

Something extraordinary





extra

Something ordinary

Great synergies don't always mean great results. It takes hard work, intelligence and skill to explore and exploit the advantages of our business relationships to deliver optimum stakeholder value. And that's exactly what we're doing.

The year under review saw your company segregate our core operations, gaining more momentum on our trajectory of growth and delivering a classic example of how to keep driving an outstandingly successful enterprise to the next level, year after extraordinary year.

Asian Alliance. We're doing something extraordinary.



[www.asianalliance.lk/
integrated annual report](http://www.asianalliance.lk/integrated-annual-report)

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About this report

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As an insurance solution provider we have a fundamental role to play in the development of the societies in which we operate. The success of our customers and stakeholders underpins our commercial sustainability and our ability to deliver returns to our stakeholders over the long term. This forms the basis for integrated thinking and integrated reporting of the company.

Introduction

AAI is delighted to present its second Integrated Annual Report, which reinforces the Company's commitment to the Triple Bottom Line of Prosperity, People, and Planet (3 Ps) and raising the bar on the quality of our reports, presented thus far.

The integrated report covers the period 1 January 2014 to 31 December 2014. Material events following 31 December 2014 and up to approval of the report by the company's Board of Directors on 13th February 2015 have also been included. This report, aims to present a balanced and wholesome analysis of our strategy, performance and prospects, and builds on lessons learnt from our initial attempt at integrated reporting as demonstrated in our integrated annual report, published for the year ended 31st of December 2013.

Reporting framework

Our annual financial statements are prepared in accordance with Sri Lanka Financial Reporting Standards (SLFRS) and Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka). Financial and non – financial information presented, where applicable, conform to the requirements of 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 as amended, Statement of Recommended Practice (SoRP) and rules and regulations issued by the Insurance Board of Sri Lanka (IBSL).

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 (SEC) of Sri Lanka forms the base for areas on governance. The sustainability information contained in this report is prepared "In Accordance – Core" of Global reporting Initiatives (GRI) G4 Guidelines.

Outlook statements, management discussions and analysis may contain insights which are based on management interpretation of current and future events and the reader is advised to take cognisance of same.

AAI's integrated thinking

In preparing our report, the Company was guided by the International Integrated Reporting (IR) Framework issued by the International Integrated Reporting Committee (IIRC) in December 2013. We will continue to embrace the guiding principles and fundamental concepts contained in the International (IR) Framework to best serve the information needs of our stakeholders.

The Company's ability to create value depends on certain forms of capitals and the method in which AAI identifies and utilises the said capital. We apply the capitals model to manage and assess our ability to create value over time. We recognise that the various forms of capitals are interrelated and fundamental to the long-term viability of our business. Intellectual capital is integrated into the human, financial and manufactured capitals as this better reflects the nature of our business as a financial services organization.

Our report focuses on material developments and issues, and provides pertinent financial and non-financial performance indicators. We define a material development or issue as one that affects our ability to remain commercially viable and socially relevant to the communities in which we operate. Our effectiveness in managing these developments and issues, which are informed by our comprehensive stakeholder engagement activities, affect our ability to achieve our strategic objectives.



About this report

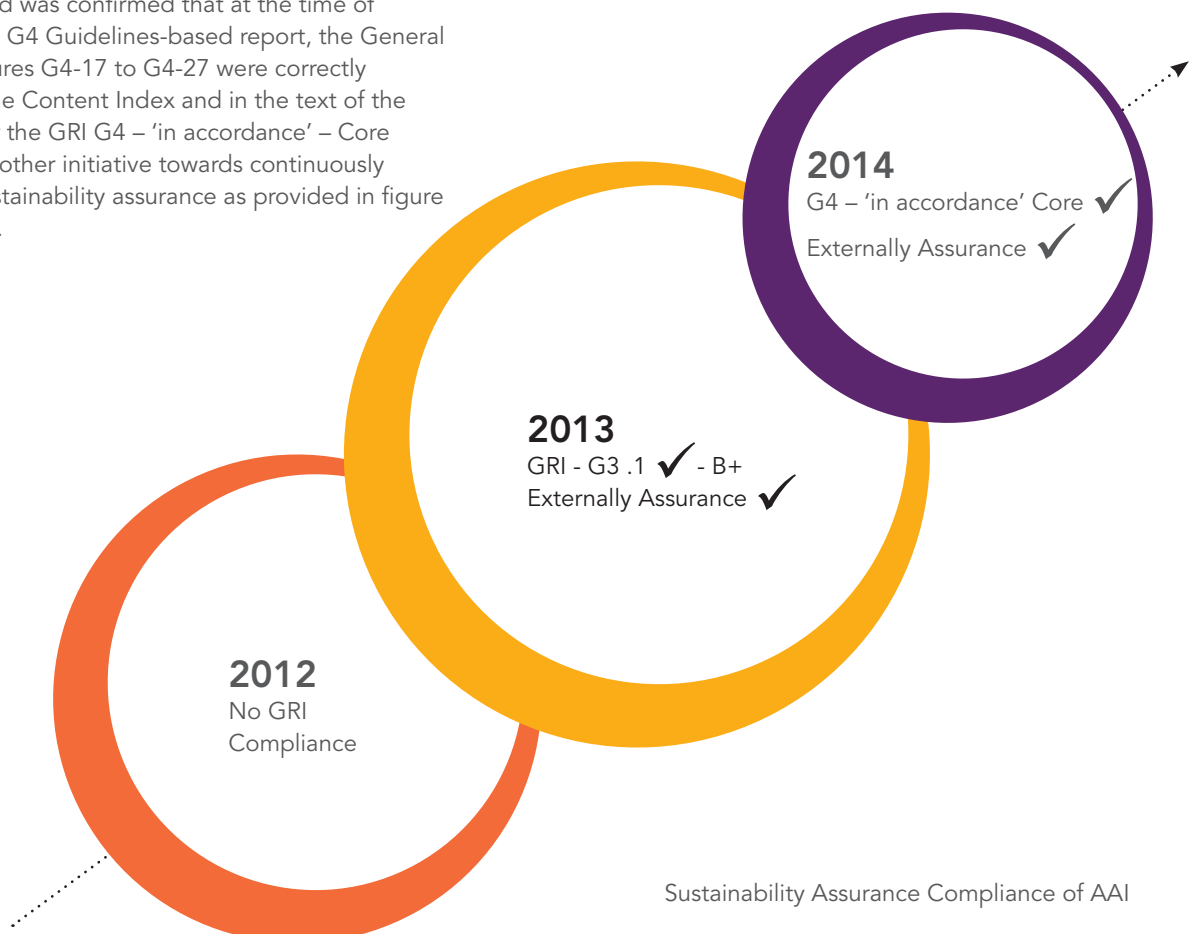
Assurance

Asian Alliance Insurance has recognized the importance of obtaining an independent assurance on the Sustainability sections from a competent professional firm.

The Financial statements and notes to the financial statements and sustainability section included in this report have been audited by Messrs. KPMG, who have expressed an opinion on the true and fair view of the annual financial statements as shown on Page 284 in this report. Reasonable Assurance on the financial highlights page 194 and Limited Assurance on the performance summary page 403 to 413.

Our Annual Report combines financial, corporate citizenship and environmental reporting into a single comprehensive report, which adheres to the Global Reporting Initiative (GRI), an internationally recognized standard for sustainability reporting.

Further, this report was submitted to GRI for a Materiality Matters Check and was confirmed that at the time of publication of the G4 Guidelines-based report, the General Standard Disclosures G4-17 to G4-27 were correctly located in both the Content Index and in the text of the final report as per the GRI G4 – ‘in accordance’ – Core Option. This is another initiative towards continuously improving our sustainability assurance as provided in figure 400 to this report.



The Board has ensured that the information contained herein is accurate and that the report provides an honest view of the company's performance and strategic priorities to investors and stakeholders.

For a comprehensive understanding of the assurance carried out and our sustainability performance, please refer the full sustainability report on page 147.

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 our shareholders who have requested for the same in writing. All other shareholders will receive this report in the form of a CD - ROM. The report will also be accessible on our website www.asianalliance.lk.

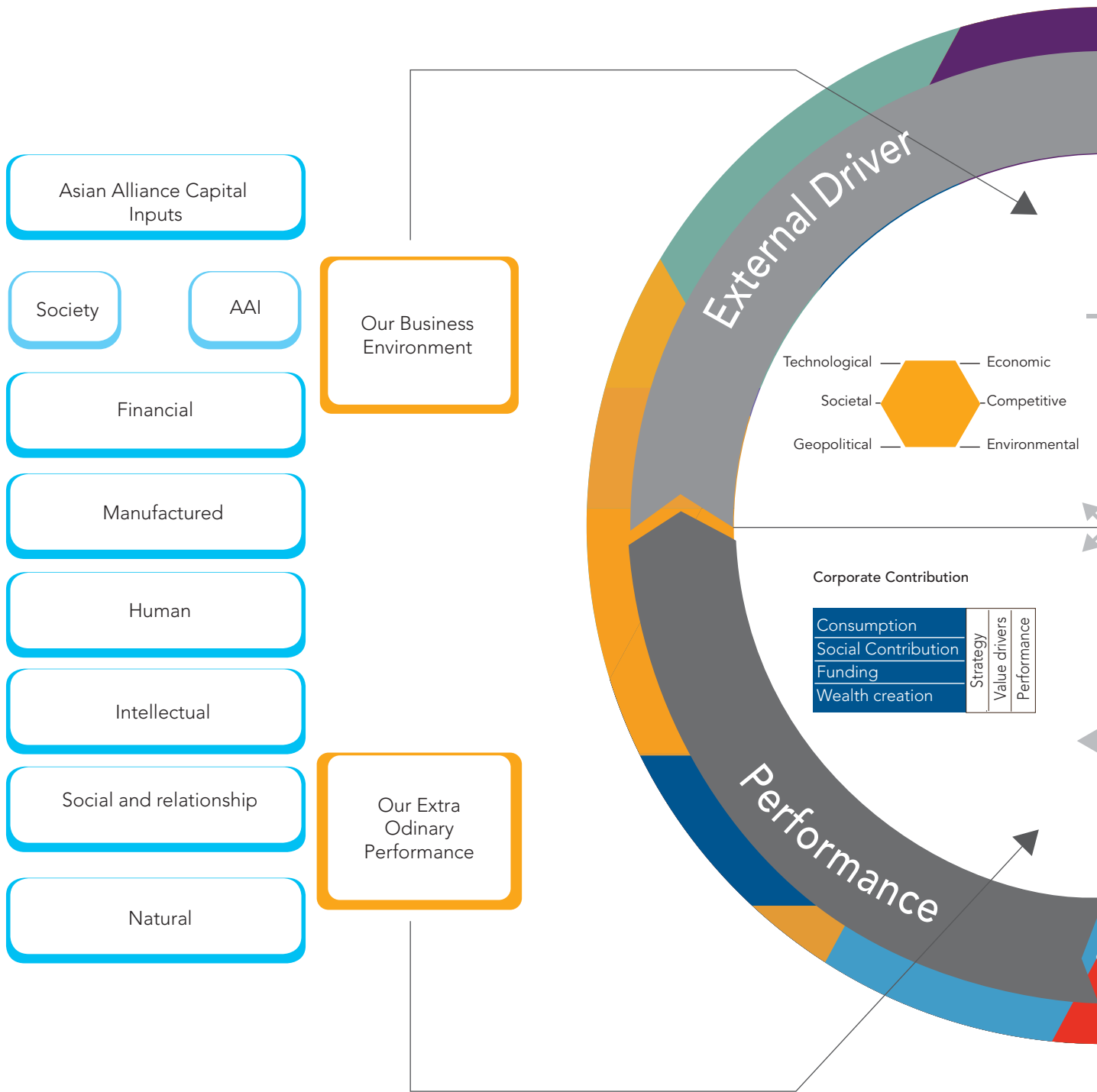
Feedback

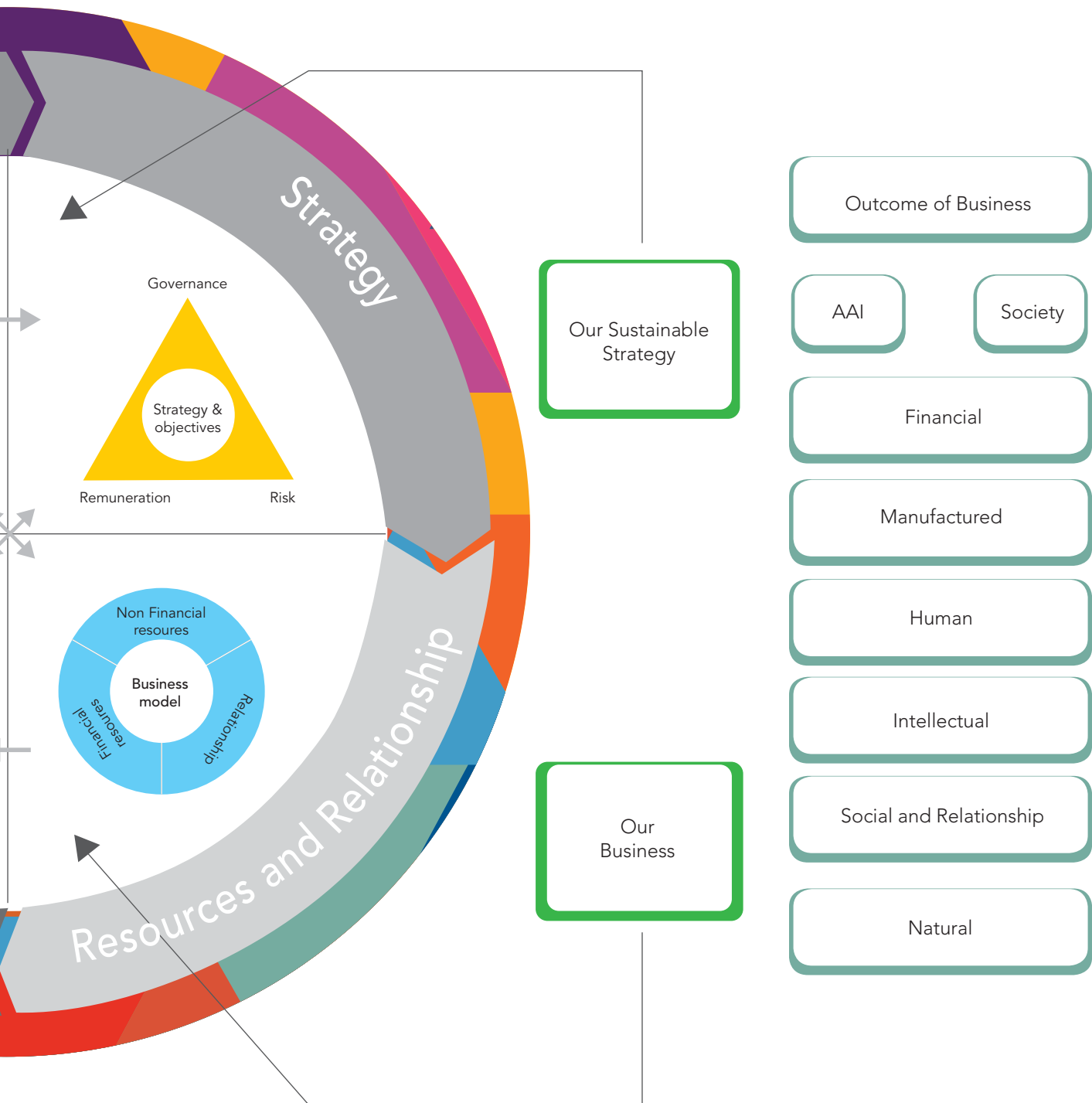
We welcome the views of our stakeholders on the integrated report and the way in which we approach our strategic priorities. Please contact us at nuwanp@asianalliance.lk with your feedback.

Address: Senior Manager - Finance
Asian Alliance Insurance PLC
46/58, 7th Floor
Millennium House
Nawam Mawatha
Colombo 02
Contact Number: 0112 315769

A feedback form is attached with this report on page 427.

How we're creating extraordinary value





An *extraordinary* company

Asian Alliance Insurance (AAI) is a composite insurance solutions provider since its inception in 1999 and celebrates 15 years of excellence in 2014, 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.

At AAI we ensure quality service underscored by the theme, “Rest Assured”, to people around us with an extraordinary and customized range of products.

AAI continued its growth momentum by elevating its rank to the 5th position in Sri Lanka’s Total Life Premium market .

Considered to be one of the fastest growing insurance companies in the country, the company further strengthened its credentials after its acquisition by the Softlogic Group, a leading conglomerate and one of Sri Lanka’s major corporate success stories with interests in retail, healthcare, IT, leisure, financial services and automobiles.

Vision

To be the benchmark provider of quality financial solutions.

Mission

To provide quality products and services through quality people and processes.

