3.6 Property Plant and Equipment

Property, Plant and Equipment are tangible assets used held for and use in the provision of services, for rental to others or for administrative purposes and are expected to be used for more than one year.

3.6.1. Basis of Recognition

Property, Plant and Equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the Company and cost of the asset can be measured reliably.

3.6.2 Basis of Measurement

An item of Property, Plant and Equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and subsequent costs (excluding the costs of day - to - day servicing). The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Purchased software which is integral to the functionality of the related equipment is capitalised as part of Computer Equipment. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Cost Model

The Company applies the cost model to Plant and Equipment and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses. The Company does not own any property.

Subsequent Costs

The cost of replacing a component of an item of property or 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 carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in Statement of Income as incurred

Repairs and maintenance

Repairs and maintenance are charged to the Statement of Income during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the assets when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing assets will flow to the company and the renovation replaces an identifiable part of the asset. Major renovations are depreciated during the remaining useful life of the related asset.

Capital Work in Progress

Capital work - in - progress is stated at cost. These are expenses of a capital nature directly incurred on Property, Plant and Equipment, awaiting capitalisation.

Depreciation

The Company provides depreciation from the date the assets are available for use up to the date of disposal, at the following rates on a straight-line basis over the periods appropriate to the estimated useful lives of the different types of assets.

The estimated useful lives for the current and comparative period are as follows:

Class of Asset	% per Annum	Period
Office Equipment	20	05 Years
Computer Equipment	20	05Years
Furniture and Fittings	10	10 Years
Fixtures and Fittings	20	05 Years
Motor Vehicle	25	04 Years

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate

3. 6. 3 De - recognition

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

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

3. 6. 4 Carrying Value

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

All classes of Property, Plant and Equipment together with the reconciliation of carrying amounts and accumulated depreciation at the beginning and at the end of the year are given in Note 18 on page 228.

3.6.5 Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

However, no borrowing cost in the company during the financial period under review

3.7 Inventories

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

3.8 Equity Movement

3.8.1 Ordinary Shares

The Company has issued ordinary shares that are classified as equity instruments.

3.8.2 Dividends on Ordinary Shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Shareholders of the Company in accordance with the articles of association.

Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date.

3.9 Impairment of Non - Financial Assets

The carrying amounts of the Company's non - financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

An impairment loss is recognised if:
Carrying amount of an asset greater than its estimated recoverable amount.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets.

Impairment losses are recognised in Statement of Income.

Impairment of DAC

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. DAC is reviewed for recoverability based on the profitability of the underlying insurance contracts and when the recoverable amount is less than the carrying value, an impairment loss is recognised in the Statement of Income.

LIABILITIES AND PROVISIONS

3.10. Insurance Contract Liabilities

3.10.1. Insurance Contract Liabilities – Life Insurance

Measurement

Life insurance liabilities are recognised when contracts are entered into and premiums are charged.

These liabilities are measured by using the Net Premium Valuation (NPV) method as specified by the Insurance Board of Sri Lanka (IBSL) based on the recommendation of the Independent Consultant Actuary.

The liability is determined as the sum of the discounted value of the expected future benefits, less the discounted value of the expected future premiums that would be required to meet the future cash outflows based on the valuation assumptions used. The liability is computed based on IBSL specified guidelines and current assumptions which vary based on the contract type. Furthermore, adjustments are performed to capture the likely liabilities that may arise due to currently lapsed contracts reviving in the future.

The minimum mandated amounts, which are to be paid to policyholders plus any declared / undeclared additional benefits, are recorded in liabilities.

De - recognition

The liability is derecognised when the contract expires, is discharged or is cancelled.

At each reporting date, an assessment is made of whether the recognized life insurance liabilities are adequate net by using an existing liability adequacy test.

Liability Adequacy Test (LAT)

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

Any deficiency shall be recognised in the Statement of Income by setting up a provision for liability adequacy.

Life insurance liability adequacy is decided by an independent external actuary.

3.10.2. Contract Liabilities - Non Life Insurance

Measurement

Non-life insurance contract liabilities include the outstanding claims provision (Reserve for gross outstanding and Incurred but Not Reported, and Incurred but Not Enough Reported - IBNR / IBNER) and the provision for unearned premium and the provision for premium deficiency.

Gross Claims Payable including IBNR

The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised.

The liabilities are derecognised when the obligation to pay a claim expires, is discharged or is cancelled.

IBNR reserve is decided by an independent external actuary.

Reserve for Unearned Premiums (UPR)

The reserve for unearned premiums represents that portion of premiums received or receivable that relates to risks that have not yet expired at the reporting date. The provision is recognised when contracts are entered and is brought to account as premium income over the term of the contract in accordance with the pattern of insurance service provided under the contract.

Provision for unearned premium is calculated on a 1 /24 basis except for marine / cargo class which is subject to 60 / 40 basis.

Liability adequacy test (LAT)

At the end of each reporting period the company reviews its unexpired risk and a liability adequacy test is performed as laid out in SLFRS 4 to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. The calculation uses current estimates of future cash flows after taking account of the investment return expected to arise from assets relating to the relevant non-life insurance technical provisions.

If the assessments show that the carrying amount of the unearned premiums (less related Deferred Acquisition Costs) is inadequate, the deficiency shall be recognised in the Statement of Income by setting up a provision for liability adequacy.

Non life insurance liability adequacy is decided by an independent external actuary.

3.11. Employee Benefits

3.11.1 Short-term employee benefits

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus if the company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

3.11.2 Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in the Statement of Income in the periods when they incurred.

Employee Provident Fund (EPF)

All employees of the Company are member of the Employees' Provident Fund. The Company and employees contribute 12% and 8% respectively of the salary to EPF.

Employees Trust Fund (ETF)

All employees of the Company are members of the Employees Trust Fund. The Company contributes 3% of the salary of each employee to ETF.

3.11.3 Defined benefit plans

Measurement

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 separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value.

The calculation is performed annually by a qualified independent actuary using the projected unit credit method.

Under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service.

The liability is not externally funded.

Recognition of actuarial gain / (losses)

The Company recognises all actuarial gains and losses arising from defined benefit plans immediately in Comprehensive Income and all expenses related to defined benefit plans in employee benefit expense in Statement of Income.

3.12 Provisions (other than insurance provisions)

A provision is recognised if, as a result of a past event, the company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

STATEMENT OF INCOME

3.13 Revenue Recognition

3.13.1 Gross Written Premium (GWP)

a. *Non Life Insurance GWP*

Gross written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period. They are recognised on the date on which the policy commences.

Rebates that form part of the premium rate, such as no-claim rebates, are deducted from the gross written premium.

Unearned premium reserve (UPR)

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. UPR represents the portion of the premium written in the year but relating to the unexpired term of coverage.

Unearned premiums are calculated on the 365 basis except for the marine and title policies which are computed on a 60 - 40 basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

The proportion attributable to subsequent periods is deferred as a provision for unearned premiums which is included under Insurance contract liabilities - Non life.

b. *Life Insurance GWP*

Gross recurring premiums on life are recognized as revenue when receivable from the policyholder. For single premium business, revenue is recognised on the date on which the policy is effective.

3.13.2 Reinsurance premiums

a. *Non life Insurance reinsurance Premium*

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

Unearned Reinsurance Premium

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses occurring contracts. Unearned reinsurance premiums are calculated on the 365 basis except for the marine policies which are computed on a 60-40 basis.

The proportion attributable to subsequent periods is deferred as a provision for unearned premiums which is included under Insurance contract liabilities - Non life.

b. *Life Insurance Reinsurance Premiums*

Reinsurance premiums on life and investment contracts are recognised as an expense on the earlier of the date when premiums are payable or when the policy becomes effective.

3.13.3 Finance Income

Finance income comprises interest income on funds invested (including available-for-sale financial assets) and dividend income.

Interest Income

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

Dividend Income

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

Finance Expenses

Finance expenses consist of costs relating to investment such as custodial fees, bank guarantee fee and brokerage fee etc. These expenses are recognised on an accrual basis.

3.13.4 Realized gains and losses

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

3.13.5 Fair value gains and losses

Fair value gains and losses recorded in the Statement of Income on investments include fair value gains on financial assets at fair value through profit or loss and investment properties.

3.13.6 Other Income

Other income is recognised on an accrual basis

3.13.7 Reinsurance Commission Income

a. Non life Insurance

Reinsurance commission income on outwards reinsurance contracts are recognised as revenue when receivable.

Subsequent to initial recognition, reinsurance commission income on outwards reinsurance contracts are deferred and amortised on a straight line basis over the term of the expected premiums payable.

b. Life Insurance

Reinsurance premiums on life and investment contracts are recognised as an expense on the earlier of the date when premiums are payable or when the policy becomes effective.

3.14 Benefits, Claims and Expenses recognition

3.14.1 Gross benefits and claims

a. Non Life Insurance

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

Claims outstanding are assessed by review of individual claim files and estimating changes in the ultimate cost of settling claims.

Gross claims expense includes gross claims expense reported but not yet paid, incurred but not reported claims (IBNR). The provision in respect of IBNR 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 adjustment to the amounts provided. Such amounts are reflected in the financial statements for that period. The methods used and the estimates made are reviewed regularly.

b. Life Insurance

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

Changes in the valuation of insurance contract liabilities are disclosed in the statement of financial position under Change in insurance contract liabilities.

3.15 Reinsurance claims

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

3.16 Acquisition cost

All acquisition cost are recognised as an expense when incurred.

3.17 Recognition of Expenses

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

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.

3.18 Operating Lease Payments

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

3.19 Finance Cost

Interest paid is recognised in the Statement of Income as it accrues and is calculated by using the effective interest rate method. Accrued interest is included within the carrying value of the interest bearing financial liability.

3.20 Taxation

Income tax expense comprises current and deferred tax. Current and deferred taxes are recognised in profit and loss except to the extent that it relates to items recognised directly in equity, when it is recognised in equity.

3.20.1 Current Taxes

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

3.20.2 Deferred Taxation

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

Deferred Tax is not recognized for the following temporary differences:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

- Temporary differences related to investments in subsidiaries, associates and jointly controlled entities to the extent that the company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and

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

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

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

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

3.20.3 Economic Service Charge (ESC)

As per the provisions of the Economic Service Charge Act No.13 of 2006 and the amendments thereto, 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 within the specified time period mentioned in the Act and set off against the income tax payable as per the relevant provisions in the Act.

3.20.4 Nation Building Tax (NBT)

As per the provisions of the Nation Building Tax Act No. 9 of 2009 and the amendments thereto, NBT should be payable at the rate of 2% on the liable turnover as per the relevant provisions of the Act.

3.21 Operating Segments

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

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

For management purposes, the company is organised into business units based on their products and services and has two reportable operating segments as follows:

a. Life Insurance Segment

- Offers protection products and other long-term contracts (both with and without insurance risk and with and without discretionary participating features). It comprises a wide range of whole life, term assurance, guaranteed pensions, pure endowment pensions and mortgage endowment products.

- Revenue from this segment is derived primarily from insurance premium, fees and commission income, investment income and fair value gains and losses on investments.

b. Non Life Insurance Segment

- Non life insurance products offered include motor, fire, accident and liability, cargo and workmen compensation. These products offer protection of policyholder's assets and indemnification of other parties that have suffered damage as a result of policyholder's accident, e.g., employee liability claims.

- Revenue in this segment is derived primarily from insurance premiums, investment income and fair value gains and losses on investments.

No operating segments have been aggregated to form the above reportable operating segments.

Segment performance is evaluated based on profit or loss which, in certain respects, is measured differently from profit or loss in the financial statements. The company's stated capital and retained earnings are managed on a company basis and are not allocated to individual operating segments.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment and intangible assets other than goodwill.

The activities of the company are located mainly in Sri Lanka. Consequently, the economic environment in which the company operates is not subject to risks and rewards that are significantly different on a geographical basis. Hence, disclosure by geographical region is not provided.

3.22 Earnings Per Share (EPS)

The Company presents basic earnings per share 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.

3.23 Cash Flow Statements

The cash flow statement has been prepared using the "direct method". Interest paid, interest received and dividend received is classified as operating cash flows, while dividends paid are classified as financing cash flows for the purpose of presenting the cash flow statement.

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

3.24 Commitments and Contingencies

Contingencies are possible assets or obligations that arise from a past event and would be concerned only on the occurrence or non-occurrence of uncertain future events, which are beyond the Company's control. Contingent liabilities are disclosed in Note 40 to the Financial

Statements on page 266 Commitments are disclosed in Note 39 to the Financial Statements on page 266.

3.25 Events occurring after the Reporting Period

All material post reporting period events have been considered and where appropriate adjustments or disclosures have been made in Note no 42 to the Financial Statements on Page 269.

4 Comparative Information

The comparative information is restated and reclassified wherever necessary to conform with the current year's classification in order to provide a better presentation. The details of such restatements and reclassifications have been provided in Note 43 on page 269.

5 NEW ACCOUNTING STANDARDS NOT EFFECTIVE AT THE REPORTING DATE

The Institute of Chartered Accountants of Sri Lanka has issued the following new Sri Lanka Accounting Standards which will become applicable for financial periods beginning on or after 1st January 2014/ 2015.

Accordingly, these Standards have not been applied in preparing these financial statements.

5.1 Sri Lanka Accounting Standard-SLFRS 12 "Disclosure of Interests in Other Entities"

As SLFRS 10, 11 and 12 will be applicable only to groups and joined arrangements. The Company is a single entity as of now but will become a group after incorporating a subsidiary company to transfer one line of business (General Insurance Business) to comply with the business segregation requirement (for Life and general Insurance Business) for composite insurance companies by the Insurance Board of Sri Lanka (IBSL). The Company will incorporate a new subsidiary company in 2014.

SLFRS 10 will become effective from 1 January 2014.

5.2 Sri Lanka Accounting Standard - SLFRS 13, "Fair Value Measurement"

This SLFRS defines fair value, sets out in a single SLFRS a framework for measuring fair value; and requires disclosures about fair value measurements.

This SLFRS will become effective from 1 January 2014.

This SLFRS shall be applied prospectively as of the beginning of the annual period in which it is initially applied. The disclosure requirements of this SLFRS need not be applied in comparative information provided for periods before initial application of this SLFRS.

The Company has started the process of evaluating the potential effect of this. Although many of the IFRS 13 disclosure requirements regarding financial assets and financial liabilities are already required, the adoption of IFRS 13 will require the Company to provide additional disclosures. Given the nature of the Company's operations, this standard is not expected to have a pervasive impact on the Company's financial statements.

5.3 Sri Lanka Accounting Standard – SLFRS 9 "Financial Instruments"

The objective of this SLFRS is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.

An entity shall apply this SLFRS to all items within the scope of LKAS 39 Financial Instruments: Recognition and Measurement.

The effective date of this Standard has been deferred.

6. OPERATING SEGMENTS

For management purposes, the company is organized into business units based on their products and services and has two reportable operating segments as follows:

Operating Segment	Category of Information	Details
Life Insurance	Nature of product	Protection and other long-term contracts both with and without discretionary participating features
	Classification of products	It comprises a wide range of whole life, term assurance, guaranteed pensions, pure endowment pensions and mortgage endowment products
	Revenue derived from	* Insurance premium and fees charged from policyholders
		* Commission income * investment income and fair value gains and losses on investments

Operating Segment	Category of Information	Details
Non Life Insurance	Nature of product	It comprises nonlife insurance to individuals and businesses which are short term nature
	Classification of products	Mainly classified in to Motor and Non motor segment and Non motor segment consist of fire, Accident and liability, Marine and workmen compensation.
	Revenue derived from	* Insurance premium and fees charged from policyholders
		* Commission income * investment income and fair value gains and losses on investments

a. Aggregation of Operating Segments

No operating segments have been aggregated to form the above reportable operating segments. Segment performance is evaluated based on profit or loss which, in certain respects, is measured differently from profit or loss in the financial statements. The Company's stated capital and retained earnings are managed on a company basis and are not allocated to individual operating segments.

b. Inter segment Transactions

Inter-segment pricing is determined on an arm's length basis

c. Segments results

Segment results are presented in following statements,

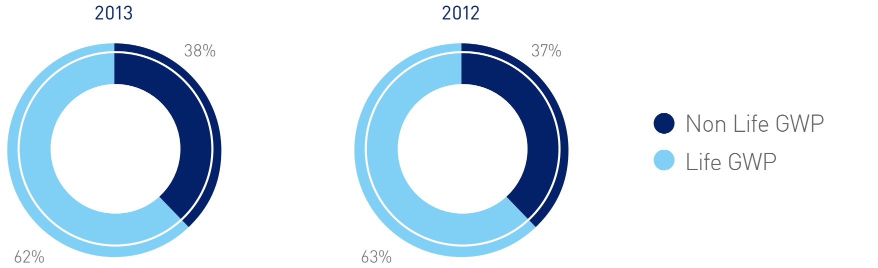
- Segmental Income Statement – Shows Segmental Income and expenses
- Segmental Statement of Financial Position – Segmental assets and Liabilities
- Segmental Cash flows – Shows Cash inflows and outflows for each segment separately

The activities of the Company are located mainly in Sri Lanka. Consequently, the economic environment in which the Company operates is not subject to risks and rewards that are significantly different on a geographical basis. Hence, disclosure by geographical region is not provided.

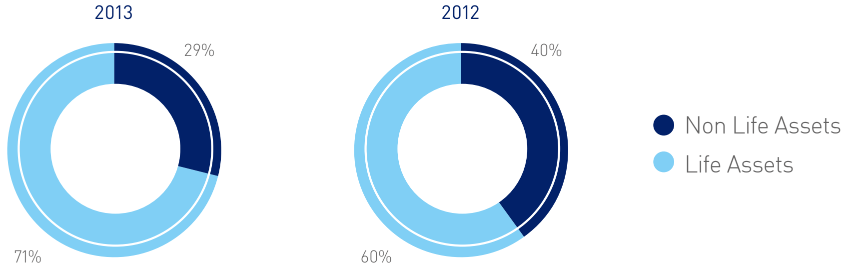
(d) Graphical Presentation of segment results are given as follows;

Segmental Information | **Graphical Presentation Company 2013 and 2012**

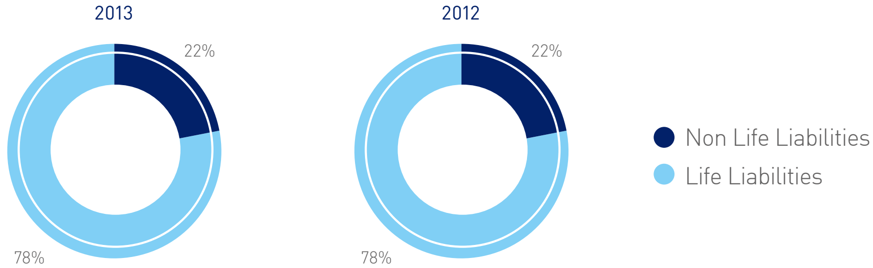
Gross Written Premium*



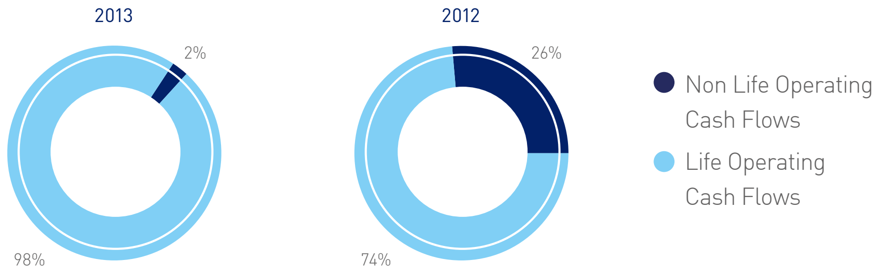
Assets*



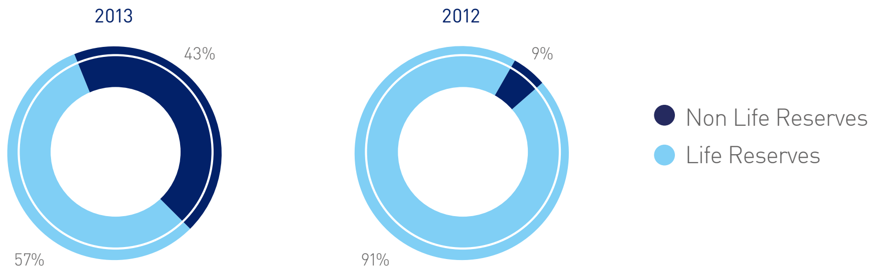
Liabilities (Excluding reserves)*



Net Operating Cash flows*



Segmental Reserves*



*As a percentage of total for all report of the sectors

7. GROSS WRITTEN PREMIUMS

The Premium Income for the year by major classes of business is as follows;

For the year ended 31 December,	2013			2012		
	Basic Rs. '000	SRCC / TC* Rs. '000	Total Rs. '000	Basic Rs. '000	SRCC / TC* Rs. '000	Total Rs. '000
Life insurance						
First Year Premiums	-	-	819,837	-	-	678,745
Renewal Premiums	-	-	1,687,633	-	-	1,338,800
Group Life Premiums	-	-	11,269	-	-	11,794
Single Premiums	-	-	1,544	-	-	4,744
Total for Life Insurance	-	-	2,520,283	-	-	2,034,084
Non life insurance						
Fire	92,664	44,607	137,271	116,215	46,687	162,902
Marine	45,535	-	45,535	61,193	98	61,291
Motor	731,042	119,031	850,073	537,950	81,754	619,704
Miscellaneous	507,381	16,126	523,507	337,050	9,445	346,495
Total for Non Life Insurance	1,376,622	179,764	1,556,386	1,052,408	137,984	1,190,392
Consolidated Gross Written Premiums			4,076,669			3,224,476

* SRCC - Strike Riot and Civil Commotion Cover, TC - Terrorism Cover

Figure: Life GWP Mix 2013

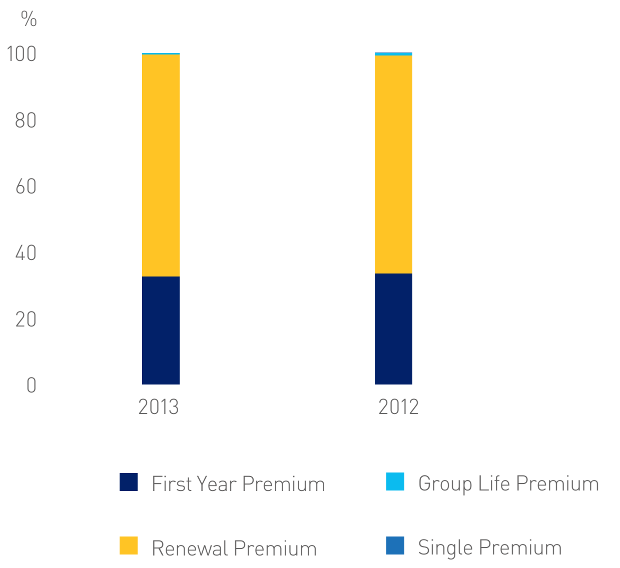
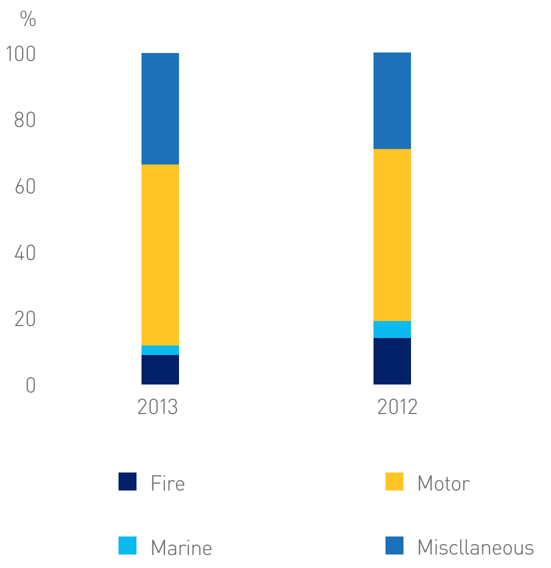


Figure: Non Life GWP Mix 2013



7.1 As explained in Note 3.13.1 on page 211 to the Financial Statements, Gross Written Premium is recorded on accrual basis.

7.2 Net Change in Reserve for Unearned Premium

Net change represents the net portion of the GWP transferred to the unearned premium reserve during the year to cover the unexpired period of the policy.

7.3 Gross Earned Premiums

This includes earned GWP premiums for the financial year after adjusting the GWP premiums for unexpired period of the policies.

8 PREMIUMS CEDED TO REINSURERS

For the year ended 31 December,	2013 Rs. '000	2012 Rs. '000
Life Insurance	381,617	326,981
Non life Insurance	254,261	234,590
Total Premium Ceded to Reinsurers	635,878	561,571

8.1 Net Change in Reserve for Unearned Reinsurance Premiums

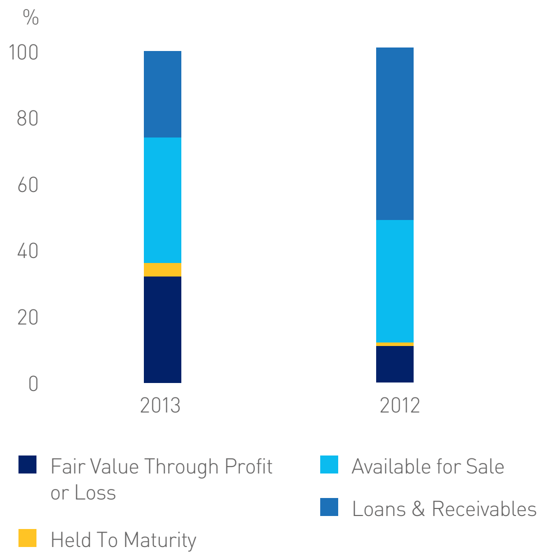
Net change represents the net portion of the reinsurance premiums transferred to the unearned reinsurance premium reserve during the year to cover unexpired period of the policies.

8.2 Net Earned Premiums

This represents the Net Earned Premium for the financial year subsequent to deduction of reinsurance and net change in unearned premiums from Gross Written Premium. However there is no Unearned premium adjustment for life insurance business.

9. FINANCE INCOME

Figure: Investment Income Analysis



This note includes the investment income generated by the Company from its various assets.

For the year ended 31 December,		2013 Rs. '000	2012 Rs. '000
Income from Financial Assets classified as Fair Value through Profit or Loss	Note 9.1	191,057	43,650
Income from Financial Assets classified as Held to Maturity	Note 9.2	22,135	4,872
Income from Financial Assets classified as Available-For-Sale	Note 9.3	227,743	148,492
Income from Financial Assets classified as Loans and Receivables	Note 9.4	157,814	209,688
Total Finance Income		598,749	406,702

9.1. Income from Financial Assets classified as Fair Value through Profit or Loss

Interest Income from Treasury Bonds	104,386	10,359
Dividend Income from Equity Shares	86,671	33,291
	191,057	43,650

9.2. Income from Financial Assets classified as Held to Maturity

Interest Income from Treasure Bonds	22,135	4,872

9.3. Income from Financial Assets classified as Available-For-Sale

Interest Income	9.3.a	150,110	144,485
Dividend Income	9.3.b	77,633	4,007
		227,743	148,492

9.3.a Interest Income

Treasury Bonds	50,022	73,244
Treasury Bills	1,612	4,606
Debentures	63,546	27,810
Commercial Papers	34,930	38,825
	150,110	144,485

	For the year ended 31 December,		2013 Rs. '000	2012 Rs. '000
9.3.b	**Dividend Income**			
	Equity Shares		72,428	-
	Unit Trusts		5,205	4,007
			77,633	4,007
9.4.	**Income from Financial Assets classified as Loans and Receivables**			
	Interest Income	9.4.a	157,814	209,688
9.4.a	**Interest Income**			
	Reverse Repo		37,824	57,577
	Debentures		11,253	25,120
	Bank Deposits		94,557	116,882
	Loans to Life Policyholders		14,180	10,109
			157,814	209,688
10.	**NET REALIZED GAINS**			
	Net Gains from Available-for-sale Financial Assets	Note 10.1	224,146	51,149
	Net Gains from Property, Plant and Equipment		40	1,277
	Total Net Realised gains		224,186	52,426
10.1.	**Net Gains from Available-for-sale financial assets**			
	Realised gains			
	Equity		189,026	-
	Money Market securities - Treasury Bonds		8,309	51,150
	Unit Trust		26,845	-
	Realised losses			
	Equity securities		(34)	-
	Money Market securities		-	(1)
			224,146	51,149
11	**NET FAIR VALUE GAINS**			
	Financial Investments at Fair Value through Profit or Loss	Note 11.1	163,508	(2,944)
	Gain on Derivative Financial Instrument		4,350	5,556
	Total Fair Value Gains		167,858	2,612
11.1	**Financial Investments at Fair Value through Profit or Loss**			
	Unrealised Gains			
	Treasury Bonds		6,833	14,054
	Unit Trust		15,005	-
			21,838	14,054
	Realised Gains			
	Treasury Bonds		64,937	28,951
	Equity Securities		79,545	64,123
			144,482	93,074
	Realised Losses			
	Equity Securities		(2,812)	(110,072)
	Net Fair Value Gains		163,508	(2,944)

For the year ended 31 December,		2013 Rs. '000	2012 Rs. '000
12. INSURANCE BENEFITS AND CLAIMS			
Gross Benefits and Claims paid	Note 12.1	1,293,089	803,118
Claims Ceded to Reinsurers	Note 12.2	(232,902)	(140,068)
Gross change in Insurance Contract Liabilities	Note 12.3	939,324	751,070
Change in Contract liabilities Ceded to Reinsurers	Note 12.4	(32,966)	(202,979)
Total Net Insurance Benefits and Claims	Note 12.5	1,966,545	1,211,141

12.1 Gross Benefits and Claims paid

Life Insurance	324,043	259,713
Non Life Insurance	969,046	543,405
Total Gross Claims Paid	1,293,089	803,118

12.2 Claims Ceded to Reinsurers

Life Insurance	(169,540)	(126,349)
Non Life Insurance	(63,362)	(13,719)
Total Claims Ceded to Reinsurers	(232,902)	(140,068)

12.3 Gross change in Insurance Contract Liabilities

Life Insurance		
Change in Lfe Insurance Contract Liabilities without Actuarial Valuation	63,132	42,058
Change in Life Insurance Contract Liabilities due to Actuarial Valuation	842,119	551,339
	905,251	593,397
Non Life Insurance		
Change in non - life insurance contract outstanding claims provision	34,073	157,673
Change in Premium Deficiency Provision (LAT provision)	-	-
	34,073	157,673
Total	939,324	751,070

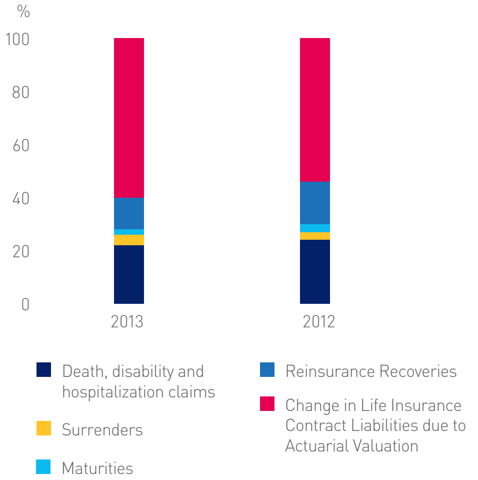
12.4 Change in Contract liabilities Ceded to Reinsurers

Life Insurance	(3,534)	(32,305)
Non Life Insurance	(29,432)	(170,674)
Change in Premium Deficiency Provision (LAT provision)	-	-
Total	(32,966)	(202,979)

12.5 Total Net Insurance Benefits and Claims

Life insurance

Figure: Claims % as a % of Total Life Claims



For the year ended 31 December,	2013 Rs. '000	2012 Rs. '000
Death, disability and hospitalisation claims	301,829	246,648
Surrenders	50,727	26,015
Maturities	34,619	29,108
Reinsurance recoveries	(173,074)	(158,654)
Change in Life Insurance Contract Liabilities due to Actuarial Valuation	842,119	551,339
Total Life Insurance Benefits and Claims with actuarial valuation provision	1,056,220	694,456

Non life insurance

For the year ended 31 December,	2013 Rs. '000	2012 Rs. '000
Gross claims incurred	1,003,120	701,077
Reinsurance recoveries	(92,795)	(184,392)
Total Non life net claims	910,325	516,685
Consolidated Net Benefits and Claims Expenses	1,966,545	1,211,141

13. UNDERWRITING AND NET ACQUISITION COST

For the year ended 31 December,	2013 Rs. '000	2012 Rs. '000
Underwriting and Policy Acquisition Cost	834,930	697,368
Net change in Reserve for Deferred Acquisition Cost (DAC)	(21,074)	(31,412)
Acquisition Cost incurred for the year	813,856	665,956
Reinsurance Commission	(103,294)	(95,503)
Net change in Reserve for Unearned Commission (UCR)	1,138	2,456
Net Earned Commission	(102,156)	(93,047)
Total Net Acquisition Cost	711,700	572,909

14. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

Directors' Emoluments	Note 14.1	12,053	7,350
Auditors' Remunerations	Note 14.2	5,289	3,551
Employee Benefit Expense	Note 14.3	412,291	315,312
Administration and Establishment Expenses		528,029	446,444
Selling Expenses		153,725	188,472
Depreciation of Property, Plant and Equipment		37,612	30,727
Legal Fees		2,974	1,438
Donations		-	-
		1,151,972	993,294

14.1 Directors' Emoluments

Directors emoluments represent the fees paid to both the Executive and Non-Executive Directors of the Company.

14.2 Auditors' Remunerations

Audit Fee and Expenses	1,375	1,250
Non-Audit Fee and Expenses	3,914	2,301
	5,289	3,551

14.3 Employee Benefit Expense

Staff Remuneration	322,936	233,333
Defined Contribution Plan Costs - EPF	31,766	24,019
Defined Contribution Plan Costs - ETF	7,945	6,005
Provision for Employee Benefits	11,191	8,504
Other Staff Costs	38,451	43,451
	412,291	315,312

15. INCOME TAX EXPENSE

For the year ended 31 December,	2013 Rs. '000	2012 Rs. '000
The major components of income tax expense for the year ended 31 December are given below;		
Tax recognised in Statement of Income		
Current Tax Expense		
Income Tax on Current Year's Profits	15,537	1,410
Adjustments for prior Years	16,265	-
	31,802	1,410
Deferred Income Tax		
Origination of Deferred Tax Liability	15,641	7,247
Origination of Deferred Tax Assets	(15,641)	(7,247)
Differed Taxation Charge / (Reversal)	-	-
Income Tax Expense reported in the Statement of Income	31,802	1,410
Tax recognised in Statement of Other Comprehensive Income		
Income Tax Expense	-	-
Deferred tax expense	-	-

15.1 Reconciliation of Effective Tax rate

	2013 %	2013 Rs. '000	2012 %	2012 Rs. '000
Profit for the year		362,335		73,290
Income Tax Expense		31,802		1,410
Profit Before Tax		394,137		74,700
Tax effect at the Statutory Income	28.0%	110,358	28.0%	20,916
Income Exempt from Tax	(23.8%)	(93,547)	(144.2%)	(107,743)
Aggregate allowable expenses	(5.9%)	(23,303)	(23.4%)	(17,448)
Aggregate disallowed expenses	13.2%	52,749	178.3%	133,216
Recognition of previously unrecognised tax losses	(7.6%)	(29,878)	(36.9%)	(27,531)
Adjustment for prior year	4.1%	16,265	-	-
	8.1%	31,802	1.9%	1,410

15.2 Notional Tax Credit for Withholding Tax on Government Securities on Secondary Market Transactions

The Inland Revenue Act No. 10 of 2006 as amended by subsequent legislation provides that a Company which derives interest income from the secondary market transactions in government securities on or after 1 April 2002 would be entitled to a Notional Tax Credit being one ninth of the net interest income provided such interest income forms part of the statutory income of the Company.

The Notional Tax Credit available for set - off against the future tax liability of the company is as follows;

For the year ended 31 December,	2013 Rs. '000	2012 Rs. '000
Balance as at 1 January	136,478	119,810
Tax credit for the year	25,334	16,668
Set off against tax liability	-	-
	161,812	136,478

15.3 Analysis of Tax Losses

Asian Alliance Insurance PLC is liable to income tax at 28% (2012 - 28%) in terms of Inland Revenue Act No. 10 of 2006 and amendments thereto. Current year income tax charge wholly consists of income tax charge on non life insurance. However, there is no payment due to the Department of Inland Revenue as the tax liability is fully absorbed by payments made in lieu of Economic Service Charge and credit available on the notional tax from government securities. The tax loss carried forward as at 31 December 2013 is Rs. 3,798 million (2012 - Rs.3,122 million).

The break up of Tax Loss is as follows:

Non Life Insurance

As at 31 December,	2013 Rs. '000	2012 Rs. '000
Balance as at 1 January	1,640,075	1,490,305
Tax Loss during the Year	327,413	177,301
Tax Loss utilised during the Year	(29,878)	(27,531)
Balance as at 31 December	1,937,610	1,640,075

Life Insurance

The Carried forward Tax loss of the Life Insurance business as at 31 December 2013 is Rs. 1,861 Million. (2012 - Rs. 1,482 Million)

15.4 Deferred Taxation

Deferred tax assets and liabilities are off set when there is a legally enforceable right to off set tax assets against tax liabilities and when the deferred income taxes relate to the same fiscal authority. The off set amounts are as follows:

As at 31 December,	2013 Rs. '000	2012 Rs. '000
Deferred Tax Assets	(15,641)	(7,247)
Deferred Tax Liabilities	15,641	7,247
Net Deferred Tax Asset / Liability	-	-

	2013 Statement of Financial Position		2012 Statement of Income	
	Temporary Difference Rs. '000	Tax Effect Rs. '000	Temporary Difference Rs. '000	Tax Effect Rs. '000
Deferred Tax Liability				
Property, Plant and Equipment	55,860	15,641	25,881	7,247
Deferred Tax Assets				
Tax Losses Carried Forward	3,798,228	1,063,504	3,122,414	874,276
Retirement benefit obligation	46,154	12,923	34,399	9,632
	3,844,382	1,076,427	3,156,813	883,908
Deferred Tax Asset Recognised up to the Liability		15,641		7,247
Unrecognised Deferred Tax Assets		1,047,863		867,029

As at 31 December 2013, total carried forward tax loss is Rs. 3,798 million (2012 - Rs. 3,122 million). The Company has utilise such tax losses to recognise a deferred tax asset up to the extent of the deferred tax liability arising from taxable temporary differences. Company has not recognised Deferred Tax Asset amounting to Rs. 1,047mn (2012 - 867 mn) as it not probable that the future taxable profits will be adequate to utilise the available tax losses in the foreseeable future.

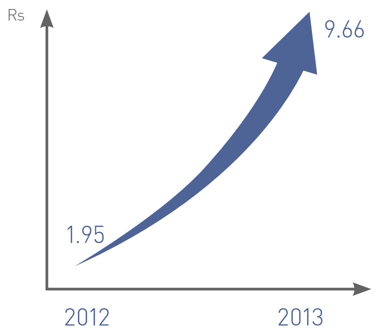
For the year ended 31 December,	2013	2012

16. EARNINGS PER SHARE (EPS)

16.1 Basis Earnings Per Share

Amounts used as the numerator:		
Profit Attributable to Ordinary Shareholders (Rs. '000)	362,335	73,290
Weighted of shares as at 31st December ('000)	37,500	37,500
Basic Earnings Per Share (Rs.)	9.66	1.95

Figure : Earnings Per Share



16.2 Diluted Earnings Per Share

There were no potential Dilutive Ordinary Shares outstanding at any time during the year. Therefore, diluted Earnings Per Share is same as Basic Earnings Per Share shown in Note 16.1.

17 DIVIDEND PER SHARE (DPS)

Interim Dividend 2013

The Company has declared interim dividend of Rs. 4.80 per share on 13th February 2014 to the Ordinary Shareholders of the Company. Payment is due on 10th March 2014.

Compliance with Section 56 and 57 of Companies Act No 7 of 2007

As required by Section 56 of the Companies Act No 07 of 2007, the Board of Directors of the Bank satisfied the solvency test in accordance with Section 57, prior to recommending the interim dividend. A statement of solvency completed and duly signed by the directors on 13 February 2014 has been audited by Messrs KPMG.

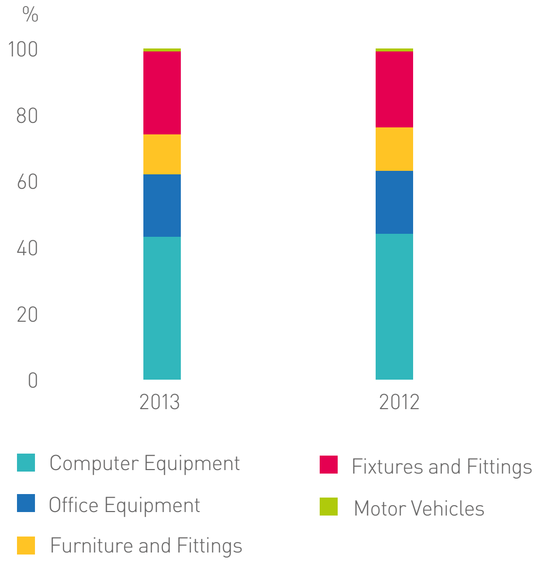
This Interim dividend has not been recognised as a liability as at 31st December 2013. Under the Inland Revenue Act No 10 of 2006, a withholding tax of 10% has been imposed on dividends declared.

For the year ended 31 December,	2013	2012
Dividend Declared (Rs.000)	180,000	-
Number of Ordinary Shares ('000)	37,500	37,500
Dividend Per Share (Rs)	4.80	-

18. PROPERTY, PLANT AND EQUIPMENT - PPE

	Computer Equipment Rs. '000	Office Equipment Rs. '000	Furniture and Fittings Rs. '000	Fixtures and Fittings Rs. '000	Motor Vehicles Rs. '000	Total 2013 Rs. '000	Total 2012 Rs. '000
Cost							
Balance as at 1 January	116,931	53,316	47,603	75,570	2,155	295,575	247,119
Additions during the year	21,031	10,905	10,904	21,413	-	64,254	50,596
Disposals during the year	-	-	(117)	-	-	(117)	(2,140)
Balance as at 31 December	137,963	64,221	58,390	96,983	2,155	359,712	295,575
Accumulated Depreciation and Impairment Losses							
Balance as at 1 January	79,048	34,046	22,503	41,841	2,033	179,471	150,804
Charge for the year	13,245	7,266	4,493	12,570	38	37,612	30,727
Disposals during the year	-	-	(95)	-	-	(95)	(2,060)
Balance as at 31 December	92,293	41,312	26,901	54,411	2,071	216,988	179,471
Capital Work In Progress							
Incurred During the Year	15,317	-	-	-	-	15,317	-
Capitalised During the Year	-	-	-	-	-	-	-
Balance as at 31 December	15,317	-	-	-	-	15,317	-
Carrying Value As at 31 December 2013	60,987	22,909	31,489	42,572	84	158,041	-
Carrying Value As at 31 December 2012	37,883	19,270	25,100	33,729	122	-	116,104

Figure: WDV of Property, Plant and Equipment



18.1 Acquisition of PPE during the year

During the financial year, the Company acquired PPE to the aggregate value of Rs.79.5 Million (2012 - Rs. 50.6 Million).