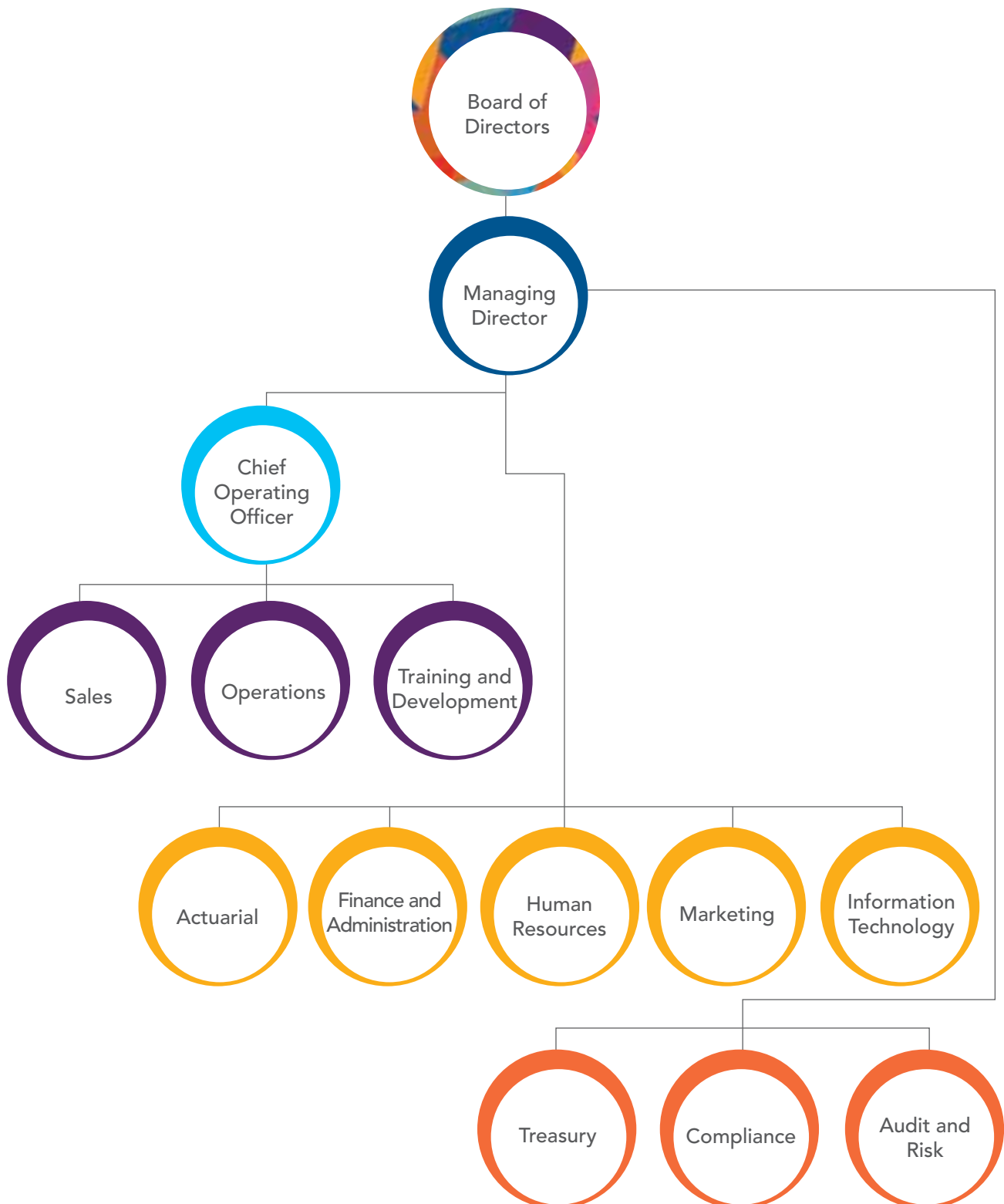
15 years of
excellence

The joint synergies have given rise to immense opportunities, especially in the healthcare sector, as the Softlogic Group accounts for 59% of the total private healthcare market in the country. 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 Entwicklungsgesellschaft 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 to investors.

The Company caters to a clientele that consists of corporates and individuals through a network of 67 branches strategically located across the island.

An extraordinary company

The Organisational Chart - Asian Alliance Insurance PLC



Ownership Structure



Extraordinary solutions

We will always be leaders rather than followers, producing innovative concepts and ideas in all aspects of our operations - technical, operational and strategic.

Click2Claim

Using the Click2Claim app designed by Asian Alliance Insurance, motor insurance policyholders no longer need to wait for an assessor to visit the scene of an accident in order to pass a claim. The policyholder can now take a photograph of the damage to their vehicle via their mobile phone and send it to the company through the app to be processed. The policyholder then drives away and continues with their busy schedules with minimum inconvenience.



'Drive Thru' Insurance

AAI offers customers this new feature to renew or obtain their motor insurance policy via the 'Drive Thru'. The service is offered for the first time in Sri Lanka by an insurance provider and offers customers the convenience of obtaining a motor policy by simply handing over a copy of the vehicle registration and their national identity card via the Drive Thru, thereby reducing the hassle of waiting in queues at customer care counters.



'365 day Insurance'

The branch concept was revolutionized into 365 day insurance to cater to the needs of our customers with time constraints. We have also embarked on a programme to upgrade the conventional branches to reflect the brand in a readily recognizable manner and to improve accessibility and convenience to our customers.



Self Service Insurance "kiosk"

The company's sales advisors can now process their paper work through the kiosk, without having to visit in the corporate office too. In time, this service will be released to customers so that they can service their policies at the click of a button.



Asian 'Health Alliance'

Health Alliance combines Asian Alliance Insurance with Asiri Hospitals and Apollo Hospitals India, with the aim of creating a premier health platform within the country so that our clients and their families will have access to the best foreign and local medical care



Digital Academy

AAI launched an information platform for industry professionals, a portal linked to the company website titled 'Asian Alliance Digital Academy'. The new portal will contain articles relating to insurance case studies from various industry professionals with a view towards providing those studying the subject with detailed insight. Related aspects such as career guidance and essentials to succeed as an insurance professional will be incorporated subsequently, including a 'blog' that will take questions and provide a forum for topical insurance matters.



Best Doctors


Revolutionizing the medical insurance landscape in Sri Lanka, AAI entered into a strategic tie-up with the world-renowned entity, Best Doctors Inc. Through this tie-up policyholders of Asian Alliance Medical Insurance get the opportunity for FREE consultation with the World's top 5000 doctors. This facility has been made available in Sri Lanka for the first time. Best Doctors® provides AAI customers with the knowledge to make informed medical decisions when it matters most.



Operational Dashboard

This is a monitoring tool which will help to evaluate the performance of each department at any given point of time. This tool act as a proactive engine where the management team can new policies issued, claims processed etc. by its respective operational stage. This helps identify delays and minimize inefficiencies in the respective operational process.





An
extraordinary
brand

- ▶ Asian Alliance Insurance was launched in 1999 as a brand providing 'tailor-made insurance' solutions. Today, 15 years on, the brand has evolved and is seen as a premier insurance company engaged in providing genuine protection to its customers and is widely respected by stakeholders and peers alike.



▶ Life Corporate Head-Office



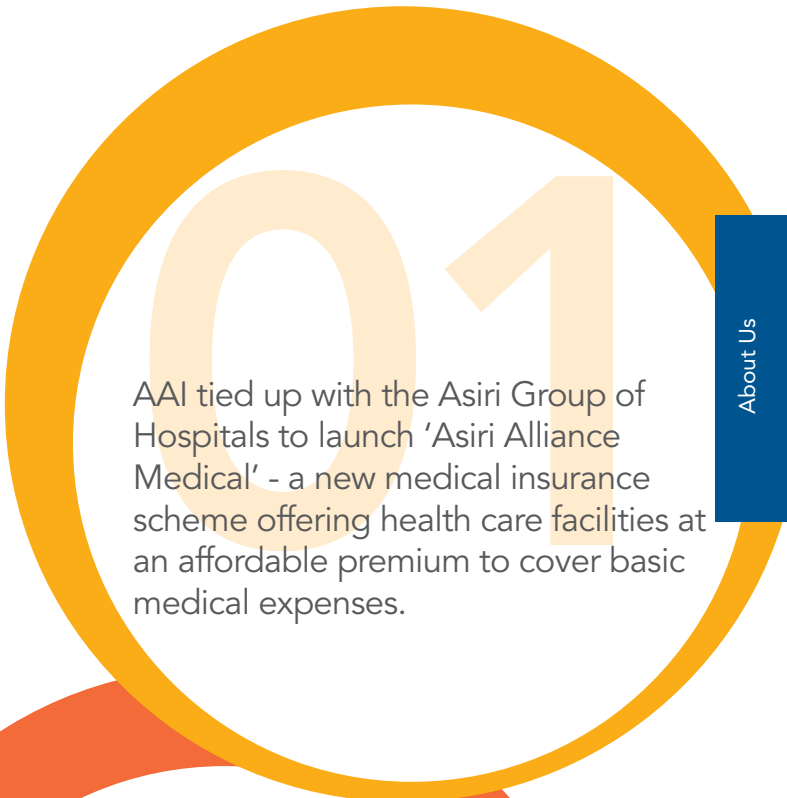
▶ General Corporate Office

Great synergies for great results



Our greatest advantage right now are the extraordinary synergies we have achieved through our parent company Softlogic Holdings. Softlogic is a massively diversified conglomerate with an extensive portfolio including retail, leisure, automobiles, healthcare, information technology and financial services. AAI is leveraging on these group synergies to enhance the value of the AAI brand even further.

AAI has operational synergies with the Softlogic Group through its presence in healthcare and financial services. The company also has access to the Group's network of branches and retail outlets spread across the country.



About Us

AAI tied up with the Asiri Group of Hospitals to launch 'Asiri Alliance Medical' - a new medical insurance scheme offering health care facilities at an affordable premium to cover basic medical expenses.



Expand Foot Print via executing Hub and Spoke strategy.



AAI will also partner Softlogic with regard to insuring all consumer goods offered by the retail sector of the Group, including consumer electronics, computer software and hardware.



AAI's General Insurance business unit will partner with Daihatsu and Ford to offer tailormade motor insurance to owners of these brands.

An extraordinary year



The Company recorded historical financial performance recording Gross Written Premium of Rs. 4.8 billion and Profitability of Rs. 752 million

Asian Alliance produced an extraordinary financial and operational performance in 2014. We concluded the year on an exuberant note, recording the highest-ever top line and bottom line numbers by leveraging on our strategic business pillars to deliver excellent outcomes for our stakeholder community.



Celebrating 15 years of Excellence

The Company had much to celebrate in the year under review – extraordinary financial performance, which was capped by our 15th anniversary celebrations, where the entire Company came together as one to hail, reflect and rejoice in our journey thus far. Our outstanding employees were recognized and rewarded at the annual Employee Awards, where our people take centre-stage



Launch of five New products

Operating on a platform of protection, Asian Alliance designs sustainable products and services that deliver excellence to customers. Our vision to compete on the basis of superior service compelled us to pioneer innovative products during the year that leveraged on a strong technology component, enhanced convenience and efficiency for customers.



Opening the General Insurance Corporate Office

Asian Alliance General will operate from its well-appointed new premises at No. 65, Ward Place, Colombo 07. Centrally located, the new location and high visibility will help us provide focused General insurance services to customers who value service



Recognition from Business Excellence Awards

The Company was awarded Silver in the 'Insurance Category' with a further Silver Award for Overall Excellence in the 'Large Companies Category' at the 'National Business Excellence Awards 2014'.



Six Recognitions for the Annual report 2013 ICASL, LACP, ARC

Asian Alliance Insurance PLC is committed to ensuring the highest level of transparency and accountability across our enterprise and has made sustained efforts to improve financial reporting with each passing year. Our efforts were fruitful with Annual Report 2013 themed Future of Evolution receiving many awards and accolades and from prestigious bodies.



The 13th Annual Life Sales Convention of Asian Alliance Insurance

Life Sales Convention was held under the theme "Tradition of Excellence", recognising the determined, unwavering efforts and remarkable skills of the Asian Alliance sales team who continue the tradition of excellence within the company and the industry. The performance of each and every individual in the sales team was measured on Quantity, Quality and Consistency in endorsing the continuously improving productivity standards of Asian Alliance Life.



Re-launch of corporate web page and Facebook page

The segregation of insurance operations as per the regulations necessitated a new look and feel for the Asian Alliance brand and the Company was quick to re-launch an attractive web page and engaging Facebook page to sustain dialogue with customers and other stakeholders.



Opening of 14 New Branches

Our Company was successful in narrowing the gap between customers and products by undertaking branch expansion in strategic locations around the country to increase greater convenience. The Company was able to derive further efficiencies by leveraging on the parent group Softlogic's extensive retail network.