18.2 Capitalisation of borrowing costs

There were no capitalised borrowing costs relating to the acquisition of Property, Plant and Equipment during the year (2012 - Nil).

18.3 Fully depreciated PPE in use

The initial cost of fully depreciated PPE which are still in use as at reporting date, is as follows:

As at 31 December,	2013 Rs. '000	2012 Rs. '000
Computer Equipment	63,399	55,641
Office Equipment	25,694	18,418
Furniture and Fittings	10,791	9,731
Fixtures and Fittings	28,351	21,658
Motor Vehicle	2,005	2,005
	130,240	107,453

18.4 PPE pledged as security

None of the PPE have been pledged as securities as at the reporting date.

18.5 Permanent fall in value of PPE

There has been no permanent fall in the value of PPE which require a impairment provision in the Financial Statements.

18.6 Title restriction on PPE

There are no restrictions that existed on the title of the PPE of the Company as at the reporting date.

18.7 Assessment of impairment

The Board of Directors has assessed the potential impairment loss of PPE as at 31st December 2013. Based on the assessment, no impairment provision is required to be made in the Financial Statements as at the reporting date in respect of PPE.

18.8 Inter Segment Transfer during the year

There were no transfers done during the year

18.9 Depreciation of PPE

Depreciation expense of Rs. 37.6 mn (2012: Rs. 30.7 mn) has been charged in statement of income.

18.10. Temporarily idle property, plant and equipment

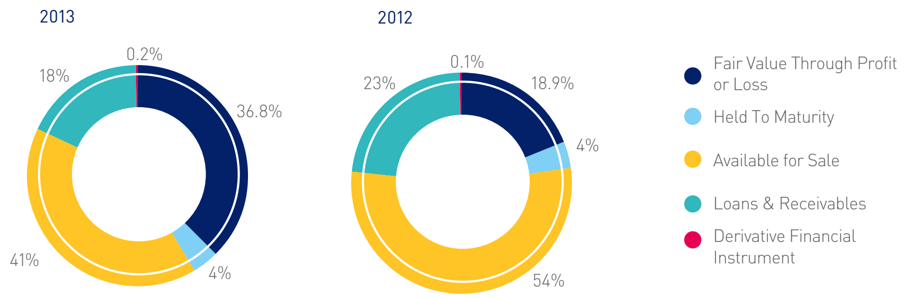
There are no temporarily idle property, plant and equipment as at the reporting date.

18.11. Compensation from third parties for Items of property, plant and equipment

There were no compensation received / receivable from third parties for items of property, plant and equipment that were impaired, lost or given up.

19. FINANCIAL INVESTMENTS

Figure: Financial Investments Mix



The Company's Financial Investments are summarised by Categories as follows:

As at 31 December,		2013 Rs. '000	2012 Rs. '000
Held to Maturity (HTM)	Note19.1	218,549	214,551
Loans and Receivables (L & R)	Note19.2	1,102,292	1,100,766
Available - for - Sale (AFS)	Note 19.3	2,528,601	2,614,156
Fair Value Through Profit or Loss (FVTPL)	Note 19.4	2,383,523	896,004
Derivative Financial Instrument (Interest rate derivative)		9,907	5,557
Total Financial Investments		6,242,871	4,831,034

19.1 Held to Maturity (HTM)

19.1 .1 Valuation of HTM Financial Investments

HTM Financial Inevstments are presented in the Financial Statement at Amortised Cost. However for disclosure purpose, Fair values of Held to Maturity financial Investments are valued based on daily market rate publish by Central Bank of Sri Lanka (CBSL). Held to Maturity consist of Treasury Bonds.

19.1.2 Impairment of Financial Investments

As at the reporting date, there were no held to maturity assets that were overdue but not impaired.

19.2 Loans and Receivables (L & R)

		2013 Carrying Value Rs. '000	2012 Carrying Value Rs. '000
Debt Securities - Bank Deposits	Note 19.2.1	495,986	841,591
- Debentures	Note 19.2.2	149,209	155,235
Overnight Reverse Repo		457,097	103,941
		1,102,292	1,100,766

19.2.1 Debt Securities - Bank Deposits

Licensed Commercial Banks	271,528	397,447
Licensed Specialized Banks	-	110,300
Registered Finance Companies	224,458	333,844
	495,986	841,591

19.2.2 Impairment of L& R Financial Investments

At the reporting date, there were no Loans and Receivables that were overdue but not impaired.

19.3 Available - for - Sale (AFS)

		2013 Carrying Value Rs. '000	2013 Fair Value Rs. '000	2012 Carrying Value Rs. '000	2012 Fair Value Rs. '000
Debt Securities - Commercial Papers	Note 19.3.1	-	-	326,653	326,653
- Debentures	Note 19.3.2	760,684	760,684	134,675	134,675
Equity Securities	Note 19.3.3	180,000	180,000	1,041,219	1,041,219
Treasury Bills		-	-	635,002	635,002
Treasury Bonds		1,587,916	1,587,916	220,980	220,980
Unit Trust		-	-	255,629	255,629
		2,528,601	2,528,601	2,614,156	2,614,156

19.3.1 Debt Securities - Commercial Papers

	2013 Carrying Value Rs. '000	2013 Fair Value Rs. '000	2012 Carrying Value Rs. '000	2012 Fair Value Rs. '000
Softlogic Finance PLC	-	-	104,177	104,177
Uniwalkers (Pvt) Limited	-	-	190,710	190,710
Softlogic Communications (Pvt) Limited	-	-	26,238	26,238
Ntaions Lanka Finance PLC	-	-	5,528	5,528
	-	-	326,653	326,653

19.3.2 Debt Securities - Debentures

	2013 Carrying Value	2013 Fair Value	2012 Carrying Value	2012 Fair Value
Listed	760,684	760,684	134,675	134,675
	760,684	760,684	134,675	134,675

19.3.3 Equity Securities

	2013 No. of Shares	2013 Fair Value Rs. '000	2012 No. of Shares	2012 Fair Value Rs. '000
Unlisted				
Banks, Finance and Insurance				
Cargills Agrcultural Commercial Bank Limited	8,000,000	100,000	-	-
Listed				
Banks, Finance and Insurance				
National Development Bank PLC	-	-	7,151,700	986,219
Health Care				
Asiri Hospitals PLC	5,000,000	80,000	5,000,000	55,000
Total Investments in Equity Shares		180,000		1,041,219

19.3.4 Impairment of AFS Financial Investments

As at the reporting date, there were no AFS Financial Investments that were overdue but not impaired.

		2013		2012	
		Carrying Value Rs. '000	Fair Value Rs. '000	Carrying Value Rs. '000	Fair Value Rs. '000
19.4 Fair Value Through Profit or Loss					
Equity Securities	Note 19.4.1	1,476,485	1,476,485	270,931	270,931
Treasury Bonds		489,056	489,056	625,073	625,073
Unit Trust		417,981	417,981	-	-
		2,383,523	2,383,523	896,004	896,004

19.4.1 Equity Securities

	2013		2012	
	No. of Shares	Fair Value Rs. '000	No. of Shares	Fair Value Rs. '000
Listed				
Banks, Finance and Insurance				
Asia Capital PLC	543,268	9,235	543,268	16,461
Commercial Bank of Ceylon PLC	495,072	46,015	485,365	44,217
Hatton National Bank PLC	22,443	3,299	333,637	49,378
Hatton National Bank PLC (Non Voting)	358,505	42,662	475,471	53,490
National Development Bank PLC	8,151,700	1,308,348	-	-
Sampath Bank PLC	-	-	66,509	13,335
Seylan Bank PLC (Non Voting)	285,499	8,850	350,000	12,285
Sector Total		1,418,409		189,166
Diversified Holdings				
Aitken Spence PLC	114,269	11,689	118,000	14,160
Softlogic Holdings PLC	4,591,702	38,570	4,591,702	50,050
Sector Total		50,259		64,210
Beverage, Food and Tobacco				
Cargills Ceylon PLC	-	-	71,100	10,346
Sector Total	-			10,346
Telecommunications				
Dailog Axiata PLC	868,600	7,817	868,600	7,209
Sector Total		7,817		7,209
Total Investments in Listed Equity Shars		1,476,485		270,931

19.5 Carrying Values Of Financial Investments Other Than Derivative Financial Investments

Movement of Financial Investments

	Held to Maturity (HTM) Rs. '000	Loans and Receivable (L&R) Rs. '000	Available for Sale (AFS) Rs. '000	Fair Value Through Profit and Loss (FVTPL) Rs. '000	Total Rs. '000
As at 1st January 2012	-	1,804,247	1,601,036	580,516	3,985,798
Purchases	210,537	6,759,722	2,730,652	1,919,177	11,620,088
Maturities	-	(7,463,203)	(1,575,960)	-	(9,039,163)
Disposals	-	-	(190,197)	(1,606,299)	(1,796,498)
Fair value gains recorded in the Statement of Comprehensive Income	-	-	-	2,612	2,612
Fair value gains recorded in the Other Comprehensive Income	-	-	48,625	-	48,625
Amortisation adjustment	4,014	-	-	-	4,014
As at 31 December 2012	214,551	1,100,766	2,614,156	896,004	4,825,476
As at 1st January 2013	214,551	1,100,766	2,614,156	896,004	4,825,476
Purchases	-	-	6,017,243	15,086,734	21,103,977
Maturities	-	(12,683)	(356,739)	-	(369,422)
Disposals	-	-	(5,756,243)	(13,767,219)	(19,518,962)
Fair value gains recorded in the Statement of Comprehensive Income	-	-	-	163,504	163,504
Fair value gains recorded in the Other Comprehensive Income	-	-	10,184	-	10,184
Amortisation adjustment	3,998	14,209	-	-	18,207
As at 31 December 2013	218,549	1,102,292	2,528,601	2,383,523	6,232,965

The Methodologies and assumptions used to determined the fair value of the financial investments are disclosed in Note 38.2 on page 264 and 38.3 on page 265 to the financial statements.

19.6 Disclosure of Financial Risk

The Company's exposure to Credit, Currency and Interest rate risks related to investments are disclosed in Note 37.2 on page 251 to the Financial Statements.

19.7 Financial Investments pledged as security

Financial investments are not pledged as a Security as at the reporting date.

As at 31 December,		2013 Rs. '000	2012 Rs. '000
20. LOANS TO LIFE POLICYHOLDERS AND OTHERS			
Loans to Life Policyholders	Note 20.1	106,049	79,673
Loans to Employees	Note 20.2	1,040	1,725
Total		107,089	81,398
20.1 Loans to Life Policyholders			
Balance as at 1 January		79,673	59,457
Loans granted during the year		65,548	42,343
Repayments during the year		(53,352)	(32,240)
		91,869	69,560
Interest Receivable		14,180	10,113
Balance as at 31 December		106,049	79,673

20.1.a Collateral details

The surrender value of the policy loans granted to Policyholders as at 31st December 2013 amount exceeded its carrying value as at reporting date.

If the total receivable of the loan, including interest due and accrued, exceeds the cash surrender value, the policy terminates and becomes void. The Company has a first lien on all policies which are subject to policy loans. This mitigates the Company's credit exposure on Policy Loans. For more information please refer Risk Management Note 37.2.3 on page 256

As at 31 December,	2013 Rs. '000	2012 Rs. '000
20.2 Loans to Employees		
Balance as at 01 January	1,725	730
Loans granted during the Year	2,223	14,787
	3,948	15,517
Repayment during the Year	(2,908)	(13,792)
Balance as at 31 December	1,040	1,725

20.3 Impairment of Loans to Life Policyholder and Others

The Board of Directors has assessed potential impairment loss as at 31 December 2013. Based on the assessment, no impairment provision is required to be made in the Financial Statements as at the reporting date in respect of Loans to Life Policyholders and Others.

As at 31 December,		2013 Rs. '000	2012 Rs. '000

21. REINSURANCE RECEIVABLES

Reinsurance Receivable on Outstanding Claims	Note 21.1	126,577	97,028
Reinsurance Receivable on settled Claims		17,481	13,042
Total Receivable arising from Reinsurance Contracts		144,058	110,070

21.1 Reinsurance Receivable on Outstanding Claims

This includes reinsurance reserve of claim has not been paid yet, the reinsurance portion of receivable has not been materialised.

21.2 Collateral details

The Company does not hold collateral as security against potential default by reinsurance counterparties.

21.3 Impairment of Reinsurance Receivables

The Board of Directors has assessed potential impairment loss of Reinsurance Receivables as at 31st December 2013. Based on the assessment, no impairment provision is required to be made in the Financial Statements as at the reporting date in respect of Reinsurance receivables. Refer Note 37.2.5 on page 257 for Reinsurer rating analysis.

As at 31 December,		2013 Rs. '000	2012 Rs. '000

22. PREMIUM RECEIVABLES

Non life insurance	Note 22.1	418,368	372,041
Life Insurance	Note 22.2	46,085	7,679
		464,453	379,720

22.1 Non Life Insurance

Receivable from Policyholders		398,509	363,938
Receivable from Related Parties	Note 22.1.1	19,859	11,960
		418,368	375,898
Less Impairment			
As at the beginning of the year		3,857	745
Provision made during the year		-	3,112
Provision reversal during the year		(3,857)	-
Written off during the year		-	-
As at end of the year		-	3,857
Premium Receivable net of Impairment		418,368	372,041

22.1.1 Receivables from Related Parties

Softlogic Holdings PLC	338	324
Softlogic Information Technologies (Pvt) Limited	824	80
Softlogic Computers (Pvt) Limited	105	122
Softlogic Communication Services (Pvt) Limited	1,729	871
Softlogic Finance PLC	9,365	5,686
Softlogic Retail (Pvt) Limited	624	2,979
Future Automobiles (Pvt) Limited	544	572
Softlogic International (Pvt) Limited	52	460
Asiri Surgical Hospitals PLC	6,126	-
Asiri Hospitals PLC	-	147
Central Hospitals (Pvt) Limited	152	719
	19,859	11,960

22.2 Life Insurance

As at 31 December,	2013 Rs. '000	2012 Rs. '000
Receivable from Policyholders	46,085	7,679
Receivable from Related Parties	-	-
	46,085	7,679

22.3 Impairment of Premium Receivables

The Board of Directors has assessed potential impairment loss of Premium Receivables as at 31st December 2013. Based on the assessment, no impairment provision is required to be made in the Financial Statements as at the reporting date in respect of Premium Receivables.

22.4 Collateral details

The Company does not hold any collateral as security against potential default by policyholders.

22.5 Fair Value

The Carrying Value disclosed above approximate Fair Value at the reporting date.

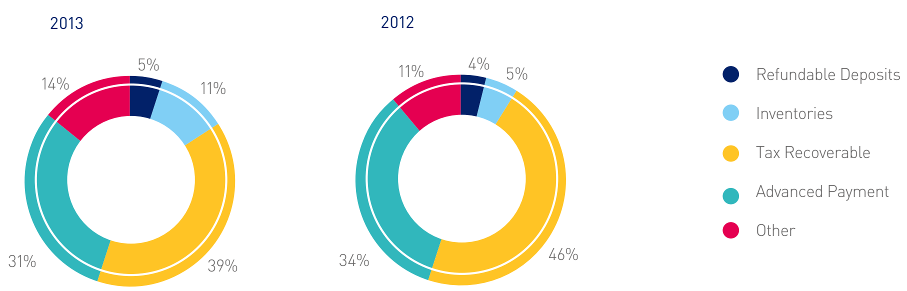
22.6 Risk Management Initiatives relating to Premium Receivable

There is lower Concentration risk with respect to Premium Receivable, as the Company has a large number of dispersed debtors.

Refer Note 37.2.4 on page 256 to the Financial Statements for more information.

As at 31 December,	2013 Rs. '000	2012 Rs. '000
23 AMOUNTS DUE FROM RELATED COMPANIES		
Soft Logic Capital PLC	259	-
	259	-

24. OTHER ASSETS



As at 31 December,		2013 Rs. '000	2012 Rs. '000
Financial Assets			
Refundable Deposits		8,939	6,195
Total Financial Assets		8,939	6,195
Non Financial Assets			
Inventories		18,151	6,553
Tax Recoverable	Note 24.1	65,428	63,757
Advances and Prepayments		51,684	47,587
Others		22,653	14,859
Total Non Financial Assets		157,916	132,756
Total		166,855	138,951

As at 31 December,	2013 Rs. '000	2012 Rs. '000
24.1 Tax Recoverable		
WHT Receivable	49,936	36,051
ESC Receivable	6,361	19,272
VAT Receivable	9,131	8,434
	65,428	63,757

24.2 Loans to Directors

No loans have been granted to the Directors of the Company.

24.3 Fair Value

Other Financial Receivables are carried at notional amounts, and are generally settled within one year. The notional and fair value amounts do not vary significantly.

25 DEFERRED ACQUISITION COST (DAC)

As at 31 December,	2013 Rs. '000	2012 Rs. '000
At 1 January	68,192	39,298
Acquisition cost	155,886	132,388
Amortisation	(134,774)	(103,494)
Impairment	-	-
Balance as at 31 December	89,304	68,192

25.1 Impairment of Carrying Value of DAC

The Board of Directors has assessed potential impairment of DAC as at 31st December 2013. Based on the assessment, no impairment provision is required to be made in the Financial Statements as at the reporting date in respect of DAC.

26 CASH AND CASH EQUIVALENTS

As at 31 December,	2013 Rs. '000	2012 Rs. '000
Cash In Hand	3,147	2,904
Cash at Bank	99,081	100,733
	102,228	103,637
Bank Overdraft	119,063	86,734

26.1 Fair value

The Carrying amounts disclosed above reasonably approximate fair value at the reporting date.

26.2 Risk management initiative relating to Cash and Cash Equivalents

Please refer Note 37.2.6 on page 258 to the Financial Statements.

27 STATED CAPITAL

As at 31 December	2013		2012	
	Number of Shares	Rs. '000	Number of Shares	Rs. '000
Issued and Fully Paid Ordinary Shareholders	37,500,000	1,062,500	37,500,000	1,062,500

27.1 Rights of Ordinary Shareholders

All issued shares are fully paid. There is one class of ordinary shares. All shares issued carry equal voting rights. The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.

As at 31 December,	2013 Rs. '000	2012 Rs. '000

28. OTHER RESERVES

This reserve includes unrealised fair value change in investments classified as Available for Sale and reserve made for Solvency.

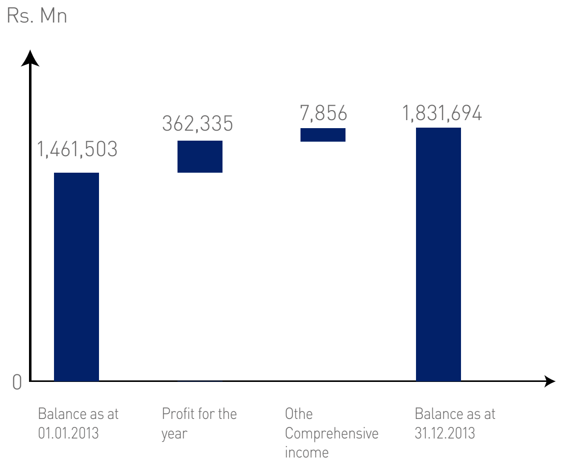
Balance as at 1 January	104,477	230,852
Adjustment from unrealised gains on AFS Assets	234,332	99,784
Net changes in AFS Assets transferred to Statement of Income	(224,146)	(51,159)
Reserve for Solvency transferred to Retained Reserves	-	(175,000)
Total	114,663	104,477

As at 31 December,	2013 Rs. '000	2012 Rs. '000

29. RETAINED RESERVES

Balance as at 1 January	294,526	121,548
Profit for the year	362,335	73,290
Recognition of Actuarial Losses and Employee Benefits	(2,330)	(314)
Dividend Paid	-	(75,000)
Transfer from solvency reserve	-	175,000
	654,531	294,526

Figure: Development of Total Equity



As at 31 December,		2013 Rs. '000	2012 Rs. '000

30. INSURANCE CONTRACT LIABILITIES - LIFE

Life Insurance Fund	Note 30.1	3,746,464	2,904,345
Claims Payable		191,566	151,378
		3,938,030	3,055,723

30.1 Movement in Life Insurance Fund

	Gross Rs. '000	Reinsurance Rs. '000	Net Rs. '000
As at 1 January 2012	2,353,008	-	2,353,008
Premiums received	2,034,084	(326,981)	1,707,103
Liabilities released for payments on Death, Surrender and Other terminations	(301,771)	158,654	(143,117)
Benefits and Claims Experience Variation	(156,110)	-	(156,110)
Finance and Other Income	347,434	-	347,434
Net Acquisition and Other Expenses	(1,203,973)	-	(1,203,973)
Balance as at 31 December 2012	3,072,672	(168,327)	2,904,345
As at 1 January 2013	2,904,345	-	2,904,345
Premiums received	2,520,283	(381,617)	2,138,666
Liabilities released for payments on Death, Surrender and Other terminations	(387,175)	173,074	(214,101)
Benefits and Claims Experience Variation	(300,301)	-	(300,301)
Finance and Other Income	571,871	-	571,871
Net Aquisition and Other Expenses	(1,354,017)	-	(1,354,017)
Balance as at 31 December 2013	3,955,008	(208,544)	3,746,464

30.2 Valuation of Life Insurance Fund

Long duration contract liabilities included in the Life insurance fund, result primarily from traditional participating and non-participating life insurance products. Short duration contract liabilities are primarily group term, accident and health insurance products. The actuarial reserves have been established based upon the following.

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

Recommendation of Surplus Transfer

The valuation of conventional life insurance fund as at 31st December 2013 was made by Mr. M. Poopalanathan of Actuarial and Management Consultants (Pvt) Ltd, who recommended a sum of Rs.300 Mn to be transferred from Life Insurance fund to the Shareholders fund for the year ended 2013. Subsequent to the transfer the conventional life fund stands as Rs.3,746 Million , including the liability in respect of bonuses and dividends declared up to and including for the year 2013.

Solvency Margin

In the opinion of the consultant actuary, the Admissible Assets of the Life Insurance fund as at 31 December 2013 is adequate to cover the liabilities of the fund and the solvency margin requirement prescribed under section 26 of the Regulation of Insurance Industry Act No 43 of 2000.

30.3 Liability Adequacy Test

A Liability Adequacy Test (LAT) for Life Insurance contract Liability was carried out by Mr. John C.Vieren, FSA MAA, of M/s The Pinnacle Consulting Group Limited as at 31st December 2013. When performing the LAT, the Company discounted all contractual cash flows and compared this amount with the carrying value of the liability.

According to the consultant actuary's report, assets are sufficiently adequate as compared to the discounted cash flow reserves and in contrast to the reserves as at 31st December 2013. Hence no additional provision was required against the LAT as at 31st December 2013.

As at 31 December,		2013 Rs. '000	2012 Rs. '000
31 INSURANCE CONTRACT LIABILITIES - NON LIFE			
The Non - Life Insurance Contract liability as shown in the Statement of Financial Position represents the following:			
Reserves for Net Unearned Premium	Note 31.2	764,658	564,235
Claims Payable (including IBNR)		156,563	117,279
Provision for Premium Deficiency	Note 31.5	-	-
		921,221	681,514

31.1 Movement in Insurance Contract Liabilities - Non Life

		Gross Rs. '000	Reinsurance Rs. '000	Net Rs. '000
As at 31 December 2012				
Claims Payable	Note 31.3	99,549	(37,880)*	61,669
Reserve for IBNR and IBNER		17,772	-	17,772
Total Outstanding Claims provision		117,321	(37,880)	79,441
Reserves for Unearned Premium	Note 31.2.a	652,018	(87,783)	564,235
Total Net Liabilities as at 31 December 2012		769,339	(125,663)	643,676
As at 31 December 2013				
Claims Payable	Note 31.3	102,210	(68,634)*	33,576
Reserve for IBNR and IBNER		54,352	-	54,352
Total Outstanding Claims provision		156,562	(68,634)	87,928
Reserves for Unearned Premium	Note 31.2.b	850,483	(85,825)	764,658
Total Net Liabilities as at 31 December 2013		1,007,045	(154,459)	852,586

*Reinsurance Receivable on Outstanding Claims are provided in Note 21 on page 235 together with outstanding Reinsurance Receivables on paid claims.

31.2 Reserves for Unearned Premium

Below note provides the movement of Gross Unearned Reserve and Reserve for Reinsurance

		Gross Rs. '000	Reinsurance Rs. '000	Net Rs. '000
At 1 January 2012		357,599	(63,782)	293,817
Premiums Written During the year		1,190,392	(234,590)	955,802
Premiums Earned During the year		(895,973)	210,589	(685,384)
Balance as at 31 December 2012	a	652,018	(87,783)	564,235
At 1 January 2013		652,018	(87,783)	564,235
Premiums Written During the year		1,556,386	(254,261)	1,302,125
Premiums Earned During the year		(1,357,921)	256,219	(1,101,702)
Balance as at 31 December 2013	b	850,483	(85,825)	764,658

		2013 Rs. '000	2012 Rs. '000
31.3 Claims Payable			
Balance as at 1 January		99,507	83,171
Claims Approved during the year		971,749	559,783
Claims Paid during the year		(969,046)	(543,447)
Balance as at 31 December		102,210	99,507
31.4 Reserve for IBNR and IBNER			
Balance as at 1 January		17,772	15,779
Provision made during the year		36,580	1,993
Balance as at 31 December	Note 31.6	54,352	17,772

31.5 Liability Adequacy Test

As per the liability adequacy test performed by the NMG Financial Services Consulting, it was concluded that the liability value is sufficient to meet future benefits and expenses. Hence no provision was made for premium deficiency.

31.6 Valuation of IBNR and IBNER

The incurred but not reported claims reserve has been actuarially computed by NMG Financial Services Consulting as at 31 December 2013.

Changes in Assumption

There were no estimation changes from valuation previous valuation done on 31 December 2012.

31.7 Technical Reserves

	2013 Rs. '000	2012 Rs. '000
Total Non life Insurance Contract Liabilities	921,221	681,514
Differed Acquisition Cost (net)	(71,483)	(51,512)
Reinsurance Receivable on Outstanding claims	(68,634)	(37,880)
	781,104	592,122

As at 31 December,	2013 Rs. '000	2012 Rs. '000

32 EMPLOYEE BENEFITS

32.1 Defined Contribution Plans

	2013 Rs. '000	2012 Rs. '000
Employees' Provident Fund (EPF)	31,766	24,019
Employees' Trust Fund (ETF)	7,945	6,005
	39,711	30,024

32.2 Defined Benefit Plans

	2013 Rs. '000	2012 Rs. '000
This shows the movement in the present value of the Employee benefits		
Defined benefit obligations as at 1 January	34,399	27,863
Expenses recognised in Statement of Income	11,191	8,504
Actuarial losses in other Comprehensive Income	2,330	314
	47,921	36,681
Payments during the year	(1,767)	(2,283)
Balance as at 31 December	46,154	34,398

The company recognises the actuarial gains / (losses) in the Statement of Comprehensive income from the year ended 31 December 2013, in line with the revised Employee Benefits (LKAS 19) which became effective from 1 January 2013. The prior year balances has not been restated since the effect is not material.

32.3 Expenses recognised in Statement of Income

	2013 Rs. '000	2012 Rs. '000
Interest Cost	3,784	2,639
Current service costs	7,407	5,865
	11,191	8,504

32.4 Actuarial losses in other Comprehensive Income

	2013 Rs. '000	2012 Rs. '000
Amount accumulated in retained earnings at 1 January	314	-
Recognised during the year	2,330	314
Balance as at 31 December	2,644	314

32.5 Valuation of Employee benefit Obligation

As at 31 December 2013 the Gratuity Liability was actuarially valued under the Projected Unit Credit (PUC) method by Mr. M. Poopalanathan, of Actuarial & Management Consultants (Pvt) Limited. The valuation is performed on an annual basis.

As at 31 December,	2013	2012

32.6 Actuarial assumptions

Discount Rate	11%	11%
Future salary increases	10%	10%
Normal Retirement Age	55 years	55 years

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

32.7 Gratuity Liability is not externally funded

33 REINSURANCE PAYABLE

As at 31 December,	2013 Rs. '000	2012 Rs. '000
At 1 January	77,974	98,273
Arising during the year	635,878	561,571
Utilised	(576,269)	(581,870)
Balance as at 31 December	137,583	77,974

34 DEFERRED REVENUE

As at 31 December,	2013 Rs. '000	2012 Rs. '000
At 1 January	16,680	16,712
Commission Income	103,294	95,503
Amortisation	(102,154)	(95,535)
Balance as at 31 December	17,820	16,680

	As at 31 December,	2013 Rs. '000	2012 Rs. '000
35	**AMOUNTS DUE TO RELATED COMPANIES**		
	Softlogic Capital PLC	24	39,988
		24	39,988
36	**OTHER LIABILITIES**		
	Financial Liabilities		
	Commission Payable	164,922	174,867
	Premium Deposit	56,499	53,249
	Accruals & Other Payables	147,480	120,926
		368,901	349,042
	Non Financial Liabilities		
	Tax and Other Statutory payables	29,131	25,551
		29,131	25,551
	Total	398,032	374,592

37. MANAGEMENT OF INSURANCE AND FINANCIAL RISK

a. Risk Management Framework

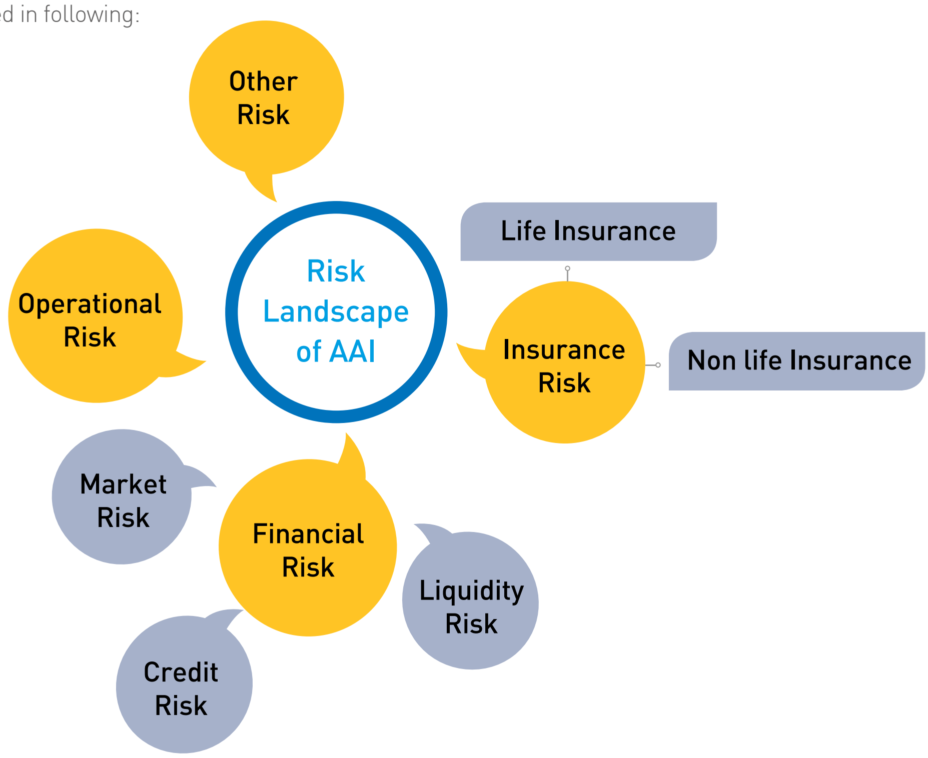
The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board of Directors has established the Risk Management Committee, which is responsible for developing and monitoring the Company's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Company's Risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

b. Risk Landscape of Asian Alliance Insurance PLC

The risk landscape of AAI encompasses Insurance risks, Market risks, credit risks, Liquidity risk, operational risks and other risks are provided in following:



c. Disclosure requirement under SLFRS 4 – Insurance Contracts and SLFRS 7 – Financial Instruments (Scope of this Note)

This note presents information about the Company's exposure to each of the Insurance risks and financial risks, the Company's objectives, policies and processes for measuring and managing risk as required by SLFRS 4 and SLFRS 7 together with quantitative disclosure relating to the same.

To obtain a complete overview of the risks landscape of AAI is exposed and objectives, policies, process and method adopted for manage those risks, the reader needs to refer this section along with the risk management report in the stewardship section from pages 153 to 158 of this Annual Report 2013.

Risk reporting entails not only accounting but also the activities of risk management. The disclosures in the risk report largely adopt an economic view.

37.1 Insurance Risk

The exposure is transferred to AAI through the underwriting process. AAI actively seeks to write those risks it understands and that provide a reasonable opportunity to earn an acceptable profit. The principal risk the AAI faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Group is to ensure that sufficient reserves are available to cover these liabilities.

Insurance Risk Management Strategy of Asian Alliance

Initiatives of risk management policies relating to insurance summarised below;

Strategy Areas	Risk Management Initiative
Underwriting	• Selective Underwriting of Insurance customers • Establishing limits for underwriting authority • Establishing pricing clear guidelines
Product Mix	• Provide incentive to maintain desired product mix • Continues monitoring of product mix (Non life – Motor / Non motor and Life – Par /Non Par.
Reinsurance	• Regular review adequacy of reinsurance support for catastrophe / extreme events. • Ensure that reinsurance transactions are conducted with parties which meet the minimum IBSL rating requirements.

Insurance risk of the Company has been discussed in detail in respect of life and non life insurance segments separately.

37.1.1. Risk Management of Life Insurance Contracts

Life insurance products include protection and annuity covers. All risks directly connected with the life of an insured person are referred to as biometric risks (especially the miscalculation of mortality, life expectancy, morbidity and occupational disability); they constitute material risks for our company in the area of life Insurance.

AAI is exposed to following risk in relation to life Insurance contracts:

Risk	Description
Concentration Risk	Risk of exposure to increased losses associated with inadequately diversified portfolios of assets and /or obligations. Any potential change in the mix of the portfolio could significantly alter the nature of the overall risk.
Policyholder decision risk	Risk of loss arising due to policyholder experiences (lapses and surrenders) being different than expected. Lapses relate to the termination of policies due to non–payment of premiums. Surrenders relate to the voluntary termination of policies by policyholders. Policy termination assumptions are determined using statistical measures based on the Company's experience and vary by product type, policy duration and sales trends.
Mortality Risk	Risk that actual policyholder death experience on life insurance policies is higher than expected due to influenza or due to life time changes such as drinking etc.
Longevity Risk	Risk that annuitants live longer than expected.
Morbidity Risk	Risk that policyholder health-related claims are higher than expected.
Expense Risk	Risk that expenses incurred in acquiring and administering policies are higher than expected.
Market Risk	Risk associated with the Company's statement of financial position where the value or cash flow depends on financial markets, which is analyzed in the "Market Risk" section in the Risk Review.

a. Risk Management Strategies of Life Insurance Contracts

In addition to discussed above following are the strategies that Company uses to mitigate the risks.

- ***Strengthen Underwriting Strategies***

The Company's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification of the products.

- ***Diversification of Products portfolio***

A more diversified portfolio of risks is less likely to be affected across the board by a change in any subset of risks. More diversified portfolio of risks is less likely to be affected across the board by a change in any subset of the risks.

Accordingly having a well-diversified portfolio with mix of participative and non participative reduces risk associated with the life business by Asian Alliance Insurance.

The table below shows the concentration of the life insurance segment of the Company by type of contact.

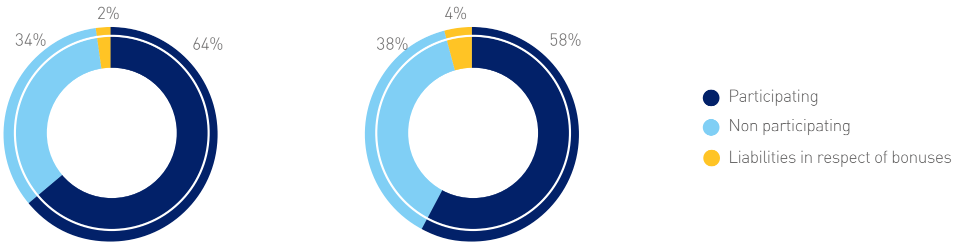
31 December 2013

Description	Insurance contract liabilities Rs'000
Participating	2,383,139
Non participating	1,270,994
Total traditional life insurance	3,654,133
Liabilities in respect of bonuses	92,331
Total	3,746,464

31 December 2012

Description	Insurance contract liabilities Rs'000
Participating	1,945,212
Non participating	864,386
Total traditional life insurance	2,809,598
Liabilities in respect of bonuses	94,747
Total	2,904,345

Figure: Diversification of Products Portfolio



a. Proper Defining of Policy terms and conditions

The policy terms and conditions and the disclosure requirements contained in insurance applications are designed to mitigate the risk arising from non-standard and unpredictable risks that may result in severe financial loss.
In the life annuity business, the most significant insurance risk is continued medical advances and improvement in social conditions that lead to increases in longevity. Annuitant mortality assumptions include allowance for future mortality improvements.

b. Regular Expense analysis

Expense risk is mitigated by careful control of expenses and by regular expense analyses and allocation exercises. Certain life insurance contracts contain guarantees for which liabilities have been recorded for additional benefits and minimum guarantees. The insurance risk described above is also affected by the contract holder's right to pay reduced premiums or no future premiums, to terminate the contract completely or to exercise guaranteed annuity options. As a result, the amount of insurance risk is also subject to contract holder behaviour.

b. Assumptions in Determining Life Insurance Contract Liabilities

The liability of life insurance contract is determined as the sum of the discounted value of the expected future benefits, less the discounted value of the expected future premiums that would be required to meet the future cash outflows based on the valuation assumptions used as specified by the Insurance Board of Sri Lanka (IBSL) using certain assumptions by the Independent Consultant Actuary.

The liability is computed based on IBSL specified guidelines and current assumptions which vary based on the contract type. Furthermore, adjustments are performed to capture the likely liabilities that may arise due to currently lapsed contracts reviving in the future.

Change in assumptions will have significant impact to determination of life insurance liability and will direct impact to the profitability of the shareholders of the Company

c. Determination of Assumptions

Life insurance contracts, estimates are made in two stages. At inception of the contract, the company determines assumptions in relation to future deaths, voluntary terminations, investment returns and administration expenses. Subsequently, new estimates are developed at each reporting date to determine whether liabilities are adequate in the light of the latest current estimates. Improvements in estimates have no impact on the value of the liabilities and related assets, while significant enough deteriorations in estimates have an impact.

The assumptions used for the insurance contracts disclosed in this note are as follows:

Assumption	Description
Mortality	The mortality table used was the A67 / 70 ultimate for all assurances and deferred annuities before vesting and, a (90) ultimate table of annuitants after vesting.
Discount Rate	Life insurance liabilities are determined as the sum of the discounted value of the expected future benefits, less the discounted value of the expected future premiums. A decrease in the discount rate will increase the value of the insurance liability and therefore reduce profit for the shareholders.

d. Sensitivity Analysis of Assumption used for estimation life Insurance liabilities

The table below presents the sensitivity of the value of insurance liabilities disclosed in this note to movements in the assumptions used in the estimation of insurance liabilities.

Life insurance contracts with fixed and guaranteed terms, changes in assumptions will not cause a change to the amount of the liability, unless the change is severe enough to trigger a liability adequacy test adjustment.

The table D1 indicates the level of the respective variable that will trigger an adjustment and then indicates the liability adjustment required as a result of a further deterioration in the variable.

Table D1 - Sensitivity of the value of insurance liabilities

31 December 2013 Rs ' 000

Assumption	Change in assumptions	Impact on liabilities
Mortality	+10%	+3,751
	-10%	-3,658
Discount Rate	+50 basis points	-3,567
	-50 basis points	+3,837

37.1.2. Non life Insurance Contracts

Non life insurance risk includes the reasonable possibility of significant loss due to uncertainty in the frequency of the occurrence of the insured events as well as in the severity of the resulting claims.

The following table provides an overview of the Company's main lines of business.

Line business	Description
Motor	Automobile physical damage, loss of the insured vehicle and automobile third party liability insurance
Fire and engineering (Property)	Risks of fire (explosion and business interruption), natural perils (for example earthquake and flood), engineering lines (for example boiler explosion, machinery breakdown and construction)
Marine / cargo	Coverage for special risk insurance and trip cargo insurance. Contrasts with open policy cargo insurance that covers all of a shipper's goods in transit.
Accident and liability	Includes general / public and product liability, excess and professional liability including medical malpractice, and errors and omissions liability.

AAI's underwriting strategy is to take advantage of the diversification of general insurance risks across Classes. The company seeks to optimise shareholder value by achieving its equity goals. Doing so necessitates a prudent, stable underwriting philosophy that aims to take advantage of its competitive strengths while avoiding risks with disruptive volatility. At the core of the Company's underwriting is a robust governance process.

a. Concentration Risk

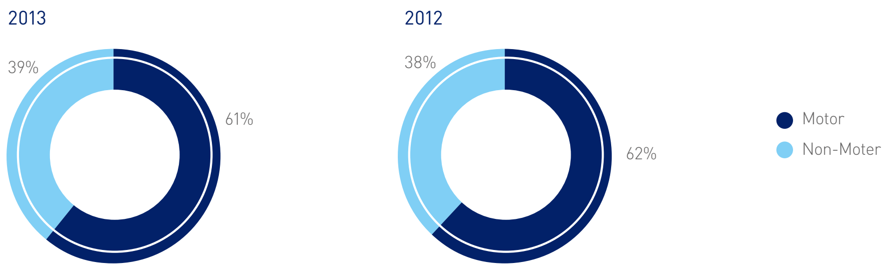
For non life insurance contracts, the most significant risks arise from climate changes, and natural disasters. For longer tail claims that take some years to settle, there is also inflation risk. For healthcare contracts, the most significant risks arise from lifestyle changes and medical science and technology improvements.

Concentration risk within the non life insurance business based on GWP

Rs. in Millions

	2013				2012			
Class	**Gross Written Premium**	**Reinsurance**	**Net Written Premium**	**%**	**Gross Written Premium**	**Reinsurance**	**Net Written Premium**	**%**
Motor	850	52	798	61%	620	22	598	62%
Fire	137	126	12	1%	163	149	14	1%
Marine	46	25	20	1%	61	35	26	3%
Miscellaneous and Medical	523	52	472	37%	346	29	318	34%
	1,556	**254**	**1,302**		**1,190**	**235**	**956**	
Motor/Non Motor composition								
Motor	850	52	798	61%	620	22	598	62%
Non Motor	706	203	504	39%	571	213	358	38%
	1,556	**254**	**1,302**		**1,190**	**235**	**956**	

Figure: Motor/Non Motor composition



a.1 Concentration Mitigation strategies

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts in to different classes as mentioned earlier. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits.