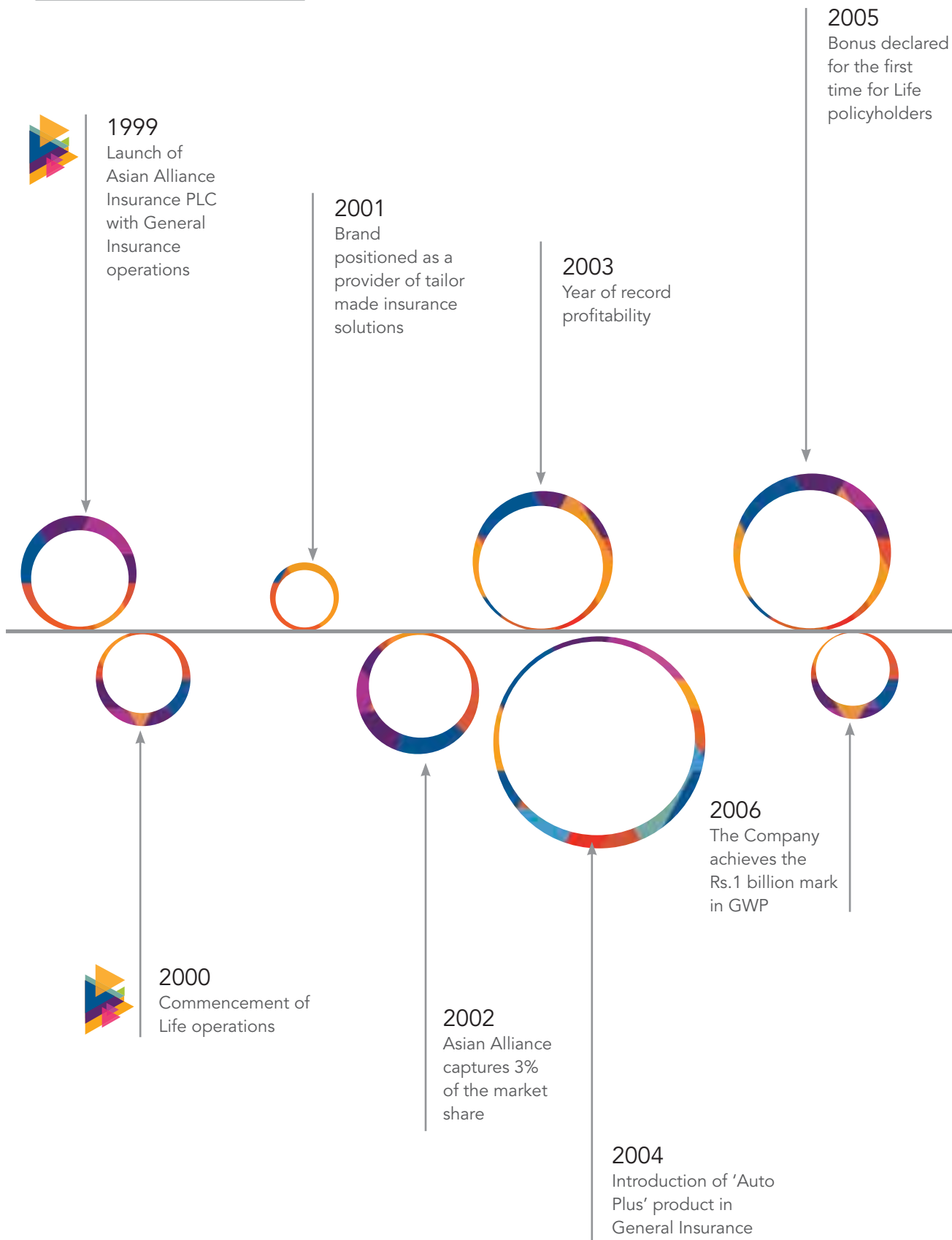


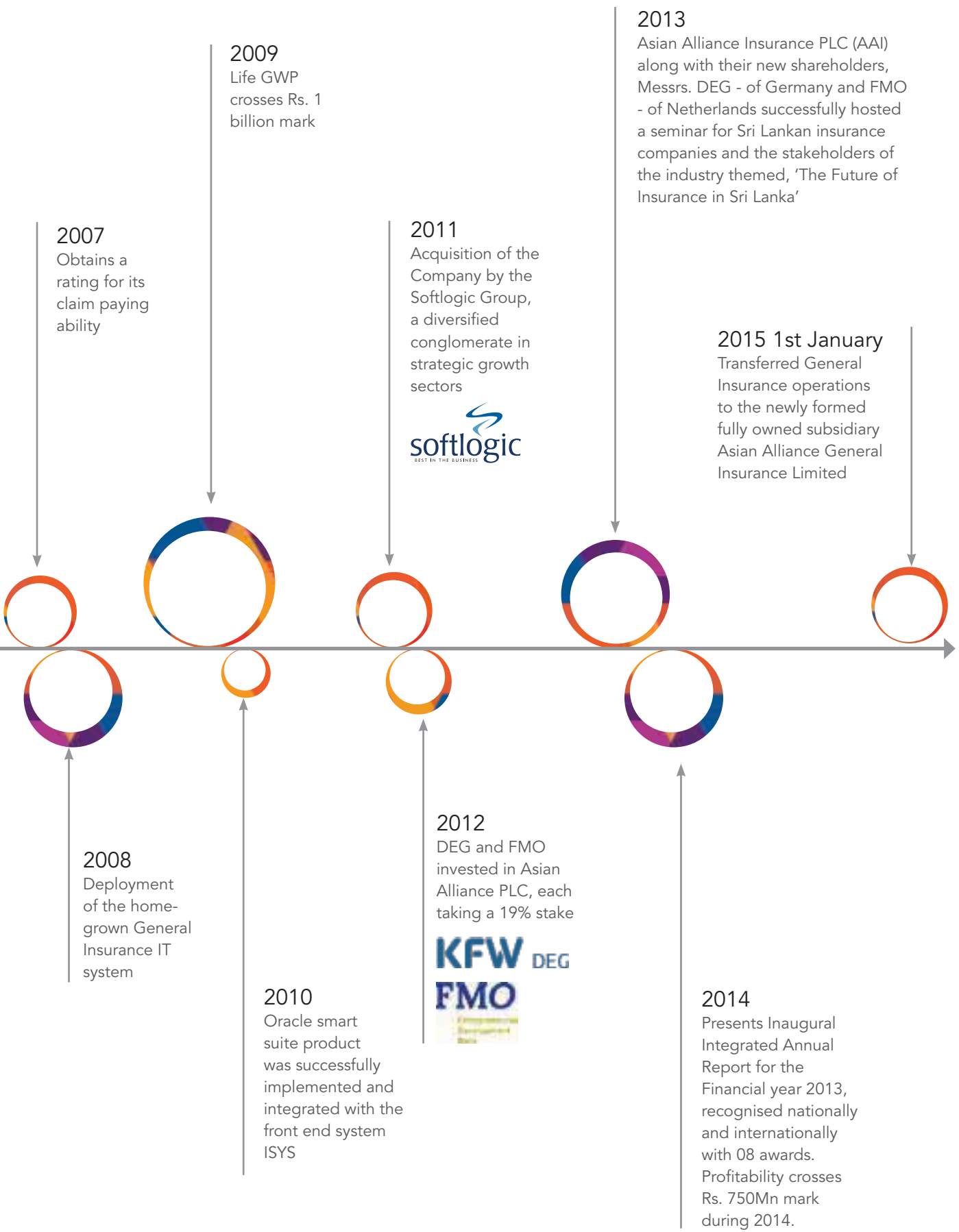
Launch of Bundled Innovative Solutions

The General insurance business is coming back strongly with novel concepts and innovations that are oriented towards customer convenience, with the new "DRIVE THRU" concept and "365 DAY INSURANCE" that will primarily target Motor Customers.

Our Company is proud of the unique products and services delivered to our customers during the year which were underscored by the three pillars of innovation, customer service and value addition, the key drivers of our General Insurance business strategy.

An extraordinary journey





A truly extraordinary performance

752 ▲
Rs. Mn
Profit

108% ▲
PAT Growth

20.05 ▲
Rs.
EPS

17% ▲
Top Line

+4.7 ▲
Rs. Bn
Combine GWP

97% ▲
Investment Income

+10 ▲
Rs. Bn
Total Assets

33% ▲
Life Fund

108% ▲
DPS

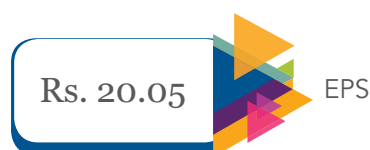
▶ 2014 has been one of AAI's most impressive year in terms of performance, with a number of key indicators significantly improving to "best ever" levels.

Financial Highlights

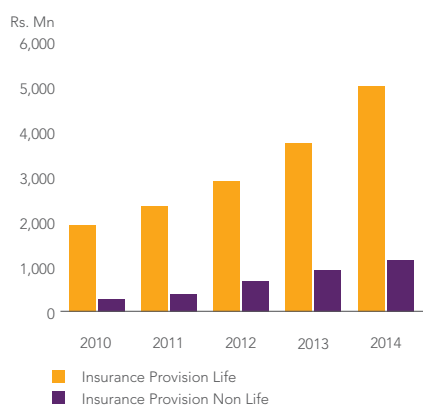
In Rs.Mn	2014	2013	2012	Growth 14 Vs 13
Gross Written Premium - Life	3,048	2,520	2,034	21%
Gross Written Premium - General	1,725	1,556	1,190	11%
Profit Before Tax	765	394	75	94%
Total Assets	10,323	7,475	5,701	38%
Total Net Assets	2,371	1,832	1,462	40%
Life Fund	5,224	3,938	2,904	33%
General Fund	1,139	921	682	24%
Market capitalization	5,430	3,206	3,338	38%

Key Ratios

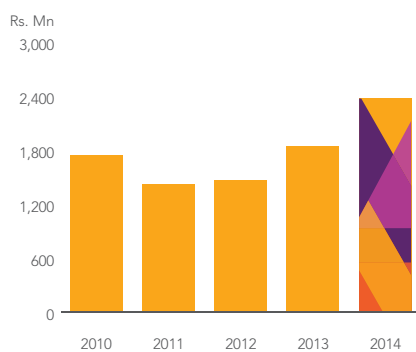
	2014	2013	2012
EPS (Rs)	20.05	9.66	1.95
ROCE (%)	39.00	21.00	5.30
Net Assets Per Share (Rs)	63.20	48.85	38.97
Price per Book Value (Times)	2.26	1.75	2.28
PE Ratio (Times)	7.13	8.85	45.54



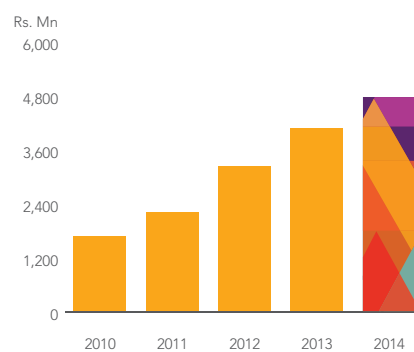
Insurance Provision



Net Assets



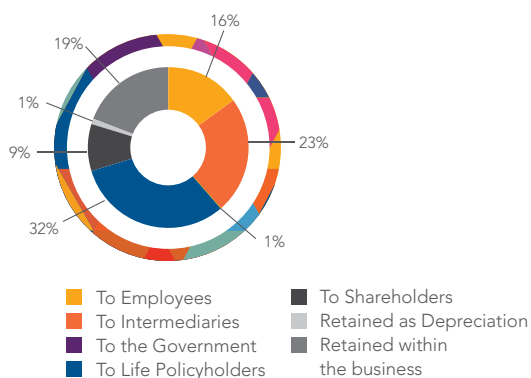
Consolidated GWP



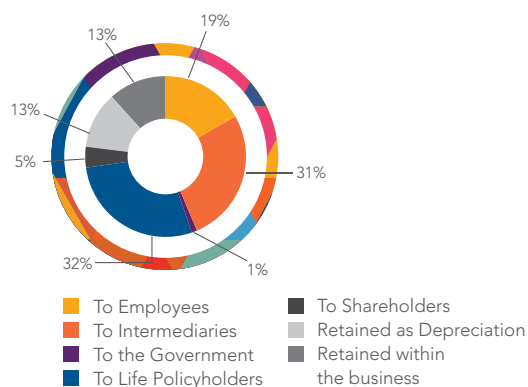
Triple Bottom Line highlights

Prosperity

Prosperity - 2014



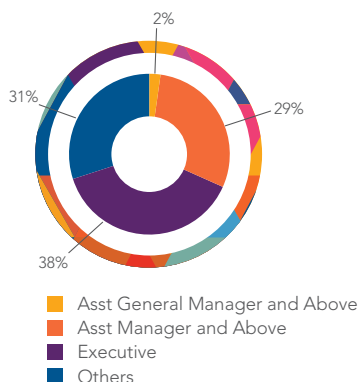
Prosperity - 2013



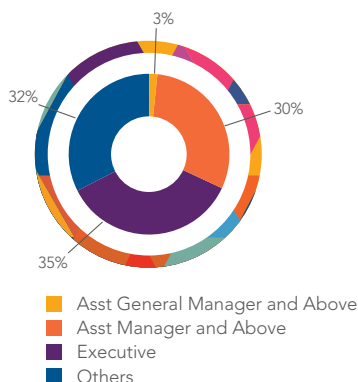
	2014	2013
To Employees	603,009	412,291
To Intermediaries	926,101	855,829
To the Government	3,787	3,355
To Life Policyholders	1,253,098	842,119
To Shareholders	367,500	180,000
Retained as Depreciation	48,178	37,611
Retained within the business	752,111	362,335
	3,953,784	2,693,540

People

People - 2014



People - 2013



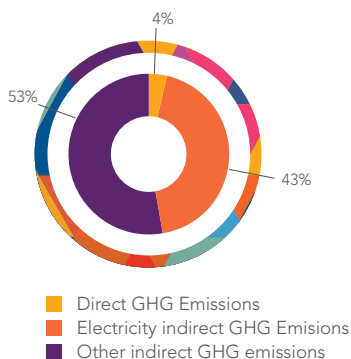
Team by employment type (Number of Employees)

	2014	2013
Asst General Manager and Above	18	12
Asst Manager and Above	215	186
Executive	278	220
Others	219	200
Total	730	618

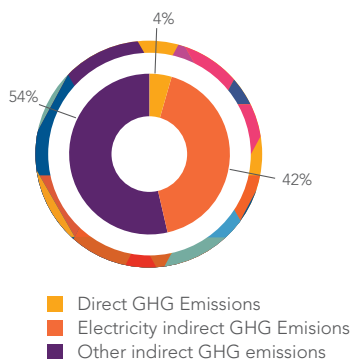
	2014	2013
Number of training programs	66	58
Revenue per employee (Rs.'000)	6,539	6,856
Profit per employee (Rs.'000)	1,030	586
Number of Branches	67	53

Planet

Planet (Tonnes of CO2 eqvi) - 2014



Planet (Tonnes of CO2 eqvi) - 2013



	2014	2013
Direct GHG Emissions (Tonnes of CO2 eqvi)	17.35	14.93
Electricity indirect GHG Emissions (Tonnes of CO2 eqvi)	207.7	140.6
Other indirect GHG emissions (Tonnes of CO2 eqvi)	250.01	179.38
Total	475.06	334.91







Something extraordinary

Leadership that delivers results

Strong leadership forms the backbone of any organization and our company has become a crucible for nourishing and mentoring leaders with a searing vision for the Company's future.

Asian Alliance Insurance is engendering a new breed of leaders who are true catalysts in transforming the organization from good to great.

Something extraordinary

Chairman's Statement

"The combined strength of a knowledgeable workforce, extensive business intelligence and analytical expertise, strategic capabilities and planning assets, robust relationships with strategic partners, cutting-edge technology and product capabilities and pervasive presence is the fuel that drives our success."



Ashok Pathirage
Chairman



Something extraordinary

Chairman's Statement

Q: What is the vision that inspires such a dynamic performance by the company?

A: The Softlogic Group is about entrepreneurship. We have a purpose to fulfill; we will create value in all businesses we are involved in - and Asian Alliance Insurance is one of our main focuses in the Financial Services arena. We are not satisfied with being merely good; and will strive, through the unremitting pursuit of excellence, to achieve an unrivalled market position in the insurance industry.

our business to deliver the best value consistently to all our stakeholders. It is an ongoing process and we are aware of the related challenges for the entire organisation. The integrated approach to reporting is based on our vision of doing the right business along with the awareness of the scale and the nature of our Company's impact on social and intellectual capital, accompanied by the principle that 'no business can develop responsibly without a strategic approach to sustainable development'.



I am pleased to report on the performance for the year 2014 using this new format for the benefit of our discerning shareholders and investors. I hope that it enables all our stakeholders to clearly understand the nature of this very complex and competitive industry and how the company fared during the year. We are confident that an 'Integrated' approach will be pivotal in enabling our business to deliver the best value consistently to all our stakeholders.

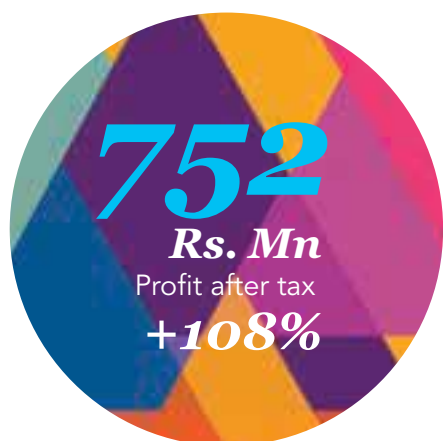
Q: What benefits do you feel will accrue to your organization from this 'Integrated' approach to your financial reporting?

A: I am pleased to report on the performance for the year 2014 using this new format for the benefit of our discerning shareholders and investors. I hope that it enables all our stakeholders to clearly understand the nature of this very complex and competitive industry and how the company fared during the year. We are confident that an 'Integrated' approach will be pivotal in enabling

Q: How do you perceive the prevailing macro-economic landscape during the year 2014?

A: Sri Lanka's economy was robust in 2014: growing by 7.6% in QE1, 7.8% in QE2 and 7.7% in QE3 amid prolonged drought and adverse weather conditions. Sri Lanka's external sector remained stable with the BOP recording a surplus of USD 1,375.7 Mn in 2014 (USD 985.4 Mn in 2013) primarily led by workers' remittances and tourist earnings; and FII's and FDI's, which surpassed USD 7 Bn mark. Further,

the trade deficit widened 9.1% to USD 8,299 Mn. Foreign Reserves peaked to USD 9 Bn before settling at USD 8.2 Bn by end 2014 (equivalent of 5.2 months of imports). The Sri Lankan Rupee remained stable amidst global currency volatility with a marginal depreciation of 0.2% by end 2014 against the US Dollar. Two international Sovereign bond issues aggregating to USD 1.5 Bn were successfully executed during the year. Sri Lanka chose a path of high growth, whilst planning for a low inflation trajectory. Inflation, which showed a mixed movement, however, maintained its moderate pace in 2014 with annual average inflation declining to 3.3% in December 2014 (6.9% in 2013). This is the longest period that both year-on-year inflation (71 months) and annual average inflation (65 months) have remained at single digit levels.



The unemployment rate remained low at 4%. The ASPI gained 23.4% during 2014, whilst interest rates trended downwards with benchmark 12-month TB rate declining to 6.0% and Bank Lending rates AWPR declining more substantially to 6.33% from 10.13% a year earlier.

Sri Lanka has seen a big change in the political landscape of the country. Looking ahead, we expect growth in excess of 7% to be achieved over the next year with vastly improved international relations allowing for greater investor interest in the country. It is imperative that we have a stable and relatively low interest rate structure that will facilitate growth.

Q: What were the key highlights of AAI's performance during 2014?

A: Asian Alliance has posted outstanding top line growth recording Gross Written Premium of Rs. 4.8 Bn for 2014, which is a growth of 17% compared to the previous year with Life Premiums increasing 21% to record Rs. 3.0 Bn and General Insurance Premiums increasing 11% to Rs. 1.7 Bn. These growth rates are well above industry standards and confirm the success of the strategies that are being executed by the dedicated and talented team at Asian Alliance. The results for 2014 also saw Net Earned Premium growing by 28% to Rs. 4.1 Bn, whilst Total Net Revenue increased by 44% to Rs. 6.1Bn. Total Assets of the company surpassed the 10 Bn mark to Rs. 10.3 Bn as at December 2014 and had increased by 38% from Rs. 7.5 Bn the previous year. Equity and Reserves of the Company also surged to reach Rs. 2.5 Bn, increasing by 40% versus the previous year. The Policy Holders' Funds as at end December was Rs. 6.4 Bn and had grown by 31% compared to the previous year.

Q: How is the Company facing the imminent regulatory change to a risk based capital regime?

A: Our progressive and proactive business approach transformed threats to opportunities in the past. The regulatory changes will encourage market consolidation. The Risk-Based Capital (RBC) regime, segregation of composites into life and general, an increase in minimum regulatory capital and public listing are amongst the regulatory changes that would be in force soon. We foresee the transformation to bring about greater transparency and better governance. The risk-based capital framework in Sri Lanka is currently being assessed through an industry test run. We actively participated in a parallel run with both the current and new systems running simultaneously in order to further calibrate the Risk-Based Capital rule. As a proactive insurer, we will comply with these requirements.