This is largely achieved through diversification of its product portfolio. Furthermore, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the company. The company further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business.

b. Sources of Uncertainty in the Estimation of Future Claim Payments (Reserving Risk)

AAI is liable for all insured events that occurred during the term of the contracts, even if the loss is discovered after the end of the contract term. As a result, liability claims are settled over a long period of time, and a larger element of the claims provision relates to incurred but not reported (IBNR) claims. There are several variables that affect the amount and timing of cash flows from these contracts. These mainly relate to the inherent risks of the business activities carried out by individual contract holders and the risk management procedures they adopt.

Estimation for IBNR Reserve

The IBNR claims reserve has been actuarially computed by NMG Consulting (NMG). The valuation is determined using internationally accepted actuarial reserving techniques.

The risks associated with these insurance contracts are complex and subject to a number of variables that complicate the quantitative sensitivity analysis. NMG use several statistical methods to incorporate the various assumptions made in order to estimate the ultimate costs of claims. The two methods more commonly used are the Chain - Ladder and the Bornhuetter-Ferguson methods.

Methods use for estimation for IBNR Reserve

The Chain - Ladder method may be applied to premiums, paid claims or reported claims (i.e. paid claims plus case estimates). The basic technique involves the analysis of historical claims development factors and the selection of development factors based on this historical pattern. The selected development factors are then applied to the cumulative claims data for each accident year that is not yet fully developed to produce an estimated ultimate claims cost for each accident year. Chain-ladder techniques are most appropriate for mature classes of business that have a relatively stable development pattern. Chain-ladder techniques are less suitable in cases in which the insurer does not have a developed claims history for a particular class of business.

The Bornhuetter – Ferguson (BF) method uses a combination of a benchmark or market-based estimate and an estimate based on the claims experience. The former is based on a measure of exposure such as premiums; the latter is based on the paid or reported claims to date. The two estimates are combined using a formula that gives more weight to the experience-based estimate as time passes. This technique is used in situations in which developed claims experience is not available for the projection such as recent accident years or new classes of business.
Generally, NMG has given higher credibility to the chain ladder method on a cumulative claims reported basis for each class of business. In general, the reported basis would display more stability relative to the paid basis, especially for more recent accident years. To increase consistency, the BF method uses results from the 31 December 2012 analysis as the seed loss ratio for each accident year and a projected loss ratio for the latest accident year.

Loss Development Factors

NMG has used loss development factors based on weighted averages except where:

- The weighted average is contrary to a trend in the recent ratios. For some classes, the trend in loss development factors applies only to certain development years.
- Payments in particular years are clearly out of line relative to those in other years, in which case such outliers are disregarded in selecting the loss development factors.

Sensitivity Analysis of Claim Ratio

Sensitivity of net profit after tax (PAT) and the sensitivity of net assets (NA) as a result of adverse development in the net loss ratio by one percentage point are provided in Table below. Such an increase could arise from either higher frequency of the occurrence of the insured events or from an increase in the severity of resulting claims or from a combination of frequency and severity.

The sensitivities do not indicate a probability of such an event and do not consider any non-linear effects of reinsurance. Based on the assumptions applied in the presentation of the sensitivity analysis in the table below, each additional percentage point increase in the loss ratio would lead to a linear impact on net profit after tax and net assets.

Sensitivity of Profitability and net assets due to increase in net claim ratio

	2013 Rs.'000	2012 Rs.'000
+1% in claim ratio		
Net impact to profit after tax	(15,097)	(4,213)
Impact to net assets	(15,097)	(4,213)

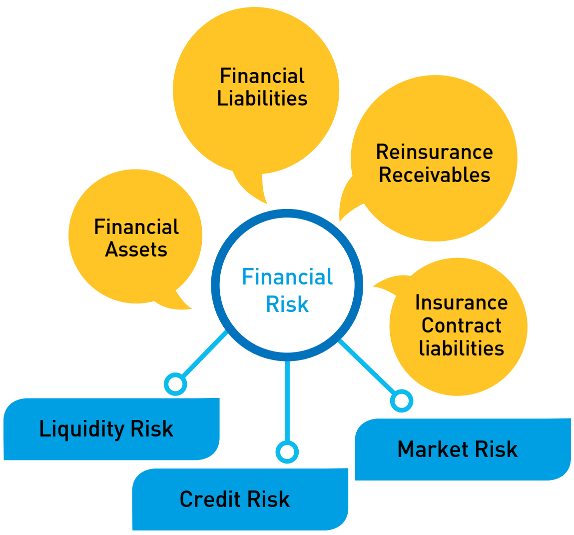
37.1.3. Reinsurance Risk

The Company place reinsurance with reinsurers in order to manage / mitigate underwriting risk. When the claims arises reinsurers will contribute part of the claim (as per the reinsurance agreement) to the Company. The Company is exposed the risk of non recoverability of these and this is discussed in the Financial risk management note of 37.2 in details.

37.2 Financial Risk Management

OVERVIEW

The Company has exposure to the following risks arising from financial instruments:



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, and the Group's management of capital.

37.2.1 Liquidity Risk

Liquidity risk is the risk that the Company may not have sufficient liquid financial resources to meet its obligations when they fall due, or would have to incur excessive costs to do so. In respect of catastrophic / unexpected large claim events there is also a liquidity risk associated with the timing differences between gross cash outflows (Clash paid to policyholder) and expected reinsurance recoveries from insurers.

In addition to the above the Company is highly concerned over the other factors that can affect the Company's commitments and requirements to ensure proper liquidity management together with the reputational exposures to the company such as rating downgrades as Currently Asian Alliance is having Fitch rating of BBB+.

The Company has to maintain a well-diversified and concentrated investment portfolio to support such requirement in addition to the short-term commitments of the company and the company's liquidity management activities ensure that all these contingencies are considered for decision-making.

Mitigation of Liquidity Risk at AAI

The following policies and procedures are in place to mitigate the exposure to liquidity risk:

- The investment committee has set boundaries on the maturity profile of the investment portfolio where the minimum proportion of the funds required are set
- Manages this risk by diversifying investment durations and reviewing cash flow projections regularly
- Reinsurance contracts contain clauses permitting the immediate draw down of funds to meet claim payments should claim events exceed a certain size.

Maturity analysis for financial assets and liabilities

The tables below set out the remaining contractual maturities of the Company's financial assets and financial liabilities summarises the maturity profiles of non derivative financial assets as well as derivative financial assets and financial liabilities based on remaining undiscounted contractual obligations.

Maturity profiles of insurance contracts liabilities and reinsurance receivables are based on the estimated timing of net cash outflows from the recognised insurance liabilities. Unearned premium reserve, deferred acquisition expenses and the reinsurers' share of unearned premiums have been excluded from the analysis as they are not contractual obligations.

As at 31 December 2013

	No maturity Rs'000	Less than 1 year Rs'000	1- 3 years Rs'000	More than 3 years Rs'000	Total Rs'000
Derivative Financial Instruments		9,907			9,907
Held to Maturity Financial Assets				218,549	218,549
Loans & Receivables		457,096	495,985	149,211	1,102,292
Available For Sale Financial Assets	180,000		266,519	1,718,377	2,164,896
Financial Assets at FVTPL (Trading)	1,827,929			350,000	2,177,929
Life Policy Holder Loans		2,881	25,658	72,586	101,125
Reinsurance Receivables	-	144,058	-	-	144,058
Premium Receivables		444,594			444,594
Other Assets	-	8,939	-	-	8,939
Reinsurance Payable	-	137,583	-	-	137,583
Insurance Contract Liabilities - Life		52,519	402,844	3,242,605	3,697,968
Insurance Contract Liabilities - Non Life	-	156,563	-	-	156,563
Other Liabilities	-	164,922	-	-	164,922
Current Tax Liabilities	-	15,537	-	-	15,537
Short Term Borrowings	-	50,000	-	-	50,000
Bank overdraft	-	119,063	-	-	119,063
Total	**1,827,929**	**1,763,662**	**788,162**	**5,751,328**	**10,713,925**

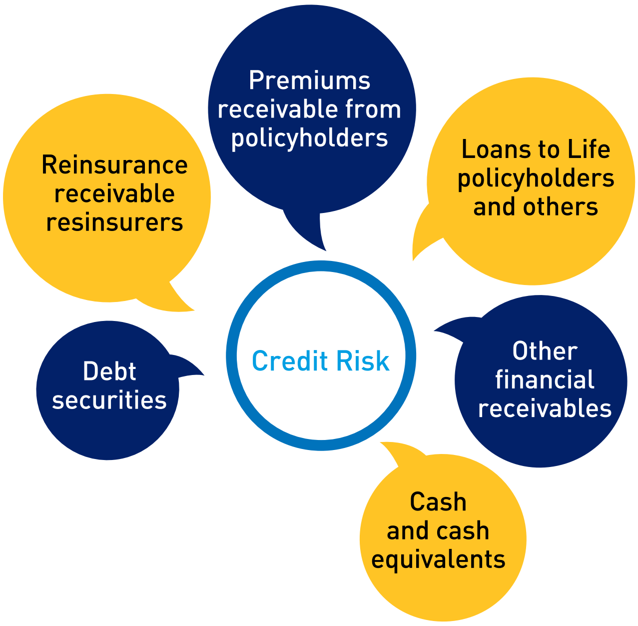
As at 31 December 2013

	No maturity Rs'000	Less than 1 year Rs'000	1- 3 years Rs'000	More than 3 years Rs'000	Total Rs'000
Derivative Financial Instruments		5,556			5,557
Held to Maturity Financial Assets (HTM)				214,551	214,551
Loans and Receivables		103,940		996,825	1,100,766
Available For Sale Financial Assets (AFS)	952,813	633,819	329,000	-	1,915,632
Financial Assets at FVTPL (Trading)	276,930	-	876,000	-	1,152,930
Life Policy Holder Loans		2,880	22,725	50,262	75,869
Reinsurance Receivables	-	110,070	-	-	110,070
Premium Receivables		367,760			367,760
Other Assets	-	6,195	-	-	6,195
Reinsurance Payable	-	77,974	-	-	77,974
Insurance Contract Liabilities - Life		43,398	332,880	2,679,445	3,055,723
Insurance Contract Liabilities - Non Life	-	117,279	-	-	117,279
Other Liabilities	-	174,867	-	-	174,867
Bank overdraft	-	86,734	-	-	86,734
Total	**1,229,743**	**1,727,592**	**1,537,880**	**3,890,821**	**8461,907**

37.2.2 Credit Risk

This is the risk that arise when one party to a financial arrangement fail to meet the contractual obligation.

The Company exposure to credit risk is derived as follows;



The Company manages credit risk exposure within parameters that reflect the Company's strategic objectives and risk tolerance. Sources of credit risk are identified, assessed and monitored, and the company has policies to manage the specific risks within the various subcategories.

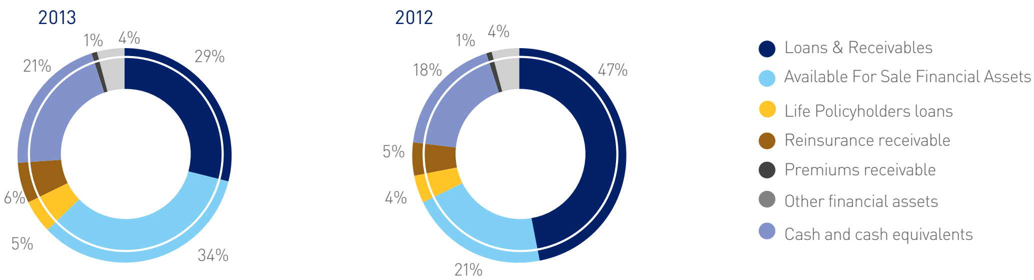
a. ***Credit Risk Exposure***

AAI's exposure to credit risk as at the reporting is given in table below and has been derived as per the company risk management policy of using the carrying values in the Statement of financial position. There were no off - statement of financial position exposures as at the dates. This does not include the exposure that would arise in the future as a result of changes in values.

As at 31 December	2013 Rs' Mn	% of allocation	2012 Rs.Mn	% of allocation
Loans & Receivables	645	29%	997	47%
Available For Sale Financial Assets	761	34%	461	21%
Total Debt securities*	1,406	63%	1,458	68%
Life Policyholders loans	107	5%	81	4%
Reinsurance receivable	144	6%	110	5%
Premiums receivable	464	21%	380	18%
Other financial assets	9	1%	6	1%
Cash and cash equivalents	102	4%	104	4%
Total credit risk exposure	2,232	100%	2,139	100%

*Excluded the debt securities issued by Government of Sri Lanka as credit link is assumed to be zero

Figure: Credit Risk Exposure



37.2.2.1 Corporate Debt Securities

The Company is exposed to credit risk from third party counterparties where the Company holds securities issued by those entities. The table below shows the credit risk exposure on debt securities, by issuer credit rating.

As at 31 December, 2013, corporate debt securities comprise 14 % (2012- 13%) of the total investments in debt securities, out of which 85 % (2012– 60%) were rated "A" or better, or guaranteed by banking institution with rating of "A" or better.

Assessing Credit worthiness

The credit worthiness of the financial instruments is assessed using the credit ratings assigned to each security and fixed deposits. This rating provides the Company and indication of how financial stability of the investment.

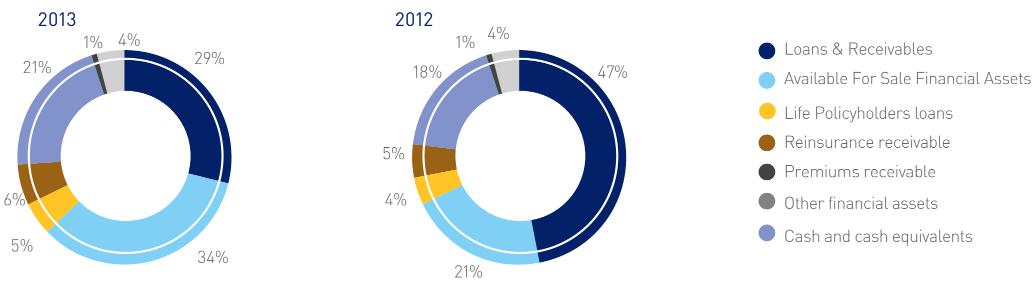
As explained earlier government securities are usually referred to as risk free due to the sovereign nature of the instrument hence we have excluded from this analysis. The table below provides information regarding the credit risk exposure of the Company with respective credit rating.

Table: Corporate debt security allocation - credit rating wise

Rating	2013		2012	
	Rs millions	% of total	Rs millions	% of total
AA-	225	23%	150	24%
A	-	-	40	6%
A-	189	19%	104	17%
BBB	118	12%	-	0%
BBB-	264	27%	98	16%
BBB+	10	1%	15	2%
Guaranteed by Treasury	50	5%	-	0%
Not rated*	135	14%	217	35%
Total	992	100%	625	100%

*Not rated and BBB- company's where the investment is being made herewith credit rating

Figure: Credit Risk Exposure



Collateral of Debt Securities.

Reverse repo investments which fall under government securities is backed by treasury bills and bonds which are provided as collateral. Management monitors the market value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable. A haircut of 10% is maintained at all times. As at the reporting date, the Company holds treasury bonds worth Rs. 503 million (2012 – 114 million) as collateral for reverse repo investments amounting to Rs. 457 million (2012 - 104 million)

Concentration Risk of Corporate Debt Securities.

The Company actively manages its investment mix to ensure that there is no significant concentration of credit risk.

37.2.3 Credit Risk relating to Loans to Life Policyholders and Others

The credit risk exposure arising from loans granted to life policyholders, staff and field staff are as follows; The Company regularly monitors and limits credit exposures by individual counterparty and related counterparties by the aggregated exposure across the various types of credit risk for that counterparty.

The Risk Officer routinely reports the largest exposures by rating category to the Risk Committee of the Board.

	2013	2012
Loan category	**Rs.'000**	**Rs.'000**
Life policyholders	106,049	79,673
Staff loans	1,040	1,725
Total	107,089	81,398

Loans to Life Policyholders.

The Company issued loans to life policy holders considering the surrender value of the life policy as collateral. As at the reporting date, the value of policy loans granted amounted to Rs .65 million (2012 – 42 million) and its related surrender value is more than its carrying value.

37.2.4 Credit Risk relating to Premiums Receivable

The Company's has a credit risk exposure to receivables where the policyholder or the intermediary cannot settle their dues to the Company.

In life insurance, credit risk is minimal, since premium is collected before the policy is issued.

In non-life insurance, the premium warranty clause which state that a claim is not payable if the premium is not settled within 60 days has reduced the credit risk to a greater extent.

The following steps have also been taken to further minimise credit risk;

- Customers are regularly reminded on the premium warranty clause
- Outstanding credit is followed up on a daily basis.
- Policies not settled within a reasonable period are monitored and cancelled
- Outstanding receivables are checked and confirmed prior to settling claims
- Until premium is settled a temporary certificate for 60 days issued for motor policies.

See Note 22 on page 235 of the Statement of Financial Position for additional information on premium receivables.

37.2.5 Credit Risk relating to Reinsurance Receivable

According to the overall risk management strategy, the Company cedes insurance risk through proportional, non-proportional and specific risk reinsurance treaties. While these mitigate insurance risk, the recoverable from reinsurers and receivables arising from ceded reinsurance exposes the company to credit risk. Following are the few steps to manage reinsurance risk in addition to explained above;

- Placed in line with policy guidelines approved by the Board of Directors on an annual basis in line with the guidelines issued by the Insurance Board of Sri Lanka
- Counterparties' limits that are set each year and are subject to regular reviews. On a regular basis management assesses the creditworthiness of reinsurers to update the reinsurance strategy and ascertain the suitable allowance for impairment of reinsurance assets.
- Outstanding reinsurance receivables are reviewed on a monthly basis to ensure that all dues are collected or set off against payables.
- Maintain close and professional relationship with reinsurers
- No cover is issue without confirmation from reinsurance unless non reinsurance business.

As at reporting date reinsurance receivables amount to Rs. 144 million as at 31 December,2013 (2012-Rs.110 million). This mainly consists of reinsurance receivable on paid claims amounting to Rs.17.48 million (2012-Rs.13 million) and reinsurance share of claim reserve (receivables on outstanding claims) of Rs.126 million as at 31st December 2012. (2012-Rs.97 million).

As per table below, as at 31 December 2013, 90% of our reinsurance receivables were due from reinsurers with a rating of "A-" or better and from the National Insurance Trust Fund (NITF).There were no collateral against reinsurance receivable as at reporting date.

Rating	2013	
	On paid claims (Rs)	%
AAA	1,598,828	9%
AA -	3,831,435	22%
A +	12,896	0%
A	805,096	5%
A -	1,557,395	9%
BBB	1,142,697	7%
B +	451,450	3%
NITF	7,907,207	45%
Unrated	173,760	1%
Total	17,480,808	100%

The following table shows the credit rating of our reinsurance panel;

Name of the reinsurer	Credit Rating	Name of the Rating Agency
Lloyd's Syndicate CCL 3010	A+	S & P
Lloyd's Syndicate Pembroke PEM 4000	A+	S & P
Saudi Re	BBB+	S & P
Asia Capital Re	a-	AM Best
Kuwait Re	a-	AM Best
Trust International	a-	AM Best
Malaysian Re	a-	AM Best
Labuan Re	a-	AM Best
GIC of India	aaa	AM Best
New India Assurance	a-	AM Best
Swiss Re	AA-	S & P
Munich Re	AA-	S & P

37.2.6 Credit Risk relating to Cash and Cash Equivalents

The Company maintains a strict policy to maintain cash deposits in counterparties with sound ratings and future outlook where the company maintains exposure limits to ensure that the company has a diverse range of counterparties to ensure low concentration risks

The Company held cash and cash equivalents of Rs. (16) million at 31 December 2013. (2012 - Rs. 17 million). The cash and cash equivalents are held with bank and financial institutional counterparties, which are rated BBB+ or better.

Assessment of Impairment Losses

Company monitors the requirement for impairment provision in the Financial Statements ongoing basis. The relevant accounting policies and financial details are given in Note 3.4 on page 205 to these financial statements.

Based on the assessments made there was no provision has been made for impairment in the financial statements

37.3. Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks are given below;

Exposure to market risk on these products is limited to the extent that income arising from asset management charges is based on the value of assets in the fund.

37.3.1 Equity Price Risk

Listed equity securities are susceptible to market price risk arising from uncertainties of future values of the investment securities.

Management of Equity Risk

The company manages the equity price risk through diversification and placing limits on individual and total equity portfolio investments. The company's equity risk management policies are;

- Adherence to the investment policy which includes stringent guidelines on risk exposures
- Equity investment decisions are based on fundamentals rather than on speculation.
- Any purchases above limits imposed by Insurance Board of Sri Lanka (IBSL) guidelines require investment committee approval.
- Daily and cumulative limits per share type issued by one Company
- Decisions are based on in depth macroeconomic and industry analysis as well as research reports on company performance

Equity Risk Exposure

The risk exposure to listed equity securities based on segment analysis as at 31 December 2013 with the comparatives are as follows;

Table: Listed equity investments

Segment	2013	2012
	Rs.Mn	Rs.Mn
Life Insurance	1,179	876,060
Non life Insurance	477	436,089
Total	1,656	1,312

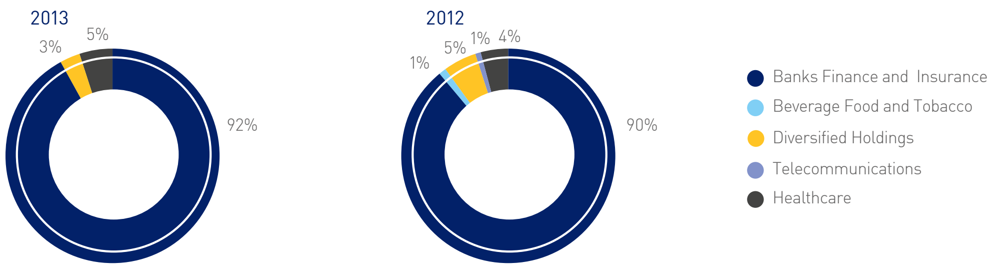
Concentration Risk of Equity

Company has no significant concentration of equity price risk as it has a diversified portfolio. The table below shows the sector diversity of quoted equity investments of the company.