Belonging to one of Sri Lanka's fast growing conglomerates, Asian Alliance has valuable partnerships within the Softlogic Group – with Asiri Hospitals Group, leaders in private healthcare,

Something extraordinary

Chairman's Statement

Softlogic Finance specializing in Leasing/Hire Purchase and Softlogic Retail for island-wide consumer distribution. We expect Group synergies to be better capitalised to maximise returns of our strategies in the upcoming periods.

Q: What were the key awards and accolades won by the Company during 2014?

A: Asian Alliance was awarded Silver in the "Insurance Category" with a further Silver Award for Overall Excellence in the "Large Companies Category" at the National Business Excellence Awards 2014. We are thrilled to have been recognised amongst the best in our sector and across all large sized companies in the country. This win has elevated us to a platform that will allow us to drive our Company to greater heights in the corporate world. This is a fantastic achievement for a first time entry by our Company and underscores the tremendous potential that Team Asian Alliance, has - to deliver on the national platform of Sri Lanka.

Q: To what extent did AAI create value for its shareholders in 2014?

A: The share price of Asian Alliance Insurance appreciated substantially in 2014, moving from Rs. 85.50 to register Rs. 143 as at 31st December 2014, after touching a high of Rs. 163 during the year. This appreciation in the share price is believed to have been influenced by the strong financial performance and fast improving brand presence of the Company which has driven investor confidence. AAI has maintained a dividend policy of distributing half of its profits to shareholders, striking a balanced plan for organic growth and development of the Company with a host of measures in progress to develop our business and increase our market share. For the year ended 2014, a dividend of Rs. 5 per share was declared, adding on to the previous

interim dividend that totalled Rs. 10/- per share, which is double what was declared in the previous year. This is in line with the doubling of performance of the Company.

Q: How do you see the future unfolding for the Company?

A: The year 2015 will be the start of a new chapter for our Company and the Insurance sector at large. We are well-positioned and ready for the change. We will continue to trail-blaze with the same focus, as believe this will ensure an increasing market share in both Life and General Insurance, reporting good financial results and an unwavering focus on serving our clients and communities with distinction and dedication. The strengths that are embedded at Asian Alliance include the knowledge and cohesiveness of our people, business intelligence and analytical skills, strategic capabilities and planning, our long standing relationships with strategic partners, our technology and product capabilities and presence, which are hard to replicate.

Q: To whom would you dedicate your appreciation for the Company's extraordinary journey in 2014?

A: We owe a sincere 'thank you' to our valued customers who have shown every confidence in our Company and seen it through the past 15 years. We are fully committed to investing in the resources that are necessary to provide them with superlative value manifested through innovative products and simplified solutions. I would like to commend the Board of Directors, Managing Director, Executive team and all employees of Asian Alliance on the extraordinary progress and tremendous result achieved in 2014. The enormity of the challenges that will follow the separation of our business

operations would be harnessed to emerge triumphant in relation to increased market share and greater customer satisfaction. Our partners DEG and FMO in no small measure contribute specialist insurance insights that place us in an enviable position.

I extend my gratitude to the IBSL Chairperson and their staff for the active cooperation and contribution to the sustainability of industry. The Insurance Ombudsman deserves a special mention for increasing confidence among the insuring public by providing an efficient, independent grievance redress mechanism.

We step into 2015 with a lot of confidence in the prospects for insurance in Sri Lanka. We feel that we have harnessed some of the best resources available in the industry and are building a great team for the future. We anticipate your continued support as we progress on this great journey.



Ashok Pathirage
Chairman

Great synergies, great results

Managing Director's Message

"Asian Alliance offers an unmatched value proposition, a hugely potent force delivered on a technology-driven platform that elevates customer convenience to the highest degree. Backed by the dynamic Softlogic Group, Asian Alliance is leveraging on group synergies to stamp its authority on every niche in the business of insurance."



Iftikar Ahamed
Managing Director



Great synergies

great results

Managing Director's Message

Q: What are your sentiments about AAI's performance as the year 2014 drew to a close?

A: It is my pleasure to present the performance of Asian Alliance Insurance PLC for 2014, which is the first full year of my stint as Managing Director of Asian Alliance. Coming from a non-insurance background, I tend to see the glass more half

performance. We see the market as ready for innovation and see the opportunity to shape the face of insurance in the digital age, in a truly extraordinary manner.

Q: What is your reaction to the performance of AAI's Life business during the period under review?

A: Life insurance is the forte at Asian Alliance and continues to perform extraordinary feats, more



We have chosen 'innovation' as our theme towards stardom in Sri Lankan insurance. We will innovate with the objective of creating unparalleled and unrivalled customer convenience whilst also ensuring that we achieve extraordinary operational efficiencies that are vital to longer term sustainable performance.

full - and hence, am greatly excited about the opportunities for insurance growth in Sri Lanka.

At Asian Alliance, we believe that we are ready to unleash a hugely potent force into the market, and we started by launching a good part of those initiatives in the year 2014 that we felt was "Extraordinary". We are part of the diversified, fast-growing Softlogic Group and hence our parentage instills in us the dynamism and will to perform extraordinary feats that are not the norm of the industry.

We have chosen 'innovation' as our theme towards stardom in Sri Lankan insurance. We will innovate with the objective of creating unparalleled and unrivalled customer convenience whilst also ensuring that we achieve extraordinary operational efficiencies that are vital to longer term sustainable

than doubling industry growth for the year, recording premiums of Rs. 3 Bn and a growth of 21% compared with the industry average of 9%. This extraordinary performance is manifested on many fronts: recording amongst the highest growth rates in the market, the highest average premium, the best persistency for life policies continuation - and is attributed to the extraordinary Life business model that has been set up at Asian Alliance, being managed and serviced by a team of extraordinarily talented and committed staff. Our focus is almost entirely on the "protection" platform, which is probably the most difficult sale to complete in insurance but is also, however the most profitable one. As we move forward, we will look to somewhat diversify our product range, but will retain concentration on this valuable and growing market segment.

It is always a poser to understand the low penetration of Life insurance in the market, and the answer we feel is coming up soon, perhaps within the next 3-5 years. As Sri Lanka's per capita tips past the USD 6,000- to USD 7,000- range, we expect a surge in penetration and Asian Alliance Life is gearing up and relishing the prospects of a market in Sri Lanka that is currently at 0.5% penetration, matching its regional peers with penetration rates similar to India 4.4%, Singapore 4.6% and Malaysia 3.2% - potentially a six times increase based on the average.

Q: If the Life business is AAI's strength, how do you view the evolution of your General Insurance arm?

A: The General Insurance business has for some years been our problem child who has refused to yield on performance. Here, premiums for the year grew 11% to reach Rs. 1.7 Bn, compared with a market average estimated at 5%, but the biggest issue was a higher trending claims ratio that we have attacked aggressively with substantive improvements on pricing and process. We are confident that the worst is now behind us. We have also done a lot of work in addressing our operational processes, as efficiencies delivered by technology and lean management will, in the final analysis, ensure a low cost platform that is so important when operating in a low margin, competitive environment. We are hopeful that the splitting exercise that has now been partly completed in the industry will cause General Insurance players to critically look at pricing the risks that they take on their books, causing operating conditions to improve.

Q: How do you envisage AAI leveraging on its parent group, Softlogic Holdings, going ahead?

A: Our aim within Insurance is to create a value proposition that is unmatched, that will deliver us an extraordinary cost advantage with the backing of the Softlogic Group distribution channels available for expansion. The Softlogic Group has presence in Healthcare, Retail distribution, Finance and Leasing – these make an extremely attractive combination in tandem with insurance, and will be synergised step by step. We see a great future for Health insurance

in the country and will be looking to stamp our authority in that area, where on a combined Life and General basis, Asian Alliance is currently the market leader.

We have laid emphasis on managing our investments, which is so important in insurance, and critical to deliver the final performance of the company. I am happy to state that our investment strategy was executed with precision, capitalising on the swing of Fixed Income markets and the Equity Market. Benchmark interest rates dropped by around 5% during the year, allowing the Company to achieve a fixed income return of 19.6%, whilst our overall investment return, combining Equity returns is probably the best of the industry at 25%.

Asian Alliance burst into the limelight at the National Business Excellence Awards capturing Silver in the Insurance sector, and more importantly capturing a further Silver in the "Large Companies" Sector. This is testimony to the operating standards and performance excellence evident within the Company. We believe that this was a defining moment in the Company's ascension towards greater recognition in the future.

Q: What were the key innovations during the year from a customer standpoint?

A: We attribute our growth, performance and success to our loyal and valued customers to whom we promise one thing – to continually improve the value proposition that we offer. To this end, we have launched a number of initiatives in 2014. These are extraordinary by any standard. We launched the first of its kind "Drive Thru" insurance - allowing customers the ability to purchase motor policies and renew their revenue licenses within 10 minutes, without even stepping out of their car, accompanied by "365 Day Insurance", where we remain open through weekends and public holidays thus offering utmost convenience.

Technology is a game changer, and our talented in-house IT team has delivered some stupendous innovations. Our ground breaking motor product innovation "Click2Claim" we feel, will revolutionise the motor insurance claim handling process in the country. In the future, we envisage our upgraded Assessor, now a Motor Engineer, approving claims

Great synergies

great results

Managing Director's Message

on his iPad during the weekend at home with his family. Whilst delivering tremendous customer convenience, the paper-less operational process enabled by IT, will halve the processing time and capacity on motor claims.

"Self-Service Insurance" is the concept offering further convenience to our customers in the form of a self-service kiosk titled "Smart Advisor". This can provide a quotation, issue a policy and renew policies without any manual assistance, completely independent of our office staff. Insurance, we feel, should be akin to a Bank ATM and available 24x7 in today's busy world. We will be placing our Smart Advisors at convenient locations where they do their job best.

As Sri Lankans develop and prosper, we feel that they would look for choice not only in how they dress, or what they drive, but also with regard to their health. We have launched "Asian Health Alliance" that combines the best options in local and regional healthcare in the form of partnerships established with Asiri Hospitals and Apollo Hospitals in India. This partnership will deliver a complete healthcare proposition addressing complicated medical situations, when most needed.

Q: Do you feel AAI's sustainable corporate responsibility strategy has played a significant role in its ascendancy and enviable position as the most trusted insurer in the country?

A: Our contribution to the socio-economic development of our country is consistent with the nature and size of our operations. We are a responsible insurance company delivering services and products bearing in mind the needs of society, our customers, our staff, our shareholders, the environment, and future generations. The Company is involved in 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 G4 "Core" - the generally accepted guideline for sustainability reporting.

We are enthusiastically looking to weave learning and development into the fabric of sustainable corporate social responsibility initiatives that we have started. We have hence fashioned and are executing our CSR activities under the pillars of Sustainable Environment protection through a knowledge development platform that will "connect" the industry via "Digital Academy" and uplift our rural youth, whom we consider to be the future lifeblood of our country, through the "WIN" program. The former, linked to our website, is a forum dedicated to sharing information, articles and views, where all those interested in the subject of insurance will benefit

Q: How do you manage to extend the knowledge platform to your employees?

A: At Asian Alliance, we believe that knowledge and learning are key to future success and, therefore, place great emphasis on our staff developing the required technical knowledge, passing their insurance exams and being upwardly mobile. During 2014, we are proud to say that 23% of candidates at industry entrance examinations were Asian Alliance staff, with a pass rate of 87% and the top 20% achieving Distinctions.

We are building the best team in the industry who will be completely customer-oriented and extremely proficient. We will continue to add to our talent pool by upgrading our team and infusing talent from the industry and related sectors. We are in the process of introducing a performance-driven culture that will set up this winning team to be 'second to none'. Inculcating such a DNA, we feel, will progressively create a competitive advantage that will fashion an unbeatable team.

Our business strategy is fully focused on being the Best Value Provider to our customers, staking out a middle ground between pursuing a differentiation advantage and low cost advantage, addressing value conscious buyers via superior relationship management whilst harnessing Softlogic group synergies. We will fully utilise technology to create an efficient platform for growth and service delivery that will combine to deliver extraordinary profitability.

We are very fortunate to have a Chairman and Board of Directors that veritably are a consortium of expertise and I am privileged to have their guidance and advice at all times. They include precious insurance sector insights courtesy of the nominees of DEG and FMO and the Board overall is a combination of knowledge, accomplishment and practicality that is paramount in steering our Company towards industry leadership. The governance framework that we have established works well with the proper checks and balances in place, ensuring that Asian Alliance can move forward at good speed.

Q: How do you see external developments impacting the world of business?

A: The political landscape in Sri Lanka has changed tremendously within a short space of time and we are hopeful that the country's leaders will soon set their sights on firmly driving our economy towards the prosperity that awaits our country. The recent budget has delivered a plethora of goodies to the main segments of society, and are all insurance sector positive. A continuation of growth momentum around the 7% + mark should be hugely beneficial for Life insurance penetration whilst General Insurance business will benefit from a stronger economy.

Q: Who would you consider as key partners in your successful journey during the year under review? ?

A: The Insurance Board of Sri Lanka as regulator has worked tirelessly in nurturing and developing the industry, and their steady hand was very much evident as we managed the splitting of our Composite company by the year-end. Our sincere appreciation goes to the Chairperson of the IBSL, their Board of Directors and Management staff for their continuous guidance, involvement and encouragement provided to us.

The extraordinary performance in 2014 is directly owed to the extraordinary team at Asian Alliance who have managed all aspects of the business and operations and delivered the final result in an exemplary manner. The team is very special: from the Executive Committee, Heads of Divisions, Managers, members of staff, field management and insurance advisors - due to whose collective effort we have completed a brilliant year. A special word of appreciation to our Re-insurers, who have supported us all the way, especially, Munich Re, which has been a partnership of immense value.

We look forward to the future with optimism and are extremely confident in our ability to grow, innovate and deliver superlative value to all our stakeholders. We have mapped out clearly the key criteria that we need to accomplish, relating to market share and profitability, and will be making the investments that are required for our enterprise to flourish. We look forward to having you with us as 'Team Extraordinary' at Asian Alliance zooms onwards to scale greater heights.



Iftikar Ahamed
Managing Director



To the next level

AAGI CEO's Review

"The General Insurance segment constructed an impressive performance during 2014 on the foundation of its three principal pillars - innovation, customer service and value addition. Tenets of lean management and change management served to heighten the efficiencies across our systems and processes. We are now ready for an expeditious journey to the next level."



Ramal Jasinghe
Director

To the next level

General Insurance CEO's Review

Q: In your opinion, how did Asian Alliance Insurance (AAI) navigate the legal requirements for effecting the splitting of life and general operations?

A: I am proud to state that against the background of the altered landscape of the insurance industry, given the segregation of Life and General business, the Company has been ahead of the curve in every respect. Asian Alliance Insurance obtained all the necessary regulatory and court approvals and commenced its segregated operations from 1st January 2015. Complying with the legal requirement, the Company successfully transferred its General Insurance business to a wholly-owned subsidiary, Asian Alliance General Insurance Limited, effective 1st January 2015. This new entity, specialising exclusively in the General business arena, is occupying its new premises at 65, Ward Place, Colombo 7, which will not only offer high visibility for the brand, but also serve to extend convenience and easy access to its customers.

General Insurance	2014	2013	2012	2011
Market Size (Rs.Mn)	58,441	56,564	51,835	43,331
Company Size (Rs.Mn)	1,725	1,556	1,190	628
Market Growth %	4	9	20	23
Company Growth %	11	31	89	45

+11%

GWP Growth

Q: In what manner was AAI ahead of the curve in compliance to this regulation?

A: Asian Alliance Insurance had organized a seminar for insurance companies and industry stakeholders, themed 'The Future of Insurance in Sri Lanka', in May 2013. The objective of the seminar to prepare the industry ahead of the segregated insurance operation requirement was realized, as the seminar had a far reaching impact and created the necessary space for vital dialogue and strategising for compliance with regulations in a seamless manner. We received excellent feedback on the seminar from industry players, who lauded the timely event in galvanising the industry and, experiencing the high degree of industry preparedness today, we are proud to have played a key role in the endeavour. Our own successful implementation of the regulation was the perfect end to what has otherwise been a year of record profitability for our Company.

Q: What are the gains you perceive that will accrue from the splitting of operations?

A: We are hopeful that the new regulations will ensure a greater level playing field going ahead and serves to eliminate conventional malpractices of poaching customers through unethical means. Operators will now perhaps focus on widening customer base by competing on service and product innovation, thereby, infusing greater maturity and professionalism into the industry. We are already witnessing the trend of the hitherto uninsured now being attracted towards the security of insurance protection.

We believe that the segregation of insurance business will open up new avenues for individual policy holders, as we will be in a position to design more value added products that will appeal to our customer base. Our General arm will double its focus on adopting enhanced reinsurance, underwriting and office automation processes to offer an unrivalled customer relationship experience at all our customer touch points.



The General Insurance division recorded a handsome 11% top-line growth, which is far above and beyond estimated industry growth of 7% for the year.