Table - Portfolio diversification of equity investments

Sector	2013		2012	
	Rs.'000	%	Rs.'000	%
Banks Finance and Insurance	1,518,406	92%	1,175,386	90%
Beverage Food and Tobacco	-	-	10,345	1%
Diversified Holdings	50,260	3%	64,209	5%
Telecommunications	7,817	0%	7,209	1%
Healthcare	80,000	5%	55,000	4%
Total	1,656,483	100%	1,312,149	100%

Figure: Portfolio diversification of equity investments



Sensitivity Analysis of Equity Risk

The table below shows the estimated impact from a 10 percent decline in the stock markets, on the portfolio as at 31 December, 2013with indicative comparatives.

Non life insurance business	2013 Rs.'000	2012 Rs.'000
10% decline in stock markets		
Investments	(42,733)	(91,873)
Liabilities		
Net impact before tax	(42,733)	(91,873)
Tax impact		
Net impact after tax	(42,733)	(91,873)

Life insurance business	2013 Rs.'000	2012 Rs.'000
10% decline in stock markets		
Investments	(162,677)	(39,341)
Liabilities		
Net impact before tax	(162,677)	(39,341)
Tax impact		
Net impact after tax	(162,677)	(39,341)

37.3.2 Foreign Exchange Risk

Currency risk is the risk of loss resulting from changes in exchange rates. The Company's principle operation is based in Sri Lanka. Therefore Company is not materially exposed to the foreign exchange risk.

37.4 Interest Rate Risk

Interest rate risk is the risk of fluctuation of the value or cash flows of an instrument due to changes in market interest rates.

The Company has adopted the following policies to manage interest rate risk

- The Investment committee members keep a regular track of macroeconomic scenarios and their likely impact on interest rates
- Initial recognition of investments is closely monitored

Floating rate instruments expose the company to cash flow fluctuations, whereas fixed interest rate instruments expose the company to changes in fair values. As at 31 December 2013 there were no cash flow interest rate exposures, as Company has no any floating rate investments.

However, AAI is exposed to fair value fluctuations on fixed rate investments which are measured at fair value.

Sensitivity Analysis of Interest Rate Risk

The following table shows the estimated impact on profitability and equity by fluctuation of interest rates on the fixed rate available–for–sale financial assets.

Change in variables	Impact on profit before tax	Impact on equity
Non life		
+ 100 basis points	(149,790)	(149,790)
- 100 basis points	15,654	15,654
Life segment *		
+ 100 basis points	(93,892)	(93,892)
- 100 basis points	102,663	102,663

Change in variables	Impact on profit before tax	Impact on equity
Non life		
+ 100 basis points	(2,565)	(2,565)
- 100 basis points	2,662	2,662
Life segment *		
+ 100 basis points	(30,382)	(30,382)
- 100 basis points	32,521	32,521

* Subject to actuarial valuation

38. ACCOUNTING CLASSIFICATION AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial Instruments are measured subsequently on an ongoing basis either at Fair Value or at Amortised Cost. The summary of significant accounting policies describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognized. The following table analyses the carrying amounts of the financial instruments by category as defined in LKAS 39 financial instrument recognition and measurement.

38.1 Classification of Financial Instruments

38.1.1 Asset

As at 31 December 2013	Held for Trading Rs. '000	Held to Maturity (HTM) Rs. '000	Loans and Receivable (L&R) Rs. '000	Avilable for Sale (AFS) Rs. '000	Others Rs. '000	Total Carrying amount Rs. '000	Fair Value Rs. '000
Financial Assets							
Derivative Financial Instruments	9,907	-	-	-	-	9,907	9,907
Held to Maturity Financial Investments	-	218,549	-	-	-	218,549	208,625
Available For Sale Financial Investments	-	-	-	2,528,601	-	2,528,601	2,528,601
Financial Investments Held for Trading	2,383,523	-	-	-	-	2,383,523	2,383,523
Loans and Receivables	-	-	1,102,292	-	-	1,102,292	1,102,292
Loans to Life Policy holders and Others	-	-	107,089	-	-	107,089	107,089
Reinsurance Receivables	-	-	144,058	-	-	144,058	144,058
Premium Receivables	-	-	464,453	-	-	464,453	464,453
Amounts due from Related Companies	-	-	259	-	-	259	259
Other Assets	-	-	8,939	-	-	8,939	8,939
Cash and Cash Equivalents	-	-	102,228	-	-	102,228	102,228
Total Financial Assets	-	-	-	-	-	7,069,897	7,059,972
Non Financial Assets							
Property, Plant & Equipment	-	-	-	-	158,041	158,041	N/A
Deferred Acquisition Cost	-	-	-	-	89,304	89,304	N/A
Other Assets	-	-	-	-	157,916	157,916	N/A
					405,261	405,261	
Total Assets						7,475,158	

As at 31 December 2012	Held for Trading Rs. '000	Held to Maturity (HTM) Rs. '000	Loans and Receivable (L&R) Rs. '000	Available for Sale (AFS) Rs. '000	Others Rs. '000	Total Carrying amount Rs. '000	Fair Value Rs. '000
Financial Assets							
Derivative Financial Instruments	5,557	-	-	-	-	5,557	5,557
Held to Maturity Financial Investments	-	214,551	-	-	-	214,551	185,151
Available For Sale Financial Investments	-	-	-	2,614,156	-	2,614,156	2,614,156
Financial Investments Held for Trading	896,004	-	-	-	-	896,004	896,004
Loans and Receivables	-	-	1,100,766	-	-	1,100,766	1,100,766
Loans to life policy holders and others			81,398			81.398	81,398
Reinsurance Receivables	-	-	110,070	-	-	110,070	110,070
Premium Receivables	-	-	379,720	-	-	379,720	379,720
Receivables and Other Assets	-	-	6,195	-	-	6,195	6,195
Cash and Cash Equivalents	-	-	103,637	-	-	103,637	103,637
Total Financial Assets	-	-	-	-	-	5,512,054	5,482,654
Non Financial Assets							
Property, Plant and Equipment	-	-	-	-	116,104	116,104	N/A
Deferred Acquisition Cost	-	-	-	-	68,192	68,192	N/A
Other Assets	-	-	-	-	132,756	132,756	N/A
	-	-	-	-	317,052	317,052	
Total Assets	-	-	-	-	-	5,829,106	

38.1.2 Liabilities

As at 31 December 2013	Held for Trading	Amortised Cost	Other	Total carrying value	Fair Value
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Liabilities					
Reinsurance Payable	-	137,583	-	137,583	137,583
Amounts due to Related Companies	-	24	-	24	24
Short Term Borrowings	-	50,000	-	50,000	50,000
Bank Overdraft	-	119,063	-	119,063	119,063
Other Financial Liabilities	-	368,901	-	368,901	368,901
	-	675,571	-	675,571	675,571
Non Financial Liabilities		4,967,893	-	4,967,893	N/A
Total Liabilities		5,643,464	-	5,643,464	
As at 31 December 2012					
Financial Liabilities					
Reinsurance Payable	-	77,974	-	77,974	77,974
Amounts due to Related Companies	-	39,988	-	39,988	39,988
Bank Overdraft	-	86,734	-	86,734	86,734
Other Financial Liabilities	-	349,042	-	349,042	349,042
	-	553,738	-	553,738	553,738
Non Financial Liabilities	-	3,813,865	-	3,813,865	N/A
Total Liabilities	-	4,367,603	-	4,367,603	

38.2 DETERMINATION OF FAIR VALUE

a) Methodologies and Assumptions Used to Determined Fair Value

The methodology for fair value of the Financial Assets and Liabilities and the analysis according to fair value hierarchy is provided in this note. The basis on which fair values have been arrived for various financial assets and liabilities are explained below.

b) Assets for which Fair Value approximates Carrying Value

For financial assets and financial liabilities that have a short-term maturity , demand deposits and savings accounts without a specific maturity, the carrying amounts approximate to their fair value.

c) Fixed rate Financial Investments - Government Securities

The fair value of fixed rate government securities financial assets carried at amortised cost are estimated by using weekly market rate publish by Central Bank of Sri Lanka and other fixed rate investments were measured using comparing market interest rates when they were initially recognised with current market rates for similar financial instruments.

d) Fixed rate Financial Investments - Bank Deposits

The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity.

e) Fixed rate Financial Investments - Unquoted and Quoted Debt Securities

For quoted debt issued, the fair values are determined based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity and credit spreads.

f) Loan to Life policyholder and other loans

The fair value of above is equal to carrying value due to its interest rate is equivalent to market rate.

g) Premium and Reinsurance receivables

Carrying value is approximate to fair value as at the reporting date short term nature.

h) Cash and bank balances

The carrying amount approximate to fair value due to the relatively short term maturity.

i) Other receivable and Financial liabilities

The carrying value has been considered as the fair value due to uncertainty of the timing cash flows.

38.3 Determination of Fair Value and Fair Values hierarchy of Financial Investments

The table below analyses financial instruments carried at Fair value, by level in the fair value hierarchy, the different levels have been defined as follows,

Level 1	Inputs that are quoted market prices (unadjusted) in active markets for identical instruments. The company measures the fair value of an instrument using active quoted prices or dealer price quotations (assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price), without any deduction for transaction costs. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis
Level 2	Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
Level 3	Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Please refer Accounting policy Note 3.3.7 on page 203 for more information regarding determination of fair value

As at 31 December 2013	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
Derivative Financial Instrument	-	9,906	-	9,906
Fair Value Through Profit or Loss (FVTPL)				
Equity Securities	1,476,485	-	-	1,476,485
Treasury Bonds	489,056	-	-	489,056
Unit Trust	417,981	-	-	417,981
Available - for - Sale (AFS)				
Debt Securities - Debentures	760,684	-	-	760,684
Debt Securities - Treasury Bonds	1,587,916	-	-	1,587,916
Equity Securities	80,000	100,000	-	180,000
Total Financial Investments	4,812,123	109,906	-	4,922,029

As at 31 December 2012	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
Derivative Financial Instrument	-	5,557	-	5,557
Fair Value Through Profit or Loss (FVTPL)				
Equity Securities	270,931	-	-	270,931
Treasury Bonds	625,073	-	-	625,073
Available - for - Sale (AFS)				
Debt Securities - Debentures	134,675	-	-	134,675
Debt Securities - Commercial Papers	326,653	-	-	326,653
Debt Securities - Treasury Bonds	220,980	-	-	220,980
Debt Securities - Treasury Bills	635,002	-	-	635,002
Equity Securities	1,041,219	-	-	1,041,219
Unit Trust	255,629	-	-	255,629
Total Financial Investments	3,510,160	5,557	-	3,515,717

39. CAPITAL COMMITMENTS

During the year, the Company entered into a contract to purchase of Property, Plant and Equipment in 2013 for Rs. 17.7 Million (2012: nil).

40. CONTINGENCIES

The contingent liability of the company as at 31 December 2013, relates to the following:

40.1. Assessment in respect of Value Added Tax (VAT)

The Company has been issued with an assessment by the Department of Inland Revenue on 28 October 2011 and 26th April 2013 under the Value Added Tax Act, in relation to the Taxable Period ending 31 December 2009 and 2010 for Rs.4.9 million and 26.9 million respectively. The Company has filed an appeal in November 2011 on the basis that the underlying computation includes items which are exempt /out of scope of the VAT Act. The Commissioner General of Inland Revenue has determined the assessment and the Company is in the process of appeal to the Tax Appeals Commission. The Company is awaiting the final decision.
Based on the information available and the Tax expert advice, the Directors are confident that the ultimate resolution of the above contingency is unlikely to have a material adverse effect on the Statement of Financial Position of the Company.

40.2. Pending Litigations

The company operates in the insurance industry and is subject to legal proceedings in the normal course of business.
While it is not practicable to forecast or determine the final results of all pending or potential legal proceedings, Directors do not believe that such proceedings (including litigation) will have a material effect on the Company's results and financial position.
All pending litigation for claims have been evaluated and adequate provisions have been made in the financial Statements

40.3. Compliance with Solvency Regulation

The company is also subject to insurance solvency regulations and has complied with all solvency regulations. There are no contingencies associated with the Company's compliance or lack of compliance with such regulations.

41 RELATED PARTY DISCLOSURE

41.1 Parent and ultimate controlling party

Softlogic Capital PLC which is the Parent entity of the Company and with its Directors and their immediate family members.In the opinion of Directors, the ultimate parent undertaking and controlling entity is Softlogic Holdings PLC which is incorporated in Sri Lanka.

41.2 Transaction with Key Management Personnel

According to the LKAS 24, Related Party Disclosure, the Directors (including Executive and Non Executive Directors) of the Company and their immediate family members have been classified as Key Management Personnel of the Company.

Further members of the Executive Committee (Exco) and their immediate family members have been classified as Key Management Personnel of the Company.

In addition to their salaries, the Company provides non-cash benefits to Directors and Executive Committee and contributes to a post employment defined benefit plan on their behalf.

41.3 Key Management Personnel Compensation comprised the following

As at 31 December,	2013 Rs. '000	2012 Rs. '000
Short Term Employee Benefits	32,273	31,320
Post Employment Benefits	3,870	4,068
Other Long Term Benefits	10,550	7,400
	46,693	42,788
Directors' Fees	12,053	7,350

No Loans have been granted to the Directors of the Company

41.4 Key Management Personnel and Director transactions

A number of key management personnel, or their related parties, hold positions in other entities that result them having control or significant influence over the financial or operating policies of these entities.

The aggregate value of transactions and outstanding balances related to key management personnel and entities over which they have control or significant influence were as follows:

Company	Name of Director	Position	Relationship	Nature of Transaction	Transaction Value	
For the year ended					2013	2012
Richard Pieris & Co.Plc	Mohan Ray Abeywardene	Director	Director Related Entity	Insurance Placed	-	3,671
				Claims Incurred	-	19,815
Paul Rathnayeke Associates	J. H. P. Rathnayeke	Director	Director Related Entity	Insurance Placed	-	296
				Claims Incurred	142	70
				Legal Fees Paid	1,018	702
P.R.Secretarial Services (Pvt) Ltd	J. H. P. Rathnayeke	Director	Director Related Entity	Secretarial Fees paid	198	312
Acquity Partners Ltd	J. H. P. Rathnayeke	Director	Director Related Entity	Fees paid on Financial Advisory	561	-

41.5 Transactions with Group Companies and Director related entities

Transactions with Group Companies and Director related entities which shown as follows
Transaction values for the year ended

Company	Relationship	Nature of Transaction	2013 Rs. ' 000	2012 Rs. ' 000
Softlogic Holdings PLC and Group	Soft Logic Holdings PLC owns 42.36% of the Company's issued Share Capital	Insurance Placed	85,327	41,979
		Claims Incurred	19,716	23,992
Softlogic Holdings PLC	Soft Logic Holdings PLC owns 42.36% of the Company's issued Share Capital	Investments in Equity Shares as at	38,570	50,050
		Investments in Debentures as at	130,284	-
		Dividend Income	-	1,378
		Interest income on Debentures	6,351	-
Softlogic Capital PLC	Soft Logic Capital PLC owns 57.72% of the Company's issued Share Capital	Fees for Management of Fixed Income Securities	41,102	35,784
		Consultancy Fees	24,490	24,490
Softlogic Finance PLC	Group Company of Soft Logic Holdings PLC	Investments in Debentures	148,420	-
		Interest income on Debentures	4,409	-
		Investments in Commercial Papers	-	111,062
		Interest Income	9,632	26,220
Softlogic Information Technologies (Pvt) Ltd	Group Company of Soft Logic Holdings PLC	Purchase of Fixed Assets	17,967	8,740
Softlogic Communication Services (Pvt) Ltd	Group Company of Soft Logic Holdings PLC	Investments in Commercial Papers	-	26,234
		Interest Income	4,509	9,415
Softlogic Retail (Pvt) Ltd	Group Company of Soft Logic Holdings PLC	Purchase of Fixed Assets	10,180	6,740
		Investments in Commercial Papers	-	114,031
		Interest Income	15,783	15,693
Softlogic Stockbrokers (Pvt) Ltd	Group Company of Soft Logic Holdings PLC	Broker Charges	5251	720
Softlogic Destination Management (Pvt) Ltd	Group Company of Soft Logic Holdings PLC	Foreign Travelling Expenses Paid	6,199	10,882
Asiri Hospitals PLC	Group Company of Soft Logic Holdings PLC	Investments in Equity Shares	80,000	55,000
		Dividend Income	-	884
Nextage (Pvt) Ltd	Group Company of Soft Logic Holdings PLC	Advertising Expenses Paid	27,847	-

41.6 The Amounts Due From and Amounts Due to above related parties are disclosed in Note 22.1.1 on page 235 and Note 35 on page 244.

42 EVENTS AFTER THE REPORTING DATE

There have been no events subsequent to the reporting date, which would have any material effect on the Company, other than disclosed below;

42.1 Interim Dividend 2013

The Company has declared interim dividend of Rs. 4.80 per share on 13th February 2014 to the Ordinary Shareholders of the Company and Payment is due on 10th March 2014.

Compliance with Section 56 and 57 of Companies Act No 7 of 2007

As required by Section 56 of the Companies Act No 07 of 2007, the Board of Directors of the Bank satisfied the solvency test in accordance with Section 57, prior to recommending the interim dividend. A statement of solvency completed and duly signed by the directors on February 13, 2014 has been audited by Messrs KPMG.

This Interim dividend has not been recognised as a liability as at 31st December 2013. Under the Inland Revenue Act No 10 of 2006, a withholding tax of 10% has been imposed on dividends declared.

43 COMPARATIVE INFORMATIONS

The presentation and classification of following items in these Financial Statements are amended to ensure comparability with the current year information.

	Current Presentation	As reported previously
Statement of Financial Position		
Financial Investments	4,831,034	4,825,799
Reinsurance Receivables	110,070	50,921
Other Assets	138,952	144,185
Cash & Cash Equivalents	103,637	34,784
Insurance Contract Liabilities - Life	3,055,723	2,904,345
Other Liabilities	374,593	466,822
Bank overdraft	86,734	17,881
Statement of Income		
Finance income	406,702	396,589
Other Operating income	4,436	10,113
Net Acquisition cost	(572,909)	(568,472)

44 DIRECTORS' RESPONSIBILITY

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

→ Other Information

Your Company achieved 29% growth in Life insurance fund and achieved 35% growth in Non Life insurance fund ←

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STATEMENT OF FINANCIAL POSITION OF THE LIFE INSURANCE FUND

As at 31 December	Note	2013 Rs. ' 000	2012 Rs. ' 000
Assets			
Property Plant and Equipment	1	92,820	70,073
Financial Investments	2	4,220,428	3,143,117
Loans to Life Policy holders and Others	3	106,618	79,794
Reinsurance Receivables	4	61,775	61,141
Premium Receivables		46,085	7,679
Other Assets	5	95,047	72,129
Cash and Cash Equivalents	6	94,254	90,663
Total Assets		4,717,027	3,524,596
Equity and Liabilities			
Equity			
Other Reserves		101,979	36,552
Total Equity		101,979	36,552
Liabilities			
Insurance Contract Liabilities - Life		3,938,030	3,055,723
Employee Benefits	7	20,502	14,851
Reinsurance Payable		81,990	25,103
Amounts due to Related Companies		-	33,567
Other Liabilities	8	476,937	289,946
Short Term Borrowings		50,000	-
Bank overdraft		47,589	68,854
Total Liabilities		4,615,048	3,488,044
Total Equity and Liabilities		4,717,027	3,524,596

1 PROPERTY, PLANT AND EQUIPMENT (PPE)

	Computer Equipment Rs. '000	Office Equipment Rs. '000	Furniture and Fittings Rs. '000	Fixtures and Fittings Rs. '000	Motor Vehicles Rs. '000	Total 2013 Rs. '000	Total 2012 Rs. '000
Cost							
Balance as at 1 January 2013	48,514	42,263	36,359	61,993	-	189,129	157,468
Additions during the year	3,523	7,186	7,921	18,964	-	37,594	31,660
Disposals during the year	-	-	(117)	-		(117)	189,128
Balance as at 31 December 2013	52,037	49,449	44,163	80,957	-	226,606	
Accumulated Depreciation and Impairment Losses							
Balance as at 1 January 2013	40,982	27,537	16,907	33,630	-	119,056	101,045
Charge for the year	2860	5,625	3,524	10,903	-	22,912	18,011
Disposals during the year	-	-	(95)	-	-	(95)	-
Balance as at 31 December 2013	43,842	33,162	20,336	44,533	-	141,873	119.056
Capital Work In Progress							
Incurred During the Year	8,086					8,086	-
Capitalised During the Year	-	-	-	-	-	-	-
Balance as at 31 December 2013	8,086	-	-	-	-	8,086	-
Carrying Value As at 31 December 2013	**16,281**	**16,287**	**23,827**	**36,424**	**-**	**92,819**	**-**
Carrying Value As at 31 December 2012	7,533	14,726	19,452	28,363	-	-	70,073

	As at 31 December	2013 Rs. ' 000	2012 Rs. ' 000
2	**FINANCIAL INVESTMENTS**		
	Derivative Financial Instruments (Note 2.1)	9,906	5,557
	Held to Maturity Financial Assets (Note 2.2)	218,549	214,551
	Loans & Receivables (Note 2.3)	788,836	934,101
	Available For Sale Financial Assets (Note 2.4)	1,985,080	1,150,914
	Financial Assets at FVTPL (Trading) (Note 2.5)	1,218,057	837,994
		4,220,428	3,143,117
2.1	**Derivative Financial Instruments**		
	Money Market - Treasury Bonds	9,906	5,557
		9,906	5,557
2.2	**Held to Maturity Financial Assets**		
	Money Market - Treasury Bonds	218,549	214,551
		218,549	214,551
2.3	**Loans and Receivables**		
	Debt Securities - Debentures	147,542	155,235
	Bank Deposits	437,194	762,480
	Reverse Repos	204,100	16,387
		788,836	934,101
2.4	**Available for sale Financial Assets**		
	Equity Securities	130,000	180,489
	Debt Securities - Commercial Papers	-	104,178
	Debt Securities - Debentures	564,124	134,675
	Money Market - Treasury Bills	-	364,444
	Treasury Bonds	1,290,956	132,845
	Unit Trust	-	234,283
		1,985,080	1,150,914
2.5	**Financial Assets at FVTPL (Trading)**		
	Equity Securities	495,269	212,921
	Money Market -Treasury Bonds	341,806	625,073
	Unit Trust	380,982	-
		1,218,057	837,994
	Total Investment	4,220,428	3,143,117
2.4.1	**Available For Sale Financial Assets - Equity**		
	Un Quoted	50,000	-
	Quoted	80,000	180,489
	Total	130,000	180,489
2.5.1	**Financial Assets at FVTPL (Trading) -Equity**		
	Banks, Finance & Insurance		
	Asia Capital PLC	9,236	16,461
	Commercial Bank of Ceylon PLC	46,013	44,217
	Hatton National Bank PLC	3,299	36,418
	Hatton National Bank PLC (Non Voting)	42,662	53,490
	National Development Bank PLC	346,639	-
	Seylan Bank PLC (Non Voting)	8,850	12,285
	Diversified Holdings		
	Softlogic Holdings PLC	38,570	50,050
	Total	495,269	212,921

	As at 31 December	2013 Rs. ' 000	2012 Rs. ' 000
3	**POLICY LOANS & OTHER LOANS**		
	Loans granted to employees	569	120
	Loans granted to policy holders	106,049	79,674
		106,618	79,794
4	**REINSURANCE RECEIVABLES**		
	RI on Claims Paid	3,832	1,993
	RI on Claims Outstanding	57,943	59,148
		61,775	61,141
5	**RECEIVABLES AND OTHER ASSETS**		
	Other Debtors and Receivables	56,624	43,916
	Tax Recoverable	38,423	28,212
		95,047	72,129
6	**CASH AND CASH EQUIVALENTS**		
	Cash in Hand	2,116	1,961
	Cash at Bank	92,138	88,702
		94,254	90,663
7	**EMPLOYEE BENEFITS**		
	Balance as at 1 January	14,851	13,606
	Provisions made during the year	6,248	2,589
		21,099	16,195
	Payments during the year	(597)	(1,344)
	Balance as at 31 December	20,502	14,851
8	**OTHER LIABILITIES**		
	Commission Payable	96,765	96,237
	Current Account receivables	243,014	86,225
	Premium Deposits	56,499	53,249
	Accruals	55,160	36,705
	Other Payables	25,500	17,531
		476,937	289,946

Quarterly Performance - 2013

	1 Quarter Jan - Mar 2013 Rs. ' 000	2 Quarter Apr - Jun 2013 Rs. ' 000	3 Quarter July - Sep 2013 Rs. ' 000	4 Quarter Oct - Dec 2013 Rs. ' 000	Total Rs. ' 000
Gross Written Premium	963,904	1,030,741	998,419	1,083,603	4,076,669
Reinsurance Premium	(190,466)	(150,283)	(155,357)	(139,771)	(635,878)
Net Written Premium	773,438	880,458	843,062	943,832	3,440,791
Net Change in Reserve for unearned Reinsurance premium	(64,349)	(108,245)	(16,151)	(11,687)	(200,432)
Net Earned Premium	709,089	772,213	826,911	932,145	3,240,359
Other Revenue					
Finance income	212,982	113,571	110,379	161,817	598,749
Realized Gains/ (Losses)	1,737	-	34,284	188,165	224,186
Fair value Gains/(lLosses)	80,881	17,944	(52,019)	121,052	167,858
Other operating Income	1,288	1,384	1,911	1,188	5,771
	296,888	132,899	94,555	472,222	996,564
Total Net Revenue	1,005,977	905,112	921,466	1,404,367	4,236,922
Benefits, Claims and Expenses					
Net Insurance benefits and claims	(522,775)	(500,355)	(549,030)	(394,385)	(1,966,544)
Net Acquisition cost	(172,425)	(174,983)	(184,331)	(179,961)	(711,700)
Operating and Administration Expenses	(272,256)	(283,572)	(282,316)	(313,828)	(1,151,972)
Finance Cost	(2,321)	(2,794)	(3,973)	(3,481)	(12,569)
Other Expenses	(969,777)	(961,704)	(1,019,650)	(891,655)	(3,842,785)
Profit/(Loss) Before Tax	36,200	(56,592)	(98,184)	512,712	394,137
Income tax expense	-	-	-	(31,802)	(31,802)
Profit/(Loss) for the year	36,200	(56,592)	(98,184)	480,910	362,335

Quarterly Performance - 2012

	1 Quarter Jan - Mar 2012 Rs. ' 000	2 Quarter Apr - Jun 2012 Rs. ' 000	3 Quarter July - Sep 2012 Rs. ' 000	4 Quarter Oct - Dec 2012 Rs. ' 000	Total Rs. ' 000
Gross Written Premium	725,904	809,646	744,660	944,265	3,224,476
Reinsurance Premium	(162,589)	(180,040)	(110,295)	(108,646)	(561,571)
Net Written Premium	563,315	629,606	634,365	835,619	2,662,905
Net Change in Reserve for unearned Reinsurance premium	(73,751)	(67,517)	(27,345)	(101,795)	(270,410)
Net Earned Premium	489,564	562,089	607,020	733,824	2,392,495
Other Revenue					
Finance income	99,065	106,694	91,672	109,271	406,702
Realized Gains	-	-	902	51,523	52,425
Fair value Gains	(56,959)	(22,238)	60,466	21,343	2,612
Other operating income	1,152	979	1,105	1,200	4,436
	43,258	85,435	154,145	183,337	466,175
Total Net Income	532,822	647,524	761,165	917,161	2,858,670
Benefits, Claims and Expenses					
Net Insurance benefits and claims	(231,485)	(308,028)	(393,999)	(277,629)	(1,211,141)
Net Acquisition cost	(117,322)	(130,768)	(151,253)	(173,566)	(572,909)
Operating and Administration Expenses	(195,876)	(221,211)	(253,251)	(322,956)	(993,294)
Finance Cost	(223)	(843)	(2,763)	(2,797)	(6,626)
Other Expenses	(544,906)	(660,850)	(801,266)	(776,948)	(2,783,970)
Profit/(Loss) Before Tax	(12,084)	(13,326)	(40,101)	140,213	74,700
Income tax expense	-	-	-	(1,410)	(1,410)
Profit/(Loss) for the year	(12,084)	(13,326)	(40,101)	138,803	73,290

Decade at a Glance -
Statement of Income

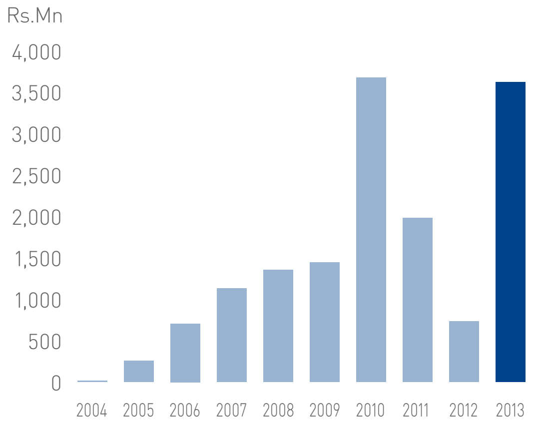
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000
Non Life Insurance Statement of Income										
Gross Written Premium	**1,556,386**	1,190,392	628,163	430,666	496,749	459,771	383,590	417,679	353,281	310,401
Net Earned Premium	**1,101,693**	685,392	347,578	277,860	312,552	243,614	207,089	173,892	139,168	120,036
Other Revenue	**287,293**	118,742	(266,134)	288,690	87,279	59,214	33,630	21,473	23,864	15,261
Net Income	**1,388,986**	804,134	81,443	566,550	399,831	302,828	240,719	195,365	163,032	135,297
Net Insurance benefits & claims	**(910,324)**	(516,685)	(271,300)	(246,348)	(275,552)	(183,734)	(151,867)	(115,671)	(100,588)	(89,354)
Net Commssion	**(128,007)**	(92,138)	(34,087)	(21,133)	(7,805)	5,604	30,621	25,132	34,940	23,382
Net Deferred Acquisition Cost	**19,936**	28,956	8,129	4,400	15,881	4,723	(1,827)	(4,387)	(2,375)	(3,649)
Expenses	**(410,027)**	(305,445)	(178,510)	(186,503)	(180,248)	(158,275)	(118,453)	(107,104)	(86,728)	(64,809)
Profit / (Loss) for the Year	**(39,436)**	(81,178)	(394,324)	116,966	(47,893)	(28,854)	(807)	(6,665)	8,281	867
Life Insurance Statement of Income										
Gross Written Premium	**2,520,283**	2,034,084	1,579,191	1,242,608	1,009,031	970,077	890,793	747,934	577,695	421,681
Net Earned Premium	**2,138,666**	1,707,103	1,321,556	1,037,936	843,499	811,449	742,835	631,386	468,317	334,701
Other Revenue	**709,271**	347,434	255,891	412,081	311,527	173,898	122,487	54,674	22,667	10,415
Net Income	**2,847,937**	2,054,537	1,577,447	1,450,017	1,155,026	985,347	865,322	686,060	490,984	345,116
Net Insurance Benefits & Claims	**(214,101)**	(143,116)	(123,547)	(103,076)	(87,529)	(48,902)	(38,942)	(32,730)	(9,443)	(7,267)
Net Acquisition Cost	**(603,629)**	(509,727)	(291,226)	(247,791)	(165,536)	(155,619)	(164,653)	(139,939)	(129,155)	(112,062)
Expenses	**(754,513)**	(694,476)	(539,018)	(476,583)	(350,534)	(305,249)	(233,125)	(182,334)	(156,957)	(149,181)
Operating Surplus before Transfer to Insurance Provision -Life	**1,275,694**	707,218	623,656	622,567	551,427	475,577	428,602	331,057	195,429	76,606
Transfer to Insurance Provision - Life	**(842,119)**	(551,339)	(423,656)	(368,957)	(356,427)	(315,577)	(313,361)	(264,966)	(175,429)	(76,606)
Transfer to Shareholder's Fund	**(300,000)**	(155,879)	(200,000)	(253,610)	(195,000)	(160,000)	(115,241)	(66,091)	(20,000)	-
Profit for the year	**133,575**	-	-	-	-	-	-	-	-	-
Company Statement of Income										
Gross Written Premium	**4,076,669**	3,224,476	2,207,354	1,673,274	1,505,780	1,429,848	1,274,383	1,165,613	930,976	732,082
Net Profit \ (Loss) Before Taxation	**394,137**	74,700	(194,509)	370,576	147,107	131,146	114,434	68,200	28,281	866
Taxation	**(31,802)**	(1,410)	(3,721)	(2,568)	(2,329)	4,258	(1,138)	2,568	(2,568)	(2,331)
Net Profit \ (Loss) After Taxation	**362,335**	73,290	(198,230)	368,008	144,778	135,404	113,296	70,768	25,713	(1,465)

Decade at a Glance -
Statement of Financial Position

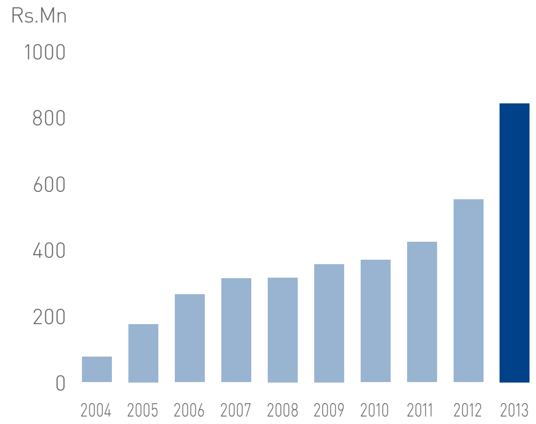
As at 31 December	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000
Assets										
Property Plant and Equipment	**158,041**	116,104	96,365	79,818	65,564	54,136	33,948	30,249	34,458	44,288
Financial Investments	**6,242,871**	4,831,034	3,985,799	3,821,611	2,314,576	1,787,010	1,457,673	924,700	564,050	325,321
Investment Property	**-**	-	-	36,750	-	-	-	-	-	-
Loans to Life Policy holders and Others	**107,089**	81,398	60,187	45,879	31,453	13,915	6,655	1,884	1,317	5,142
Reinsurance Receivables	**144,058**	110,070	64,593	99,937	41,041	45,940	283,975	485,915	93,305	171,535
Premium Receivables	**464,453**	379,720	189,998	102,611	74,517	105,926	78,078	96,267	58,555	65,344
Amounts due from Related Companies	**259**	-	-	-	-	-	-	-	-	-
Other Assets	**166,855**	138,951	155,201	139,089	152,872	103,291	57,251	52,627	36,119	21,294
Deferred Acquisition Costs	**89,304**	68,192	39,298	25,567	-	-	-	-	-	-
Cash and Cash Equivalents	**102,228**	103,637	55,192	62,438	52,140	30,507	21,713	26,272	20,414	26,827
Total Assets	**7,475,158**	5,829,106	4,646,633	4,413,700	2,732,163	2,140,725	1,939,293	1,617,914	808,218	659,751
Equity and Liabilities										
Equity										
Stated Capital	**1,062,500**	1,062,500	1,062,500	1,062,500	250,000	250,000	250,000	250,000	250,000	250,000
Other Reserves	**114,663**	104,477	230,852	160,128	-	-	-	-	-	7,354
Retained Earnings	**654,531**	294,526	121,548	518,825	267,540	154,060	18,656	(82,140)	(152,908)	(185,975)
Total Equity & Reserves	**1,831,694**	1,461,503	1,414,900	1,741,453	517,540	404,060	268,656	167,860	97,092	71,379
Liabilities										
Insurance Contract Liabilities - Life	**3,938,030**	3,055,723	2,353,008	1,929,352	1,560,395	1,203,968	888,391	575,030	310,064	134,635
Insurance Contract Liabilities - Non Life	**921,221**	681,514	392,777	275,668	275,602	246,139	431,004	611,062	167,855	273,674
Employee Benefits	**46,154**	34,398	27,863	22,738	14,653	10,871	9,213	7,201	5,092	4,452
Reinsurance Payables	**137,583**	77,974	98,273	81,695	87,192	55,654	91,923	59,620	82,275	61,325
Deferred Revenue	**17,820**	16,680	16,712	11,105						
Amounts due to Related Companies	**24**	39,988	-	47,499	12,362	2,976	1,884	2,451	13,932	21,207
Other Liabilities	**398,032**	374,592	331,510	299,948	248,007	206,877	248,222	194,112	129,751	80,026
Current Tax Liabilities	**15,537**	-	-	-	-	-	-	-	-	-
Short Term Borrowings	**50,000**	-	-	-	-	-	-	-	-	-
Bank Overdrafts	**119,063**	86,734	11,590	4,242	16,412	10,180		578	2,157	13,053
Total Liabilities	**5,643,464**	4,367,603	3,231,733	2,672,247	2,214,623	1,736,665	1,670,637	1,450,054	711,126	588,372
Total Equity and Liabilities	**7,475,158**	5,829,106	4,646,633	4,413,700	2,732,163	2,140,725	1,939,293	1,617,914	808,218	659,751

Ten Year Graphical Presentation

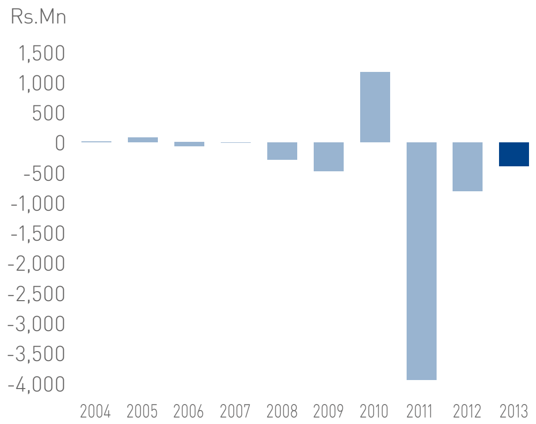
Profit After Tax - Company



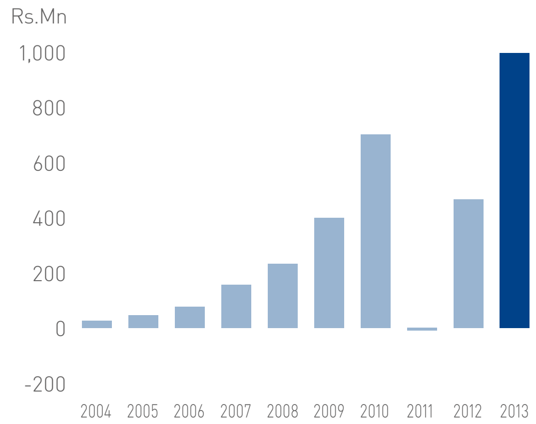
Profit After Tax - Life



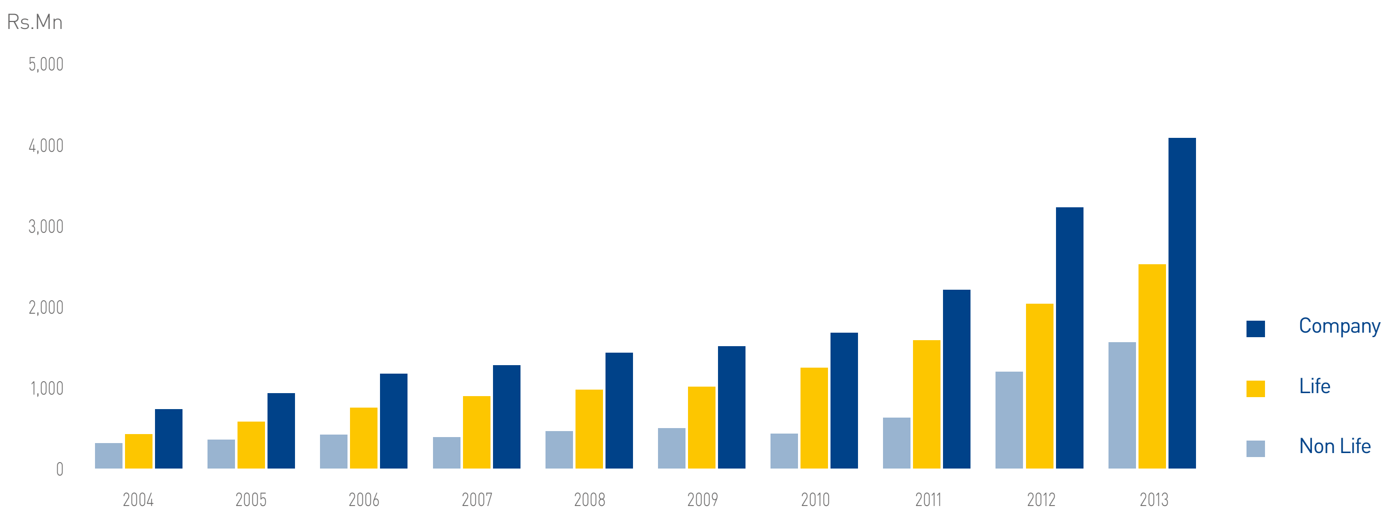
Profit After Tax - Non Life



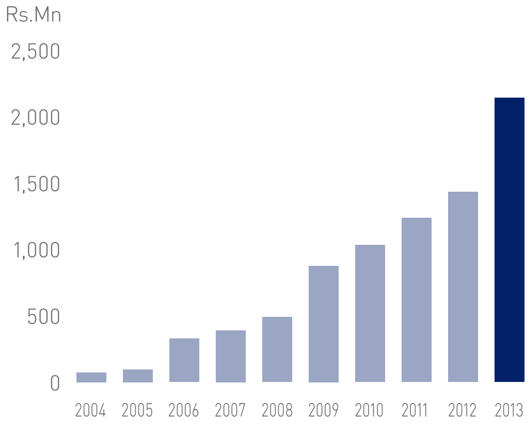
Investment and Other Income - Company



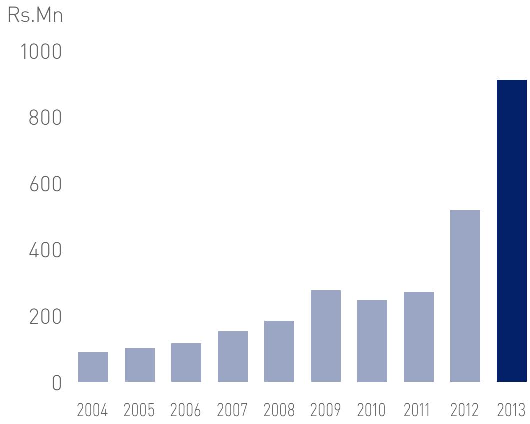
Life, Non Life and Company GWP



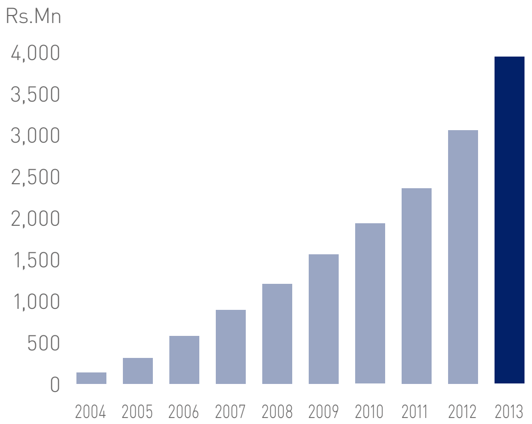
Net Claims - Life



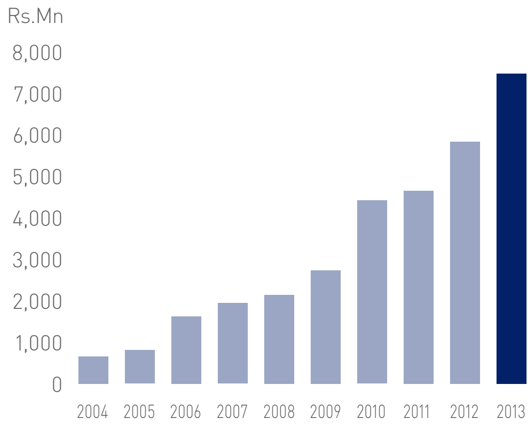
Net Claims - Non Life



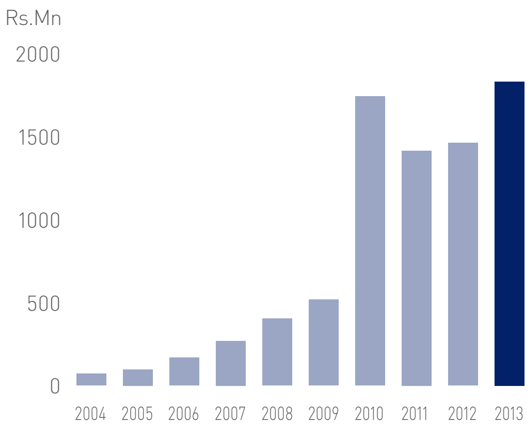
Life Fund



Total Assets - Company



Net Assets - Company



Glossary of Insurance Terms

Aa

Accumulation
The situation where a significant number of risks insured or reinsured with the same Company may be affected simultaneously by a loss event.