Q: What were the main financial highlights of the Company's financial performance during the year 2014?

A: Our year on year growth continued to be robust and encouraging during the period under review. General Insurance premiums increased by 11% from Rs. 1.5 Bn in 2013 to Rs. 1.7 Bn in the year under review. Both corporate and retail channels contributed to this upsurge in premium growth. Further, health insurance played a key role in pushing the premiums upwards, backed by our Group synergies in the healthcare sector with the Asiri Group. As a result of these combined synergies, AAI has now moved up as the fourth-largest player in the health insurance segment, which is considered the fastest-growing segment in the General Insurance sector.

Fire and marine insurance did not perform as per our projections due to the expected gains from mega public infrastructure projects not coming through, as private operators were excluded from the dividends that could have otherwise been accrued from these large-scale infrastructure projects.

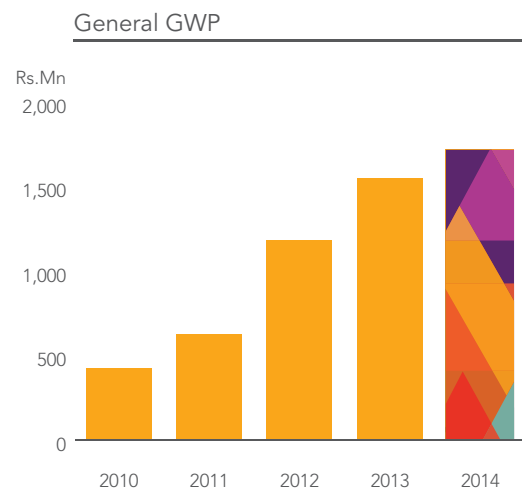
1,725

Rs. mn
GWP

Q: What were the cornerstones of your strategy during the year?

A: During the year, we focused strongly on injecting prudent underwriting strategies into our operations, whilst simultaneously building optimum efficiencies with regard to delivery and pricing. These methodologies had a direct impact on value generated for the Company as a whole and reaffirmed to customers the high degree of security we offer to safeguard their investments. These significant value additions effected during the period under review further strengthened our reputation as a force to be reckoned within the General Insurance sector.

AAI's General Insurance operations forged ahead during the year by building on the three pillars of innovation, customer service and value addition, with the support of a committed workforce. Leveraging on these pillars, the Company was able to increase its contribution to the economic development of the country as compared to the previous year.



To the next level

General Insurance CEO's Review

Q: How does the Company sustain the high morale and motivate employees to deliver exceptional results?

A: At Asian Alliance, we are proud to have a best-in-class team in terms of the insurance industry and financial solutions. Boasting an average age of 35, our youthful, dynamic and experienced team enables us to carve out an even more ambitious vision going ahead. As a company, we give back to our employees in the form of strong career development pathways and a vibrant, knowledge-sharing work environment, which are quite easily the cornerstones of our success.

During the year, we continued our focus on encouraging the professional development of our staff. The Company continues to enjoy the distinction of having the largest number of candidates possessing basic and intermediate professional insurance qualifications. We are aware that our focus on this area of human resource development is enhancing professionalism in the industry and we are proud of this fact.

Q: The AAI brand has garnered a reputation for being a responsible corporate entity. How has this been achieved?

A: Our sustainability agenda continues to put the well-being of our customers first. Responsible insurance practices are embedded in our systems and processes and we continued building on this commitment by introducing 'green' products and solutions. Our passion for product responsibility is evident in our unique product for pensioners, 'Buhuman', which takes away the burden of senior citizens and allows them to enjoy their twilight years without worrying about financial dependence.

Initiated in conjunction with the Pensions Department, this product offers accident and health insurance benefits for pensioners. New pensioners make up the population mix every year, which provides an understanding of how timely and appropriate our product is for this target group. In order to enhance the reach of insurance and to surmount geographical and other barriers, we are excited about our plan to establish self service kiosks at all Softlogic Retail and existing Asian Alliance Insurance Life network outlets.

Q: What is the Company's strategy to face the risk-based capital era looming ahead?

A: Alongside effecting a smooth transition to the segregated business model, AAI has also been gearing up to operate in a risk-based capital regime from a hitherto rules-based capital framework in time for the 2016 deadline. The new risk-based capital regime will no doubt inject more equitable pricing parity in to the market and improve underwriting efficiencies. Our systems and processes are being prepared ahead of schedule so as to gain a head-start in operating in the risk-based capital era.

Q: In your view, will the external environment enable or not enable future growth prospects for the company?

A: We envision an exciting future for the insurance industry and perceive a greater role for the Company, as it leverages on its sound fundamentals to carve out a greater market share in the months ahead. The newly elected government's stated goals to reduce the cost of living will lead to more opportunities for the company in terms of greater disposable income for existing and potential customers.

A reduced cost of living will enable us to design game-changing products and solutions, deployed through innovative delivery methods for an unique experience for our customers. Already, the target of achieving US\$4,000 GDP by end 2015 seems within reach. We are hopeful that the 100-day plan of the new government will take us closer to achieving the ambitious goal. The projected boom in the economy will enable insurance operators to broaden their customer base and enable us to design more complex insurance products with particular emphasis on property insurance and the like.

We look forward to enhancing our network of branches in the coming year in order to ensure wider reach. Insurance penetration still remains low and we plan to tackle this head-on through innovative customer service practices, which will catapult our service to the next level of excellence. We view the future with optimism and a strong sense of enthusiasm, as we believe the Company is now fully equipped to leverage on emerging opportunities and in an ideal position to make the most of navigating lucrative avenues in the days and months ahead.

Q: Who would you credit for this year's extraordinary performance?

A: My sincere gratitude goes out to the Chairman and Board of Directors for their support and counsel in navigating the many challenging external and internal changes we witnessed during the year. The management team and rest of the support staff have exhibited passion and commitment in working towards our vision of becoming a preferred insurance solutions provider during the year. In the previous annual report I had promised an exciting odyssey for all our stakeholders - and the monumental changes undergone by our Company in recent months bear witness to the panache with which the Company has, and will, traverse the stimulating times lying ahead.



Ramal Jasinghe
CEO / Director
Asian Alliance General Insurance





Year after extraordinary year

Unmatched industry skills

Asian Alliance Insurance offered a compelling value proposition to its stakeholders through the year 2014 - a brilliant strategy, trail-blazing products and breakthrough technology - executed to perfection. More importantly, we were able to deliver on our intent.

We made definite strides during the period under review, not only to increase profitability, but also to build an enduring institution. We used our organization as a vehicle for accomplishing our sustainable goals and for providing meaningful livelihoods for our employees. We are proud to state that we served a greater social and economic good above and beyond our business portfolio.

Our Business

Management Discussion and Analysis

Creating Sustainable Value

Asian Alliance Insurance (AAI) is positioned on the platform of "Protection" as our key priority and we defend this positioning stringently by staying true to the fundamentals, by providing protection solutions whilst accurately addressing the inherent risks in the lives and property of our valued customers. Further, we ensure Lifestyle Continuity business as the reduction of disruption that occurs when a tragic event occurs along the path of daily life for individuals, families, businesses, organisations, and communities.

The Asian Alliance Business Model

AAI's business model describes the method or means by which a company tries to capture value from its business. It concentrates on value creation. It describes a company's or organisation's core strategy to generate economic value, normally in the form of profit. The model describes how AAI organises itself to create value and drive the revenue stream. Further, this indicates how the company will convert capitals (Financial, Intellectual, Manufactured, and Human) into outputs to customers (total value of service produced) and make a return that is greater than the opportunity cost of capital and deliver a return to its investors.

The Business Model Canvas as described by Alex Osterwalder is a visual chart with elements describing a company's value proposition, infrastructure, customers and finances. Value proposition is the collection of products and services a company offers to meet the needs of its customers. The value proposition provides value through various elements such as newness, performance, customisation, design, brand/status, price, cost reduction, accessibility, and convenience. AAI Business model is provided in next page.

How We Create Value

We remain aware that, as a company providing insurance services to the real economy, we are a part of, and facilitate at a fundamental level, the economic growth and social development of the economies we serve.

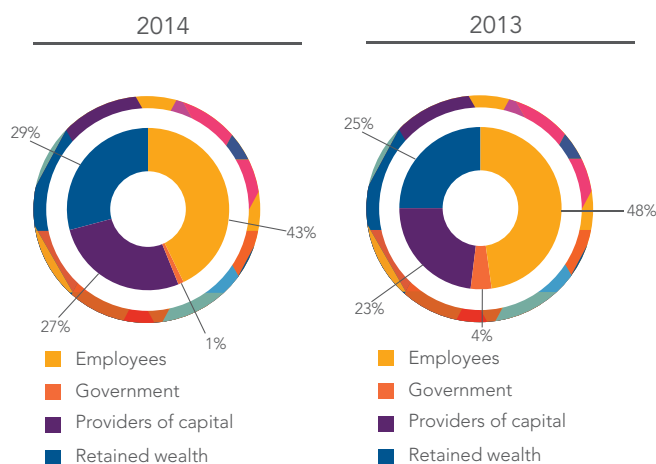
We create value through our business activities using the stocks of capital available to us. Understanding our dependence on, and contribution to these forms of capital is fundamental to our ability to continue creating value over the long term. Ultimately, the most significant outcomes

of our business activities are in their contribution to socio-economic development, which we can only achieve by remaining profitable over the long term and staying relevant to the societies we serve. Please refer in page 111.

Wealth Created

Rs. Mn	2014	2013
Life Insurance Revenue	2,816	2,139
General Insurance Revenue	1,323	1,102
Investment Income	1,946	991
Other Income	15	8
Net Claims paid with actuarial reserve	(2,801)	(1,967)
Suppliers and Services	(1,906)	(1,492)
Wealth Created	1,393	781

Distribution of wealth



Employees

We aim to be the employer of choice for talented people who can provide the insight we need to achieve our strategy. Our value proposition includes competitive remuneration and opportunities for development and growth.

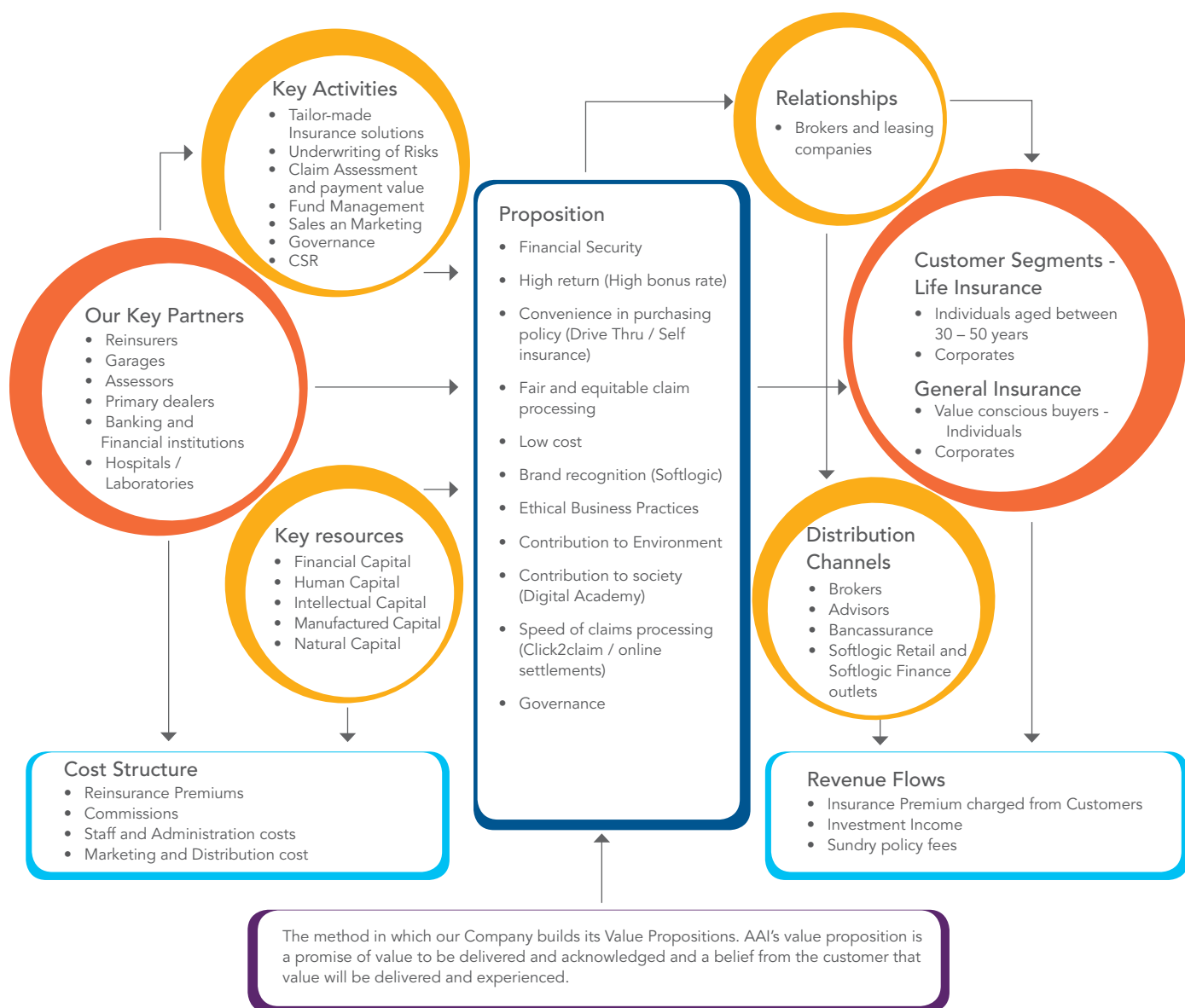
Providers of capital

As a vehicle for sustainable returns, our shareholders benefit from dividend payments and from growth in the company's share price.

Wealth creation

Our strategy is one of growth, which over time should ultimately benefit all of our stakeholders.

Figure 1: AAI Business Model



Our Business

Management Discussion and Analysis

As a responsible corporate entity, the outcomes of the roles we play in the course of our business activities, and the ways in which we actively ensure that value creation is maintained, are illustrated below:

Figure 2: AAI Value creation modal



Our business environment

Management Discussion and Analysis

Overview

In this section we predominantly focus on the macro and micro environment in which the Company operates. It also provides insight on how the external environment, and factors shaping industry dynamics impact the Company's performance and forecast their effect on future profitability. Operating environment for AAI is the sum total of all external and internal factors (As shown in figure 3). At AAI we think strategically about how the company is positioned in crafting and shaping our strategies.

“In essence, the job of a strategist is to understand and cope with competition”

- Michael Porter

Figure 3: The Components of a AAI's Macro Environment



Our business environment

Management Discussion and Analysis

Macro Environment

The macro environment is a wide, broad set of economic conditions rather than the conditions in a specific sector or industry within an economy. This can determine whether businesses will expand, whether consumers will spend more, whether seniors will have enough for retirement, whether homelessness will rise and many other broader issues. In turn, the macro environment can advance or deter Government policy, regulatory changes and even encourage or discourage entrepreneurship. Additionally, many businesses wax and wane with each business cycle and thus are very attentive to macro environmental conditions.

Relevance to AAI

Since AAI is in the business of Insurance, as a service provider we should have a broader understanding and sensitivity to the changes in elements of the macro environment and chart the company's direction and strategy as needed. Further our earnings and businesses are affected by general economic conditions, the performance of financial markets, interest rates, currency exchange rates, changes in laws, regulations and policies of the Insurance Boards of Sri Lanka (IBSL), and competitive factors on a global, national and regional level. Given that the majority of our customers are locals, our financial condition and results of operations are mainly dependent on Sri Lankan economic conditions. [Sri Lankan Economy overview on page 58. To evaluate these macro-economic factors, the most commonly used analytical tool of PESTEL Analysis is used as follows;



The macro factors can be subdivided into political, economic, social, technological, environmental and legal aspects. These factors need to be carefully analysed in order to determine how vast their role is on the impact

to the Company's sustainability and longterm profitability. Table 1.2 provides a brief description of the components of the macroeconomic environment and relevance to the insurance industry in Sri Lanka and AAI.

Table 1 : Macro Environment factors and its relevance to AAI

Component	Description	Factors	Relevance to AAI
Political	These factors determine the extent to which the Government may influence the economy along with Insurance implication to the industry.	<ul style="list-style-type: none"> Political stability Tax policy Employment and labour law Environmental regulations Trade restrictions Tariffs 	<ul style="list-style-type: none"> ✓ VAT liability was changed from 12% to 11% w.e.f 1st January 2015. This will be positively impacted to the life insurance business. ✓ Tax treatment relating to segregation of composite insurance business. ✓ Insurance schemes introduced by government.
Economic conditions	These factors are elements of an economy's performance that directly impact a company and have a resonating long term effects.	<ul style="list-style-type: none"> Economic growth rate Per capita income level Unemployment rate Interest rates Inflation rate 	<ul style="list-style-type: none"> ✓ Detailed analysis is provided under the Economic overview please refer page 56 to this report.
Social forces	This refers to the cultural and demographic aspects of the environment.	<ul style="list-style-type: none"> Age distribution Population growth rate Emphasis on safety Distribution of wealth and social classes Living conditions and lifestyle Mortality 	<ul style="list-style-type: none"> ✓ Increase in the ageing population provides greater demand for insurance. During the year company introduced several products targeting this market segment such as "Buhuman" and Asian Health Alliance products.
Technological factors	These factors relate to innovations in technology that may affect the operations of the industry and the market favourable or unfavourable.	<ul style="list-style-type: none"> Automation leading to cost reduction Technology incentives Rate of technological change R&D activity 	<ul style="list-style-type: none"> ✓ Development of technology will help to provide greater value to customers by introducing high tech knowledge such as the new mobile application (Click2Claim) to process claims and reduce cost launch of "Drive Thru" further increase the customer convenience. ✓ Launch of Digital Academy.
Legal	These factors include legislative changes occurring from time to time and many of them affect the business environment.	<ul style="list-style-type: none"> Insurance regulations Consumer law Anti-trust law Employment law Discrimination law Health and safety law 	<ul style="list-style-type: none"> ✓ During the year all composite companies were required to split in to two separate entities.
Environmental	These factors include all those that influence or are determined by the surrounding environment.	<ul style="list-style-type: none"> Weather and climate Carbon emission Waste management Recycling procedures 	<ul style="list-style-type: none"> ✓ During the period there was a direct impact due to bad weather conditions around the country. This caused an increase in the overall claims ratio of the company as well as the industry.

Economic overview

Management Discussion and Analysis

World Economic Outlook

Highlights global Economy

	Projections			
	2013	2014	2015	2016
World Output	3.3	3.3	3.5	3.7
Advanced Economies	1.3	1.8	2.4	2.4
Emerging Economies	4.7	4.4	4.3	4.7
United States	2.2	2.4	3.6	3.3
Euro Area	-0.5	0.8	1.2	1.4
Developing Asia	6.6	6.5	6.4	6.2

Expectations of global output have been forecast based on a few key developments as mentioned below;

- Diminishing Oil prices**

Oil prices have declined by approximately 55 per cent since September 2014. The decline is partly due to unexpected demand weakness in some major economies, in particular, emerging market economies. But the much larger decline in oil prices suggests an important contribution of oil supply factors, including the decision of the Organisation of the Petroleum Exporting Countries (OPEC) to maintain current production levels despite the steady rise in production from non-OPEC producers, especially the United States. Prices of Oil futures point to a partial recovery in oil prices in coming years, consistent with the expected negative impact of lower oil prices on investment and future capacity growth within the oil sector.

- Marked growth divergences among major economies**

There were marked growth divergences among major economies. Specifically, the recovery in the United States was stronger than expected, while economic performance in all other major economies most notably Japan fell short of expectations. The weaker than expected growth in these economies is largely

seen as reflecting ongoing, protracted adjustment to diminished expectations in relation to medium-term growth prospects.

- Appreciation of the US Dollar**

As a result of the marked growth divergence across major economies, the U.S. dollar has appreciated approximately 6 per cent in real effective terms. In contrast, the Euro and the Yen have depreciated by approximately 2 per cent and 8 per cent respectively, and many emerging market currencies have weakened, particularly those of commodity exporters.

- Increasing interest rates and risk spreads**

Interest rates and risk spreads have risen in many emerging market economies, notably commodity exporters, and risk spreads on high-yield bonds and other products exposed to energy prices have also widened. Long-term government bond yields have declined further in major advanced economies, reflecting safe haven effects and weaker activity in some, while global equity indices in national currency have remained broadly unchanged since October 2014.

Overview of the World Economy

Among major advanced economies, growth in the United States rebounded ahead of expectations after the contraction in the first quarter of 2014, and unemployment declined further, while inflation pressure stayed muted, reflecting the dollar appreciation and the decline in oil prices. Growth is projected to exceed 3 per cent in 2015–16, with domestic demand supported by lower oil prices, moderate fiscal adjustment, and continued support from an accommodative monetary policy stance, despite the projected gradual rise in interest rates. However, the appreciation of the dollar is projected to reduce net exports.

In the Euro zone, growth in the third quarter of 2014 was modestly weaker than expected, largely on account of weak investment, and inflation. Economic activity is projected to be supported by lower oil prices, an easing of monetary policy, a more neutral fiscal policy stance, and the depreciation of the Euro. These factors however will be offset by weaker investment prospects, partly reflecting the impact of weaker growth in emerging market economies on the export sector. Economic uncertainty has increased further owing to the result of the recently concluded elections in Greece. The results throw into question

if Greece will remain within the Euro zone and set a precedent for anti-austerity insurgents elsewhere in Europe – notably in Spain, which will also hold elections this year.

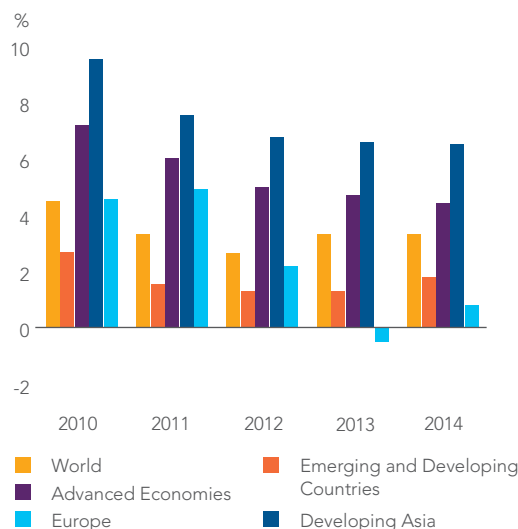
In Japan, the economy fell into technical recession in the third quarter of 2014. Private domestic demand did not accelerate as expected after the increase in the consumption tax rate in the previous quarter, despite a cushion from increased infrastructure spending. Policy responses, additional quantitative and qualitative monetary easing and the delay in the second consumption tax rate increase, are assumed to support a gradual rebound in activity. This together with the boost expected owing to declining oil prices and the depreciation in the yen are expected to strengthen growth to above trend in 2015–16.

Emerging Asia

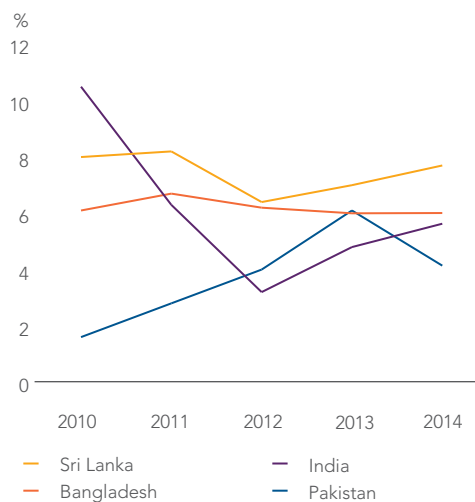
Investment growth in China declined in the third quarter of 2014, and leading indicators point to a further slowdown. The authorities are now expected to put greater weight on reducing vulnerabilities from recent rapid credit and investment growth and hence the forecast assumes less of a policy response to the underlying moderation. Slower growth in China will also have important regional effects, which partly explains the downward revisions to growth in much of emerging Asia.

In India, the growth forecast is broadly unchanged, however, as weaker external demand is offset by the boost to the terms of trade from lower oil prices and a pickup in industrial and investment activity after policy reforms.

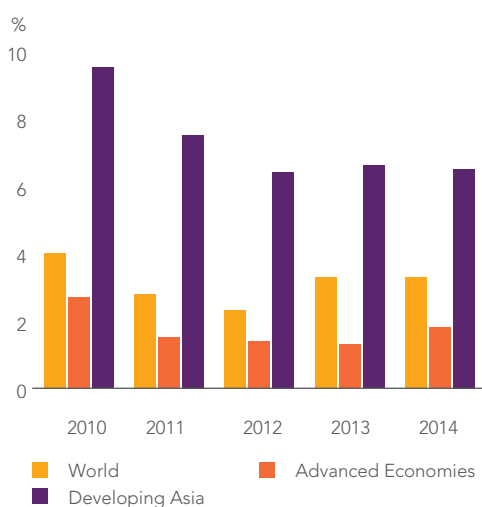
World GDP Growth vs Developing Asia



Regional Comparison of GDP Growth



World GDP Growth



Global Inflation

Inflation	2013	2014	Projections	
			2015	2016
Global	1.4	1.4	1.0	1.5
Advanced Economies	5.9	5.4	5.7	5.4

Inflation in the region hit record lows in 2014, owing to lower food and energy prices; and tighter monetary policies in many developing countries.

If this trend continues, some central banks may have room to ease monetary policy. At the same time, several countries, notably India, are likely to make progress in implementing economic policy reforms, thus providing support to business and consumer confidence.

Economic overview

Management Discussion and Analysis

Sri Lankan Economy

Overview

Almost five years after the end of the three-decade civil conflict, Sri Lanka is now focusing on long-term strategic and structural development challenges as it strives to transition to an upper middle income country. Key challenges include ensuring that growth is inclusive, realigning public spending and policy with the needs of a middle income country, ensuring appropriate resource allocations for the various tiers of Government, and enhancing the role of the private sector, including provision of appropriate incentives for increasing productivity and exports.

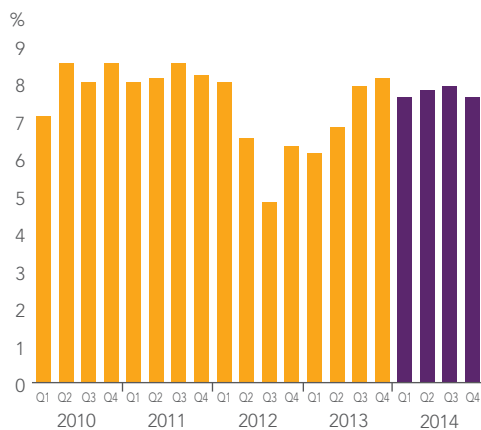
Key economic indicators

Indicator	2014	2013
GDP growth	7.8% (f)	6.9%
Per Capita Income	3,654 US\$ (f)	3,260 US\$
Inflation	2.1%	4.7%
Interest Rates (1 Yr T-Bill)	6.00%	8.29%

GDP growth

The Sri Lankan economy grew 7.7 per cent during the first three quarters of 2014 in comparison to 6.9 per cent in 2013. The economy is expected to record a growth of 7.8 per cent for the year.

GDP Growth

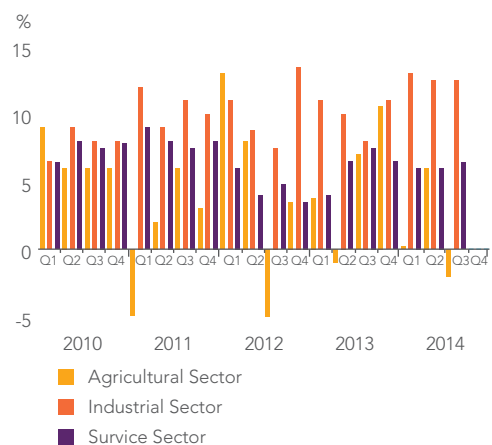


Sector performances

As at the third quarter sectoral growth within the Agriculture and Fisheries Sector, Industry Sector and Service Sector were 2.0 per cent, 12.6 per cent and 7.0 per cent respectively.

The main contributors to growth in the Agriculture Sector were the Tea and vegetable Sectors whilst major contributors to growth of the Industry sector were Construction (21 per cent), Mining and Quarrying (12.6 per cent) and textile and apparel (11.6 per cent). The highest growth within the Service Sector was achieved by the Cargo handling and ports sector (14.9 per cent) and the hotels and restaurant sector (11 per cent).

Sector Performance



Inflation

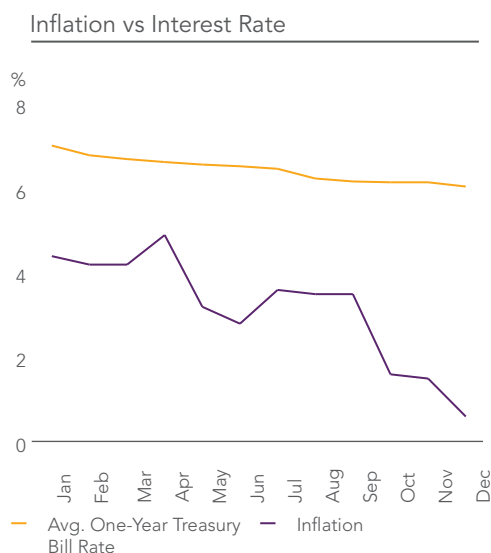
Point to point Inflation decreased to 2.1 per cent in December 2014 in comparison to 4.7 per cent in December 2013 on a year-on-year basis. Low credit growth, a relatively stable exchange rate, moderation in prices of both food and non-food imported items, downward revisions in administered prices of electricity and water tariffs, LP Gas and fuel and timely fiscal policy measures introduced to contain supply side disturbances in tandem with monetary policy measures helped maintain inflation at low levels during 2014.

Interest rates

Interest rates continued their declining trend in 2014 and AWPR stood at 6.33 per cent, AWDR at 6.20 per cent and 1 Year T-Bill at 6.00 per cent as at the 31st December '14.

As as at September the CBSL decided to limit the access of OMO participants to the standing deposit at the Central Bank to a maximum of three times per calendar month at the existing rate of 6.5 per cent. An excess of deposits will be accepted at a lower rate of 5 per cent. The daily auction facility was also suspended with effect from the 23rd September 2014. These measures were a result of large amounts of excess liquidity and low credit growth. Total liquidity absorbed by the CBSL for 2014 was Rs. 7,052 Bn. - a 28 per cent increase YoY.

However, credit obtained by the private sector from commercial banks continued to expand at a healthy pace in Q4 of 2014 as a result of low market interest rates. Private credit growth inched up to 8.8 per cent year-on-year in December 2014, the highest in six months. When classified by sector, it indicates that credit was disbursed to the industrial and services sectors in H2-2014, which augurs well for economic growth.

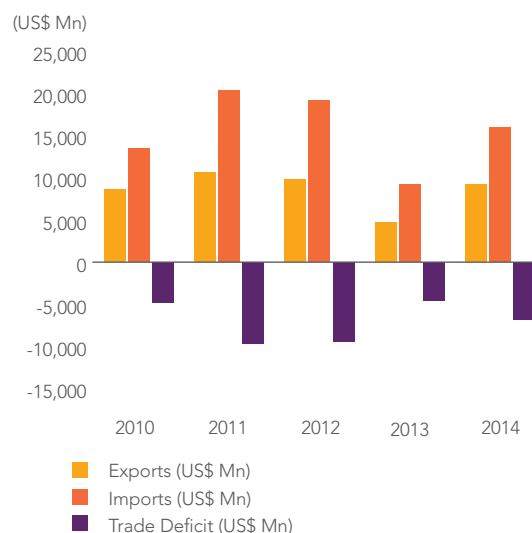


External sector performance

Sri Lanka's external sector remained stable during 2014 with continuous inflows being recorded in the Balance of Payments (BOP). Foreign exchange inflows to the country in terms of exports, tourist earnings, workers' remittances, foreign direct investments (FDI) and other inflows to the financial account recorded a noteworthy growth during the year.

On a cumulative basis, earnings from exports during 2014 grew by 7.0 per cent to US dollars 11,118 million, while expenditure on imports amounted to US dollars 19,417 million registering 7.9 per cent growth. The leading markets for merchandise exports of Sri Lanka during 2014 continued to be the USA, UK, India, Italy and Germany accounting for approximately 50 per cent of total exports whilst the major import origins continued to be India, China, UAE, Singapore and Japan accounting for approximately 59 per cent of total imports. Accordingly, the trade deficit widened to US dollars 788 million in comparison to US dollars 563 million in December 2013 and the overall balance of the BOP recorded a surplus of US dollars 1.4 billion during 2014.

External Trade Performance

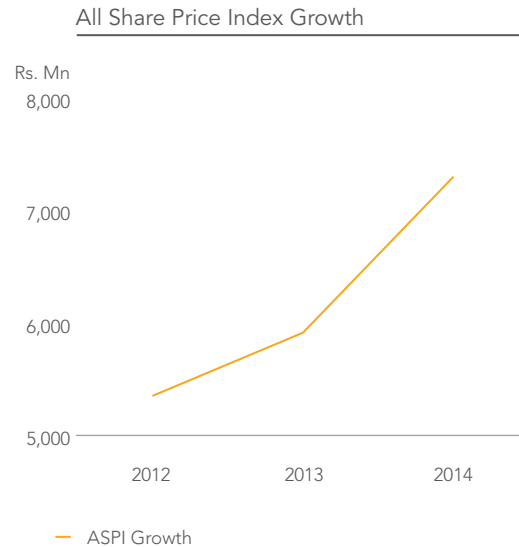
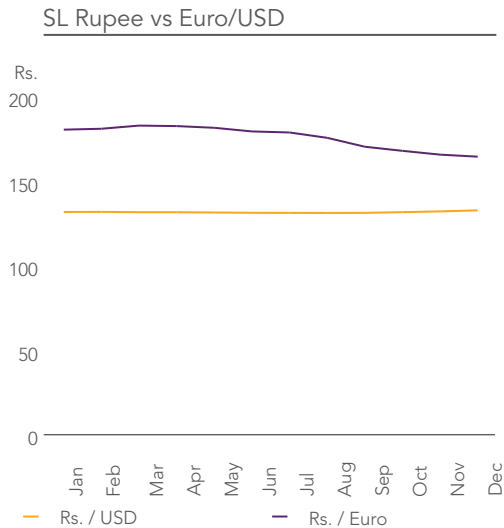


Currency Movements

The Sri Lankan Rupee remained stable against the US Dollar with a marginal depreciation of 0.2 per cent by end 2014 due to lower yields which resulted in heavy outflows in mid-2014. Based on cross currency exchange rate movements, the Sri Lanka Rupee appreciated against the Japanese Yen by 13.5 per cent, the Euro by 13.2 per cent, the Canadian Dollar by 8.5 per cent, the Australian Dollar by 8.4 per cent, the Sterling Pound by 5.7 per cent and the Indian Rupee by 2.1 per cent by end 2014.