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)

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.

Actuary
An expert concerned with the application of probability and statistical theory to problems of insurance, investment, financial management and demography.

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.

Assessor
Professional employed by an insured to look after his interest in a loss settlement

Assured
Assured means the same as insured but is more commonly used in life insurance / insurance and marine insurance.

Bb

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.

Cc

Cedent
Insurer who cedes business under a reinsurance agreement (Client of reinsurance Company)

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 reporting date being the sums due to beneficiaries together with claims handling expenses, less amounts already paid in respect of those claims.

Claim Ratio (Net loss ratio)

$$\frac{\text{Net claims incurred}}{\text{Net Earned Premium}}$$

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.

Claims Incurred But not Reported (IBNR)

A reserve to cover the expected cost of losses that have occurred by the reporting date but have not yet been reported to the insurer.

Claims Outstanding - Non Life

The amount provided to cover the estimated ultimate cost of settling claims arising out of events which have occurred by the reporting date, including IBNR claims and claims handling expenses, less amounts already paid in respect of those claims.

Clause

A section of a policy contract or endorsement dealing with a particular subject.

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.

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.

Consequential Loss

A loss directly arising from another loss.

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.

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.

Cover Note

Temporary written evidence of insurance cover

Credit Life Insurance- {Decreasing Term Assurance Policy (DTAP)}

Term Life Insurance issued through a lender or lending agency to cover payment of a loan, instalment purchase or other obligation, in case of death

Credit Risk

The potential for loss due to the failure of a borrower, endorser, guarantor or counterparty to repay a loan or honour another predetermined financial obligation.

Cyclone, Storm, Tempest

Violent commotion of the atmosphere accompanied by rain, hail or snow

Dd

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.

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 reporting date.

Deferred Expenses / Deferred Revenue

The Company recognized Deferred expenses (acquisition cost) and Deferred Revenue (Reinsurance Commission) under Non Life insurance Asset and Liability.

Glossary of Insurance Terms

Ee

Earned Premium

Written premium adjusted by the unearned premium reserve at the beginning and end of the accounting period.

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.

$$\frac{\text{Net Profit after Tax}}{\text{Weighted Average No of Shares}}$$

Earthquake

A sudden violent shaking of the ground, caused by movements within the earth's crust.

Embedded Value

The combination of the present value of the future profits of the existing book of business and net assets.

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) sometimes carries an additional or a return premium.

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.

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.

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.

Explosion

The sudden and violent rendering of any object by force of internal steam or other fluid pressure causing bodily displacement of any part of such object, together with forcible ejectment of any contents.

Ff

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.

Financial Risk

The risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non–financial variable that the variable is not specific to a party to the contract.

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

Gg

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 Written Premium - Life

Premium to which the insurer is contractually entitled and received in the accounting period.

Gross Written Premium - Non Life Insurance

Premium which an insurer is contractually entitled to receive from the insured in relation to contracts of insurance.

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.

Hh

Healthcare

An insurance contract which provides medical coverage to a policyholder.

Ii

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)

Insurance Contract

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 Liabilities - Non-life

This comprises the gross claims reserve, unearned premium reserve net of re-insurance and the deferred acquisition expenses.

Insurance Provision - Long Term

The fund or funds to be maintained by an insurer in respect of its Long Term Insurance business in accordance with the Regulation of Insurance Industry Act No. 43 of 2000.

Insurance Risk

The risk of loss due to actual experience being different than that assumed when an insurance product was designed and priced. Insurance risk exists in all our insurance businesses, including annuities and life, accident and sickness, and creditor insurance, as well as our reinsurance business.

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.

Interim Payments

Periodic payments to the policyholders on a specific type of policy

Investment Contract

A contract, which contains significant financial risk and may contain insignificant insurance risk, but does not meet the definition of insurance

Ll

Lapsed Policy

A policy terminated at the end of the grace period because of non-payment of premiums.

Liability Adequacy Test

An annual assessment of the sufficiency of insurance and/or investment contract with liabilities, to cover future insurance obligations.

Life Fund

Net Assets kept to meet the obligation towards Life Policyholders.

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.

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)

Mm

Malicious Damage

Unlawful damage caused by the malicious act of any person motivated by ill- will in circumstances not amounting to a riot.

Market Risk

The potential for a negative impact on the statement of financial position and/ or income statement resulting from adverse changes in the value of financial instruments as a result of changes in certain market variables. These variables include interest rates, foreign exchange rates, equity and commodity prices and their implied volatilities, as well as credit spreads, credit migration and default.

Maturity

The time at which payment of the sum insured under a Life Insurance policy falls due at the end of its term.

Glossary of Insurance Terms

Minimum Capital Required (MCR)

The statutory absolute minimum capital that is required to be maintained by insurers at all times. Whenever MCR falls below a pre-specified level, an appropriate supervisory action may be initiated.

Mortality

The ratio of deaths to the entire population or to a particular age group. It is globally expressed in numbers or rates and set out in mortality tables.

Nn

Net Asset Value

The value of all tangible and intangible assets of a company minus its liabilities. It reflects a company's fundamental value.

Net Asset Value per share (NAV)

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

Net Claims Incurred

Claims incurred less reinsurance recoveries.

Net Combined Ratio (Formula)

$$\frac{\text{Net Claims Incurred + Other Expenses}}{\text{Net Earned Premium}}$$

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 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).

Reinsurance Commission (net of acquisition expenses) and Expenses

$$\frac{\text{Excluding non-technical expenses}}{\text{Net earned premium}}$$

Net Loss Ratio - Non-Life

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

Net Written Premium

Gross written premium less reinsurance premium payable.

Non Life Insurance Business

Insurance (including reinsurance) business falling within the classes of insurance specified as Non Life Insurance Business, under the Regulation of Insurance Industry Act No. 43 of 2000

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.

Non-proportional Reinsurance

Under this form of reinsurance, the reinsurer assumes payment of the primary insurer's loss above a defined amount. The calculation of the reinsurance premium is based on claims experience with the type of business concerned

Oo

Operational Risk

The potential for loss resulting from inadequate or failed internal processes or systems, human interactions or external events, but excludes business risk.

Pp

Participating Business

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

Policy

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

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.

Portfolio Transfer

Amounts payable in respect of the transfer between a cedent and a reinsurer of the liability under 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

Premium

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

Price Earning Ratio

Market price of a share divided by earnings per share.

$$\frac{\text{Market price per share}}{\text{Earning per share}}$$

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

Proportional Reinsurance

Form of reinsurance in which the sum insured written by the primary insurer is divided proportionally between the primary insurer and the reinsurer, and the reinsurer is allocated a corresponding share of the premiums and claims.

Proposal Form

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

Rr

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 Inwards

The acceptance of risks under a contract of reinsurance.

Reinsurance Outwards

The placing of risks under a contract of reinsurance.

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 Profit Commission

Commission received or receivable by the cedent (reinsured) from the reinsurer based on the net profit (as defined in the treaty) made by the reinsurer on the reinsurance treaty

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.

Glossary of Insurance Terms

Risk Based Capital (RBC)

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

Risk Based Capital Required (RCR)

Measures the required capital as per the proposed RBC framework.

Risk-based Capital Adequacy Ratio (CAR)

Measures the adequacy of Total Available Capital (TAC) in insurance and shareholder's funds collectively, to support the Risk Based Capital Required (RCR).

RCAR, expressed as a percentage, is computed for long-term and Non Life insurers as follows;

RCAR = (Total Available Capital/Risk Based Capital Required) * 100

Ss

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.

Segment

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

Solvency margin - Life

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

Solvency Margin - Non-life

The solvency margin is the difference between the value of the admissible assets and the value of the liabilities, required to be maintained by any insurer who carries on Non Life insurance business. The minimum required solvency margin shall not be less than highest of the following:

(a) Rs. 50 Mn; or

(b) A sum equivalent to 20 % of net written premium; or

(c) A sum equivalent to 40% of the average net outstanding claims for the three years immediately preceding the current year.

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.

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.

Tt

Technical Reserve

This comprises of the claims reserve net of reinsurance, unearned premium reserve net of reinsurance and the deferred acquisition expenses.

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 'activities.

Title Insurance

Insurance which indemnifies the owner of real estate in the event his/her clear ownership of property is challenged by the discovery of faults in the title that was passed to him.

Total Available Capital (TAC)

Measures the actual available capital held by an insurer eligible to calculate capital adequacy.

Uu

Underinsurance

Insurance where the sum insured is less than the full value at risk and would not be adequate to meet a total loss.

Underwriter

Member of an insurance company that acts on behalf of his or her employer to negotiate, accept or reject the terms of a insurance contract. They are responsible for ensuring the quality and reliability of risk-transfer solutions. Their job is to develop products that best reflect the characteristics of the risks and clients' needs.

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.

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).

Unearned Premium

The portion of premiums already taken into account but which relates to a period of risk subsequent to the reporting date.

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)

Vv

Vanishing Premium Concept

Policies which require premium payments for a years and thereafter the policy "paid for itself" out of interest earnings.

Ww

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.

Written Premium - Non Life Insurance Business

Premiums which an insurer is contractually entitled to receive from the insured in relation to contracts of insurance. Under the annual basis of accounting, these are premiums on contracts entered into during the accounting period and adjustments arising in the accounting period to premiums receivable in respect of contracts entered into in prior accounting periods.

Notice of Meeting

NOTICE IS HEREBY GIVEN that the 15th Annual General Meeting of ASIAN ALLIANCE INSURANCE PLC (the Company) will be held on 27th March 2014 at 10.00 a.m.at 4th Floor, Central Hospital (Private) Limited, No. 114, Norris Canal Road, Colombo 10.

AGENDA

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 2013 and the Report of the Auditors thereon.

2. To re-elect Mr. M. Ray Abeywardena who retires by rotation in terms of Articles 98 of the Articles of Association of the Company as a Director of the Company.

3. To re-appoint Messrs KPMG, Chartered Accountants as Auditors of the Company for the ensuing year and to authorize the Directors to determine their remuneration.

4. To transact any other business of due 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, 13th February 2014

Note:

- A Member entitled to attend and vote at the meeting, is entitled to appoint a Proxy to attend and vote instead of him/her.
- A Proxy need not be a Member of the Company.
- A Member wishing to vote by Proxy at the meeting may use the Form of Proxy form enclosed.
- Any member or Proxy holder attending the meeting is kindly requested to bring this report.
- The completed Form of Proxy should also be deposited at the Registered Office of the Company, 7th Floor, Millennium House, 46/58, Nawam Mawatha, Colombo 2 not less than forty eight (48) hours before the time appointed for holding of the meeting.
- For security reasons, Members. Proxy holders are kindly advised to bring along with them their National Identity Card or similar for of acceptance identity when attending the meeting.

Form of Proxy

I/We...

of...

being a Member/Member* of the above named Company, hereby appoint ....

.... of ....failing him/her.

1. Mr. Asoka K. Pathirage or failing him
2. Mr. J. H.P. Ratnayeke or failing him
3. Mr. Ramal G.Jasinghe or failing him
4. Mr. SujeewaRajapakse or failing him
5. Mr. T. M. IfthikarAhamed or failing him
6. Mr. M. Ray Abeywardena or failing him
7. Mr. J. W. H. Richters or failing him
8. Mr. J. K. Mukhi or failing him

As my/our* Proxy to represent me/us* and vote and speak for me/us* on my/our* behalf at the 15th Annual General Meeting of the Company to be held on 27th March 2014 at 10.00a.m.at 4th Floor, Central Hospital (Private) Limited, No. 114, Norris Canal Road, Colombo 10 and at every poll which may be taken in consequence of the aforesaid meeting and at any adjournment thereof.

I/WE INDICATE MY/OUR VOTE ON THE RESOLUTIONS BELOW AS FOLLOWS;

	For	Against
1. To receive and consider the Report of the Directors on the State of Affairs of the Company and the Statement of Audited Accounts for the year ended 31st December 2013 and the Report of the Auditors thereon.		
2. To re-elect Mr. M. Ray Abeywardena who retires by rotation in terms of Articles 98 of the Articles of Association of the Company as a Director of the Company		
3. To re-appoint Messrs KPMG Ford, Rhodes, Thornton & Co., Chartered Accountants as Auditors of the Company for the ensuing year and to authorize the Directors to determine their remuneration		

Signed this .... day of .... 2014.

....
Signature of shareholder

Note :

(i) Please delete the inappropriate words.

(ii) Instructions for completion of Proxy are noted below.

(iii) A Proxy need not be a member of the Company.

(iv) Please mark ¨X¨ in appropriate cages, to indicate your instructions as to voting.

Instructions as to completion

1. Kindly perfect the Form of Proxy by filing in legibly your full name, National Identity Card/ Passport/ Company Registration Number, your address and your instructions as to voting and by signing in the space provided and filing in the date of signature. Please ensure that all details are legible.

2. Please mark "X" in appropriate cages, to indicate your instructions as to voting on each resolution. If no indication is given, the Proxy holder in his/her discretion will vote as he/her thinks fit.

3. To be valid, the completed Form of Proxy must be deposited at the Registered Office of the Company, 7th Floor, Millennium House, 46/58, Navam Mawatha, Colombo 2 not less than 48 hours before the time appointed for the holding of the meeting.

4. If you wish to appoint a person other than the Chairman (or failing him, one of the Directors) as your Proxy, please insert the relevant details (1) overleaf and initial against this entry.

5. In the case of a Company/Corporation, the Proxy must be under its Common Seal, which should be affixed and attested in the manner prescribed by Articles of Association/ Act of Incorporation.

6. In the case of a Proxy signed by an Attorney, a certified copy of the Power of Attorney should accompany the completed Form of Proxy for registration, if such Power of Attorney has not already been registered with the Company.

Investor Feedback Form

To request information to submit a comment / query to the company, please provide the following details and return this page to-

General Manager - Finance
Asian Alliance Insurance PLC
7th Floor, Millennium House,
46/58, Nawam Mawatha,
Colombo 02,
Sri Lanka.

T - +94 (11) 2315565 (Direct)
+94 (11) 2315555 Ext 565
F - +94 (11) 2314407
Email : saliya@asianalliance.lk

Name : ....

Permanent Mailing Address : ....

: ....

Contact Number/s

-Tel : ....

-Fax : ....

-E-Mail : ....

Name of Company (If Applicable) : ....

Designation (If Applicable) : ....

Company Address : ....

(If Applicable) : ....

Queries/Comments

....

....

....

....

....

....

....

....

Stakeholder Feedback Form

Your opinion matters. Please share your views with us.

Which stakeholder groups do you belong to?
(You may tick more than one)

- ☐ Employee
- ☐ Customer
- ☐ Shareholder
- ☐ Community
- ☐ Investor

Does the report address issues of greatest interest to you?

- ☐ Comprehensively
- ☐ Not at all
- ☐ Partially

Please identify any additional issues that you think should be reported on:

Do you have any additional comments on the report – or on AAI's performance in general?

Please tick here if we may include your comments in any future reports?

- ☐ Yes
- ☐ No

Would you like to be consulted when we prepare our next sustainability report?

- ☐ Yes
- ☐ No

Your name, email address and/or other contact details

Contact details
Asian Alliance Insurance PLC
Address: 7th Floor,
Millennium House,
46/58, Nawam Mawatha,
Colombo 02, Sri Lanka.

Corporate Information

Name of the Company
Asian Alliance Insurance PLC

Legal form
A Public limited liability Company incorporated on 21st April 1999 under the Companies Act, No.17 of 1982 in Sri Lanka. The Company was re-registered under the Companies Act, No.07 of 2007 and quoted Asian Alliance Insurance PLC is a composite insurance company licensed by the Insurance Board of Sri Lanka (IBSL).

Company Registration No
PQ 31

Stock Exchange Listing
The Ordinary Shares of the Company are listed on the Dirisavi Board of the Colombo Stock Exchange. Stock Exchange code for the Company share is "AAIC"

Tax Payer Identification Number (TIN)
134008202

VAT Registration Number
1340082027000

Fiscal Year-End
31st December

Principal Activities
Carrying on Life and Non Life Insurance business

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

Board of Directors
Ashok Pathirage - Chairman
Non-Executive Director

J.H Paul Ratnayeke - Deputy Chairman
Independent Non-Executive Director

T. M. Ifthikar Ahamed
- Managing Director

Ramal G. Jasinghe
- Director / Chief Executive officer

Sujeewa Rajapakse
Independent Non-Executive Director

Mohan Ray Abeywardena
Independent Non-Executive Director
Jatinder K. Mukhi
Independent Non-Executive Director

Johannes W. H. Richters
Independent Non-Executive Director

Executive Committee
T. M. Ifthikar Ahamed
- Managing Director
Ramal G. Jasinghe
- Chief Executive officer
Chula Hettiarachchi
- Chief Operating Officer - Life
Saliya Wickramasinghe
- General Manager Finance

Audit Committee
Sujeewa Rajapakse - Chairman
Mohan Ray Abeywardena
Jatinder K. Mukhi
Johannes W. H. Richters

Remuneration Committee
Ashok Pathirage - Chairman
Mohan Ray Abeywardena
J.H Paul Ratnayeke
Sujeewa Rajapakse

Investment Committee
Ashok Pathirage - Chairman
T. M. Ifthikar Ahamed
Ramal G. Jasinghe
Sujeewa Rajapakse
Jatinder K. Mukhi
Johannes W. H. Richters

Risk Committee
Jatinder K. Mukhi - Chairman
T. M. Ifthikar Ahamed
Ramal G. Jasinghe
Johannes W. H. Richters

Consultant Actuaries
Actuarial and Management
Consultants (Pvt) Ltd.,
1st Floor, 434, R A de Mel Mawatha,
Colombo 03.

NMG Consulting
A-13A-5 Block A, Northpoint,
Mid Valley City,
No 1 Medan Syed Putra Utara
59200 Kuala Lampur.

The Pinnacle Consulting Group Limited
Hong Kong

Auditors
External Auditors
Messers. KPMG (Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
Colombo 03.

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

Secretaries
P. R. Secretarial Services (Pvt) Ltd

Credit Rating (Fitch)
BBB+ (lka)

Bankers
Sampath Bank PLC
Hong Kong & Shanghai Banking Corporation Ltd
Pan Asia Banking Corporation PLC
Commercial Bank PLC
Nations Trust Bank PLC
Deutsche Bank AG
National Development Bank PLC

Reinsurance Panel
Lloyd's Syndicate CCL 3010
Lloyd's Syndicate Pembroke PEM 4000
Saudi Reinsurance Company
Asia Capital Reinsurance Company Limited
Kuwait Reinsurance Company
Trust International
Malaysian Reinsurance Company
Labuan Reinsurance Limited
General Insurance Corporation of India
Swiss Reinsurance Company Limited
Munich Reinsurance Company

Investor Relations
Hotline Number 011 - 2315565

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Asian Alliance Insurance

Rest Assured

A Softlogic Group Company