Economic overview

Management Discussion and Analysis



Financial Sector

Banking, Insurance and Real Estate sector recorded 6.8 per cent growth in third quarter of 2014 compared to 6.7 per cent growth reported in the same quarter in 2013. Lower interest rates and turnaround in private credit growth should lead to a volume led growth in the financial sector from 2015 onwards.

Stock market Performance

In 2014 the S&P SL20 crossed the 4,000 mark for the first time since its launch, market capitalisation reached Rs. 3 trillion closing the year on Rs. 3,104.9 m and the All Share Price Index (ASPI) crossed the 7,500 mark and closed the year on 7,298.95.

However, the market lost value in January 2015 due to the reviewing of major infrastructure projects which resulted in the Construction and Engineering sector witnessing the highest dip of 7.2% and the imposition of one-off taxes/levies such as the Super Gain Tax (A one-off Tax to be charged on companies or individuals who have earned profits over LKR 2bn in the tax year of 2013/2014.)

Impact to Asian Alliance Insurance businesses due to the change in key macroeconomic indicators in 2014 and likely trends in 2015

Key Indicator	Impact to the Company's Business
GDP growth and increase of per capita Income	<p>The increase in per capita income will increase the demand for protection based products as well as savings related insurance products.</p> <p>The increase of living standards could also result in first time vehicle and home owners which would in turn result in an increase for General Insurance Products.</p>
Low inflation	<p>Lower inflation as a result of lower oil prices have a positive impact on business profits owing to lower costs on administrative expenses.</p> <p>Increases in equity prices as a result of higher business profitability which will result in positive capital gains and dividend income.</p>
Increasing Interest rates	<p>Positive impact on interest earning investments</p> <p>Further, increasing interest rate positively impact to the shareholder surplus, due to lowering the policyholder liabilities.</p>

Risks and challenges

Management Discussion and Analysis

Table 2 : Social, Economic and Technological Risks impacting Our Products and Services

Factor	Details	Risk	Impact on Products and Services / Operations	AAI Response
Economic	GDP growth and increase of per capita Income.	Emerging new competitors as the industry becomes attractive to them.	Lowering product margins and high acquisition / retention cost.	Improve customer loyalty by providing more customized services and products. Invest in the Company's brand and aggressively promote Company's products
	Low Interest rate	Positively impact to profitability	Positively impact on yield of fixed income securities hence higher investment income from fixed income securities. Lower liability of life insurance fund results positive impact to profitability.	AAI maintains a well diversified investment portfolio to mitigate this risk and conducts an active management of its investment portfolio.
Social	Rise in inequality in income distribution	<ul style="list-style-type: none"> • High unemployment / under-employment rate in the country which leads to poverty. • Insurance need becomes further immaterial. 	Products required to capture low income earners value propositions.	The company launched the "Digital Academy" and programme of "WIN" to develop and improve the knowledge level of youth on insurance in Sri Lanka.
Technological	Increase in technology driven frauds, cyber threats and misappropriations	Negative impact to profitability level and customer satisfaction level.	Increased cost of providing the service as to implementation of new controls to safeguard IT systems are required.	The Company has strengthened IT security by establishing an IT security department.
Regulatory	<ul style="list-style-type: none"> • IBSL is the regulatory body which regulates insurance companies. • Accounting Standards issued by Institute of Chartered Accountants of Sri Lanka. 	<ul style="list-style-type: none"> • Requirement to split Company into Life and General operations in 2015 • Risk Based Capital (RBC) implementation in 2016 • Changes in Accounting Standards (SLFRS 4 Phase 2 requirements) 	<ul style="list-style-type: none"> • Flexibility of development of products may reduce • High complexity and cost of managing compliance 	Investment is required resources such as human, technological etc.

Industry overview and attractiveness

Management Discussion and Analysis

Global Insurance Industry Overview

The past decade has brought about much change within the Insurance industry.

The need to operate economically and efficiently, while complying with new and existing regulations and standards, meet competitive pressures, and take advantage of opportunities to grow are all exerting considerable pressure on insurers. The major issues faced by insurers in 2014 included, greater collaboration and alignment with insurance regulators, modernizing the finance, actuarial, and risk management functions, customer sophistication, growing use of technology across all aspects of the insurance value chain, effectively managing policy administration system transformations and significant innovation in the products being offered.

Additionally, in 2014, insurers in the Asia-Pacific region continued to face slower economic growth, a lingering low-interest-rate environment and regulation that is wider in scope and severity at the national and regional level.

The challenges and opportunities in the Asia-Pacific region;

- **Changing consumer demographics and needs**

The increasing share of income earners classified in the 'middle class' in the region is expected to double, rising from 28 per cent in 2009 to 54 per cent in 2020. The increasing individual wealth and aging population will create opportunities for insurers to introduce new products to consumers that are targeted at protecting financial and physical wealth.

- **Health and non-life products**

Presently, 10 per cent of the population in Asia is over 65 years old, this number is expected to double within the next three decades, creating a need for various insurance solutions.

- **Savings products**

Regulatory changes are opening the savings market to new entrants. It is an indication that approximately 45 per cent of banking entities across mainland China, Hong Kong, India, Indonesia, Japan, South Korea, Thailand and Vietnam offer investment-related life insurance or retirement savings products.

- **Exploit pockets of higher growth**

Property, casualty and health insurers may benefit from free-trade zones, which permit the establishment of international health insurance institutions and will increase demand for cargo and liability insurance.

e.g. : Shanghai Free Trade Zone

- **Develop digital distribution strategies**

The Asia-Pacific region accounts for 42 per cent of the world's internet users. Empowered insurance consumers rely on the web to research and buy insurance products. The use of aggregator websites increased 44 per cent and 50 per cent for motor insurance and home insurance respectively. Online buying trends are increasing insurer competition.

- **Get ahead of regulatory development**

As insurance regulations in the Asia-Pacific region increase in number and complexity, insurers must adopt the principles underlying these regulatory developments, such as solvency management, risk management and customer protection. The rigorous solvency requirements that are unfolding across the region will strengthen the industry's collective financial stability. Growing regulatory pressures to improve risk management are being driven by the influence of the International Association of Insurance Supervisors (IAIS) on local regulators.

- **Implement data analytics for competitive advantage**

Big data analytics the ever-increasing volume of internal data combined with external data from social media and mobile devices, can help insurers gain a deeper understanding of customers and related buying trends. Insurers leveraging advanced analytics to diagnose customer retention issues and lapse rates can respond quickly with tactics to remedy these problems.

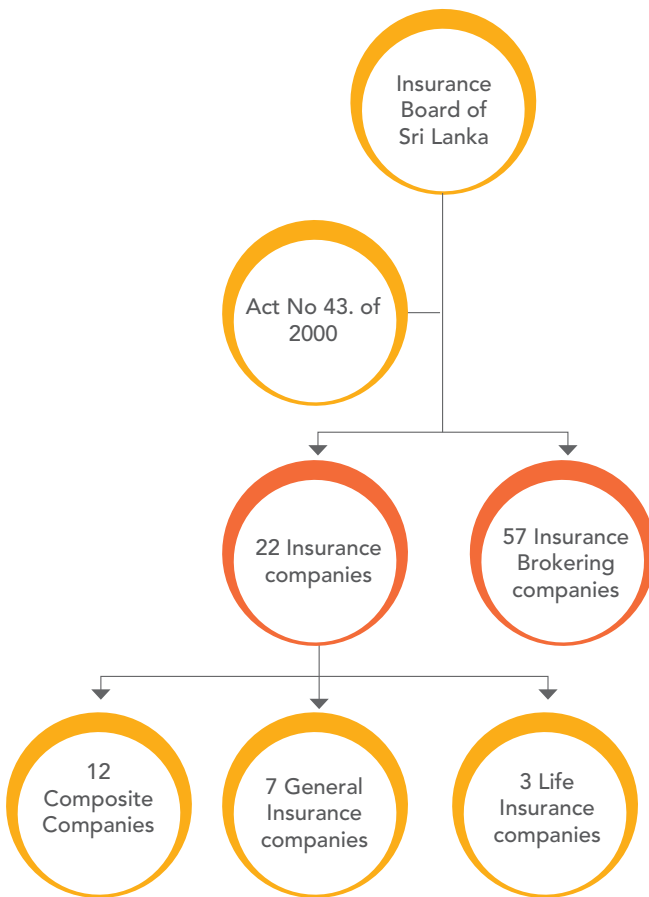
- **Identify areas for expense reduction**

With profit margins under pressure from heated competition and dwindling investment income, insurers in Asia-Pacific must further reduce expenses to preserve profit. The largest expense-reduction gains will be derived from restructuring, process and productivity improvements, outsourcing and offshoring.

Overview of the Insurance Industry in Sri Lanka

The local insurance industry comprises of twenty two insurance companies out of which twelve insurance companies operate in both Life and General Insurance businesses. Seven insurance companies operate only in the General Insurance business whilst remaining three companies cater solely to the Life Insurance business.

Figure 4: Composition of the Insurance Industry



Industry sustains growth momentum

Sri Lanka's insurance industry continued its growth momentum in the first half of 2014 with industry Gross Written Premium (GWP) growing 6 per cent year on year (YOY) to Rs.103 billion, as per the Insurance Board of Sri Lanka (IBSL). Life Insurance GWP during the year grew by 9 per cent YOY to Rs. 44.65 billion while General Insurance GWP rose 4 per cent YOY to Rs.58.44 billion.

The total industry assets during the period under consideration improved 13 per cent YOY to Rs. 390.9 billion. The assets of the Life insurance business grew 12.94 per cent YOY to Rs.237.7 billion while assets of the General insurance business rose 13.10 per cent YOY to Rs.153.2 billion.

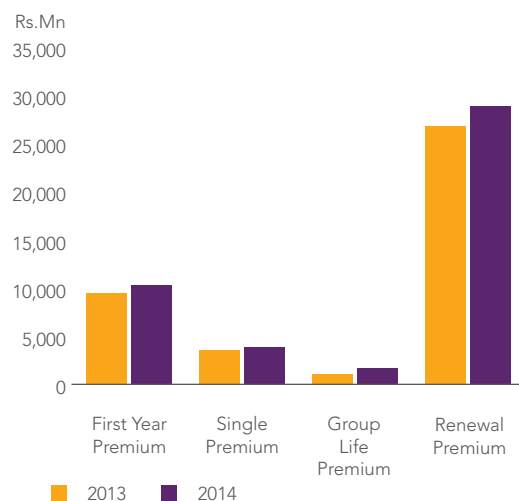
At the end of the first six months of 2014, Rs.106.19 billion representing 44.67 per cent of the total assets of the Life insurance business was invested in Government securities, while such investment of the total assets of the General insurance business amounted to Rs.28.49 billion representing 18.60 per cent.

Life Insurance segment

45
Rs. Bn GWP

GWP of the long term insurance business amounted to Rs. 44,650 million in 2014 (2013: Rs. 40,872 million) and grew by 9 per cent when compared to the previous year. The GWP growth of the Long term insurance business was mainly driven by different underwriting and product strategies, where companies focused on products coupled with investments, savings, and retirements.

Industry Life GWP

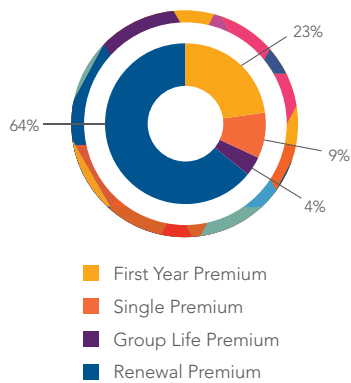


The life GWP is comprised of first year premium, renewal premium, group life premium and single premium. The renewal premiums accounted for 65 per cent of the total GWP whilst 23 per cent of life GWP comprised of new business premium.

Industry overview and attractiveness

Management Discussion and Analysis

Industry Life GWP Composition - 2014



Pursuing new growth

The Life insurance industry, is still recovering from the meltdown of 2008, and has to cope with a challenging macroeconomic and regulatory environment marked by high volatility, low interest rates, and slow economic growth. The shift of financial responsibility from Governments and employers to individuals, strong growth in developing markets, and an aging population not prepared for retirement will all offer profitable growth potential for life companies that can navigate these risks.

General Insurance Segment

The General Insurance business accounted for 56 per cent of total GWP in the year under review. The GWP of General insurance business amounted to Rs. 58.4 billion compared to Rs. 56.2 billion recorded in 2013.

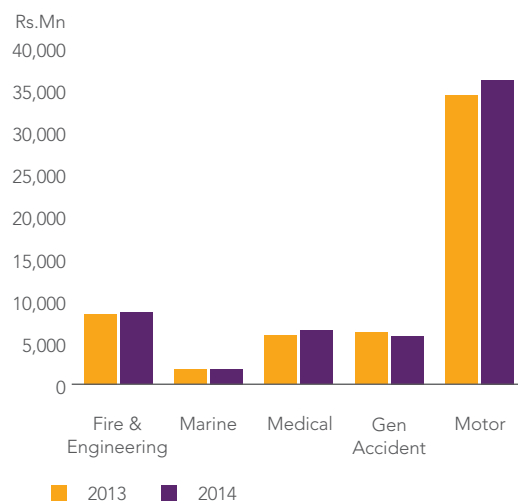
The GWP composition of the General Insurance segment of the industry is provided in the following table;

Rs. Bn	2014	2013	Growth
Fire & Engineering	8.5	8.3	2%
Marine	1.8	1.8	2%
Medical	6.3	5.8	9%
Accident	5.7	6.1	-7%
Motor	36.1	34.1	6%
Total	58.4	56.2	4%

In 2014, GWP grew 4 per cent, which was driven by many development activities, such as large scale infrastructure

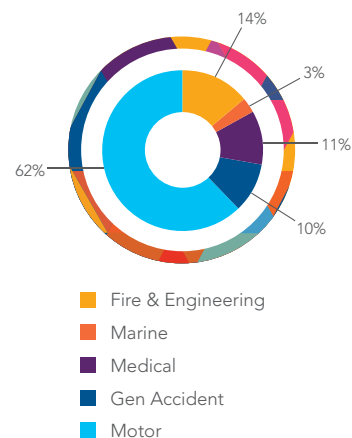
development programmes, private construction, and other economic activities. This was further strengthened with the expanded branch network of insurance companies. However the rate of growth was slower paced in 2014 in comparison to 2013 which recorded a growth rate of 9 per cent.

Industry General GWP



The current financial year saw GWP of the medical claims increasing to Rs. 6.3 Bn from Rs. 5.8 Bn in the previous year which was a growth of 9 per cent. GWP for the Motor claims was Rs. 36.1 Bn and recorded a 6 per cent growth during the year.

General Insurance Industry GWP Composition - 2014



As shown above Motor GWP accounted for 62% of total GWP, while the balance 38% comprised of GWP pertaining to other claims.

Micro environment

The micro environment can be described as factors or elements in an organization’s immediate area of operation that affect its performance and decision-making freedom. The micro environment of the company consists of those elements which are controllable by the management. Normally the micro environment does not affect all the companies in an industry in the same way because the size, capacity, capability and strategies are different.

Relevance to AAI

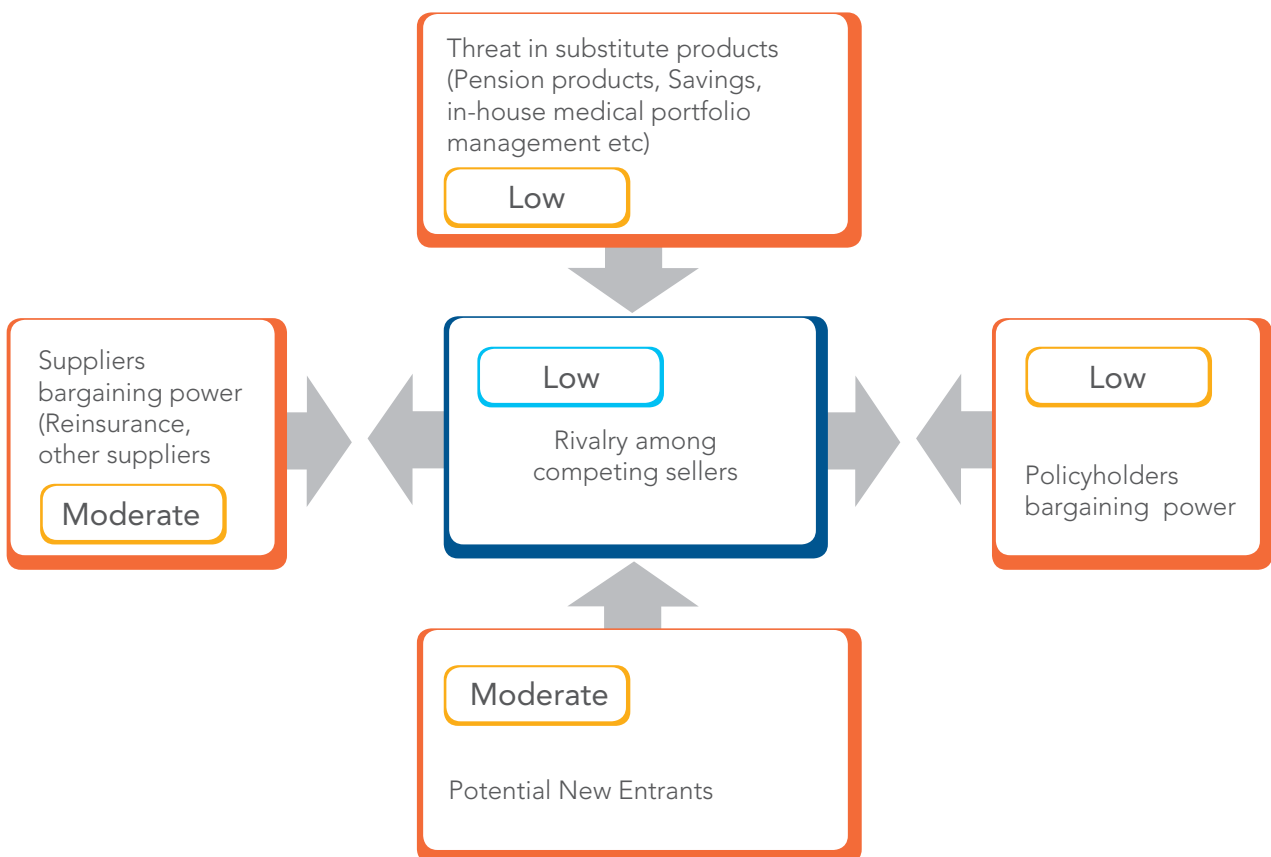
When considering the impact of these factors on the business of AAI, the Company should evaluate the available opportunities, risks and overall competitiveness in the following manner, by carrying out market research in understanding customer behaviour and expectations and

delivering the required value proposition accordingly. The reinsurance partners can be considered as the suppliers of AAI because the insurance industry does not have any other alternative for reinsurance.

Five forces analysis is used to evaluate the impacts on these factors for life and general businesses as provided below. In conclusion;

- Life Insurance segment is considered as the more attractive industry (Refer Figure 5)
- General insurance is considered to be the less attractive industry (Refer Figure 6)

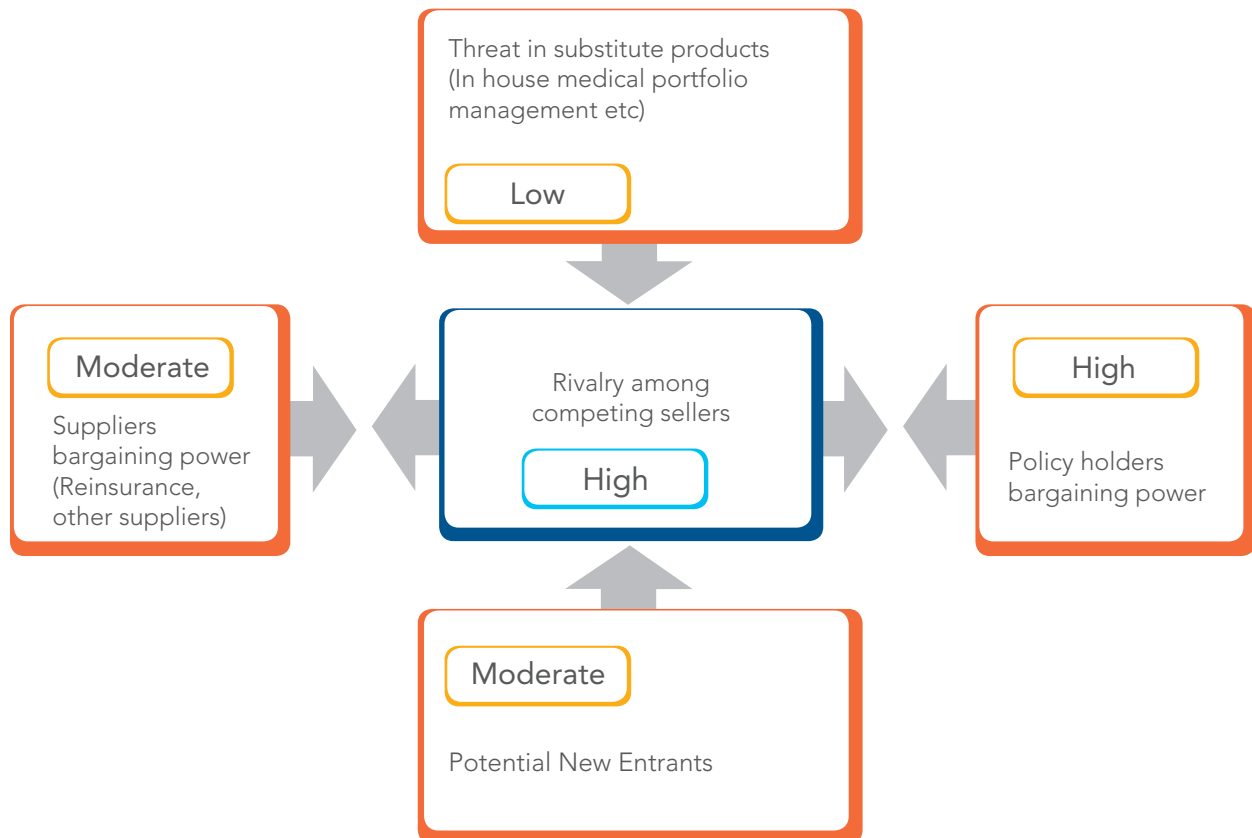
Figure 5: Five forces model : Life Insurance industry Sri Lanka



Industry overview and attractiveness

Management Discussion and Analysis

Figure 3: Five forces model General Insurance industry Sri Lanka



Details of analysis is provided in table as follows;

Forces	Details	Strength	
		Life	General
Threat of Potential New Entrants	<p>Both potential and existing competitors influence average industry profitability.</p> <p>The threat of new entrants is usually based on the market entry barriers. They can take diverse forms and are used to prevent an influx of firms into an industry whenever profits, adjusted for the cost of capital, rise above zero. In contrast, entry barriers exist whenever it is difficult or not economically feasible for an outsider to replicate the incumbents' position.</p>	<p>Considered as Moderate</p> <ul style="list-style-type: none"> Lower product differentiation leads customers to shift with lower switching cost. Entry barriers are moderate except requirement of the minimum capital (Rs. 500 Mn) and registration. Opportunities for moving to online insurance solutions Increase in the ageing population (% from retirement age of 55 years) provide greater demand for insurance 	<p>Considered as Moderate</p> <ul style="list-style-type: none"> Lower product differentiation leads customers to shift with lower switching cost (General Insurance products as they are competing mainly on pricing factor). Entry barriers are moderate except requirement of minimum capital registration. Increase in the aging population (% from retirement age of 55 years) provide greater demand for medical related products.

Forces	Details	Strength	
		Life	General
Threat of substitute products	Substitute products are the natural result of industry competition, but they place a limit on profitability within the industry. A substitute product involves the search for a product that can do the same function as the product the industry already produces. In the Insurance industry this could be seen as Pension and savings products, savings, self-management of medical portfolio etc.	<p>Low</p> <ul style="list-style-type: none"> • There are less substitute options available i.e. Pension products, and savings. However, growth in these products is lower than average industry growth. • Expect life GWP to escalate due to the lower interest rates in the economy. • Lower interest rates in the economy further reduces the competitiveness and profitability of substitute products <p>Eg: There is some indirect competition from the banking industry. However, the fixed income returns don't carry a protective advantage such as pensions / saving products offered by insurance companies</p> <ul style="list-style-type: none"> • Banks provide insurance services as a supplementary / Financial institutions provide wealth plans for depositors 	<p>Low</p> <ul style="list-style-type: none"> • No substitute products for motor, fire, burglary and personal accident insurance • Purchase of motor insurance (3rd party cover) is a regulatory requirement in Sri Lanka
Bargaining power of suppliers	Suppliers have a great deal of influence over an industry as they effect price increases and product quality. The supplies differ costs, and forward integration potential of the supplier group exists. Labour supply can also influence the position of the suppliers. These factors are generally out of the control of the industry or company but strategy can alter the power of suppliers.	<p>Moderate</p> <ul style="list-style-type: none"> • Reinsurance partners play a key role in the insurance industry and they have significant power as most of the re-insurers are multinational firms as well as the fact that the Sri Lankan market is not significant for them. However at present there are many re-insurers who are willing to enter in to the Sri Lankan market and provide opportunities hence bargaining power of re-insurers to reduce some extent. • Industry does not have an alternative solution for reinsurance • Other vendors are having lower bargaining power as Companies are having various options and most of them are local suppliers 	<p>Moderate</p> <ul style="list-style-type: none"> • Equity market however poses a challenge especially in the long term vis-a-vis return. However does not have a protection element. Unit Linked products offered by the insurance sector are therefore more attractive • As explained under Life.

Industry overview and attractiveness

Management Discussion and Analysis

Forces	Details	Strength	
		Life	General
Bargaining power of customers / policyholders	<p>The buyer's power is significant in that buyers can force prices down, demand higher quality products or services and in essence, play competitors against one another, all resulting in the potential loss of industry profits.</p> <p>Buyers exercise more power when they are large-volume buyers. The product is a significant aspect of the buyer's costs or purchases, the products are standard within an industry, there are few changing or switching costs, the buyers earn low profits, potential for backward integration of the buyer group exists, the product is not essential to the buyer's product, and the buyer has full disclosure about supply, demand, prices, and costs. The bargaining position of buyers changes with time and a company's (and industry's) competitive strategy.</p>	<p>Low</p> <ul style="list-style-type: none"> Switching cost is high because there is no surrender value for first three years (most companies) and also surrender charges are very high. Fairly differentiated products available. Individual customers hence their extent of purchase is low. Price sensitivity is Low. 	<p>High</p> <ul style="list-style-type: none"> Low switching cost because Policyholder can easily switch the policy as this is renewable annually. Low differentiated product. Key corporate / leasing / broker companies control hence they have significant power. Price sensitivity - Medium.
Rivalry among competition	<p>Rivalries naturally develop between companies competing in the same market. Competitors use means such as advertising, introducing new products, more attractive customer service and warranties, and price competition to enhance their standing and market share in a specific industry. To Porter, the intensity of this rivalry is the result of factors like equally balanced Companies, slow growth within an industry, high fixed costs, lack of product differentiation, overcapacity and price-cutting, diverse competitors, high-stakes investment, and the high risk of industry exit. There are also market entry barriers.</p>	<p>Low</p> <ul style="list-style-type: none"> Demand grows faster as growth of disposal income and ageing population. Fairly differentiated product. High margins. High exit barrier due to a regulated industry. 	<p>High</p> <ul style="list-style-type: none"> Industry is growing slowly however growth in economy and increase in ageing population creates demand for insurance related products. Low product differentiation. Low margins. Exit barriers are low since short term nature of the business.

Regulatory Review

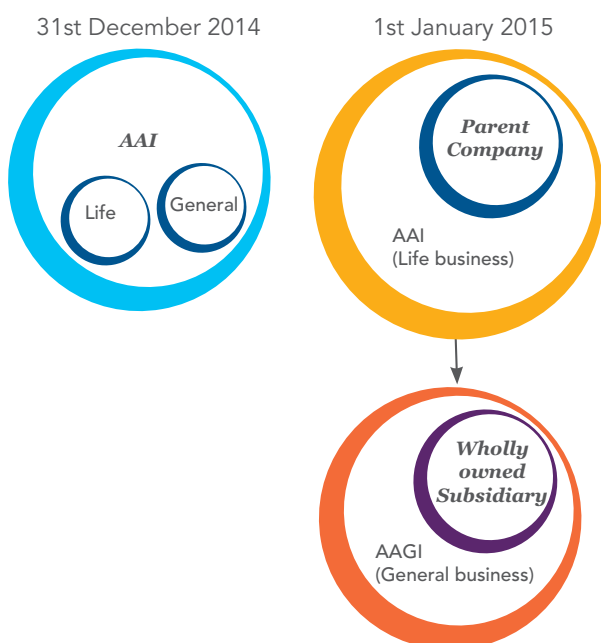
Management Discussion and Analysis

Segregation of Composite Insurance Business

During this year, a significant change was witnessed in the landscape of the insurance industry, brought on by the Regulation of Insurance Industry (Amendment) Act No. 3 of 2011. This Act required composite insurers engaged in both Life and General insurance business to segregate such business into two separate legal entities by 11th February 2015, and thus the industry witnessed many insurers completing the segregation of their Life and General business before this deadline and to coincide with the financial year beginning 1st January 2015.

In the previous financial year, Asian Alliance Insurance PLC (AAI) in collaboration with its foreign shareholders DEG and FMO organised a seminar themed 'The Future of Insurance in Sri Lanka', which highlighted the challenges facing insurers on account of this segregation process and thereby preparing the industry and all concerned stakeholders for this regulatory development. Since then, AAI complying with all guidelines issued by the regulator, i.e. the Insurance Board of Sri Lanka (IBSL) completed the segregation of its life and general business well in advance of the statutory deadline, being one of the first insurers to successfully complete the segregation. In this process, AAI obtained all the requisite regulatory and Court approvals, and the approval of its shareholders to ensure a smooth and seamless transition of business at the point of segregation.

Figure 7: AAI's Model of Segregation



AAI's chosen model of segregation involved the transfer of its General insurance business to a wholly owned subsidiary as shown in Figure 7. Towards this end, AAI incorporated Asian Alliance General Insurance Limited (AAGI), to which upon regulatory approval the license was granted to carry on the General insurance business effective from 1st January 2015. As at the date of this report AAI and AAGI function as two separate companies with the former carrying on the Life business and the latter the General business.

Risk Based Capital Framework

The other major change in the regulatory environment relates to regulatory capital and the introduction of the Risk Based Capital (RBC) Framework. The framework essentially is a measure of the adequacy of capital in relation to the risks inherent in the liabilities of the insurer and the assets supporting those liabilities. Since the beginning of 2014 the IBSL has piloted a parallel run of the RBC framework along with the existing solvency regime and AAI has submitted its returns in both forms. The RBC framework is to come into mandatory effect in 2016, at which point the existing solvency framework will be discontinued. AAI being proactively involved in the parallel run is well prepared to meet the demands of this new framework.

Other IBSL Regulations

The IBSL increased the minimum paid up capital of insurers to Rs. 500 Mn. Both AAI and AAGI exceed this threshold, post segregation. Further, the IBSL issued rules concerning Insurance Agents (other than individuals) including their qualifications, maintenance of a register and written agency agreement. The onerous qualification criteria for such institutional agents pose challenges for the future business expansion using institutional channels. Therefore, there has been an industry wide representation to the IBSL concerning this issue.

CSE Rule on Minimum Public Holding

This Rule requires companies listed on the Diri Savi Board of the CSE to increase minimum public holding to 10% of shares carrying ordinary voting rights in the hands of a minimum of 200 public shareholders. For companies that were listed prior to coming into operation of this Rule leeway is provided through the transitional provisions,

Regulatory Review

Management Discussion and Analysis

which allow for the public holding to be increased to 7.5% in the hands of 100 public shareholders by 31st December 2015 and reach the requirement of 10% by 31st December 2016. AAI currently has a public holding of 2.77% and is evaluating its options to increase this percentage. AAI expects to complete this exercise and increase the public holding to the required 10%, well within deadline.

CSE Rule on Related Party Transactions

To enhance the governance over related party transactions this rule has been promulgated and is due to come into mandatory effect from 1st January 2016. This Rule requires listed companies to establish a Board Sub-committee on Related Party Transactions and the mandate of this Committee includes the review of all related party transactions and the proposal of guidelines for any day to day, arm's length transactions between related parties. Further, the Rule sets threshold limits for the Company to seek shareholder approval for certain transactions and to disclose those to the CSE.

AAI has already established its Related Party Transaction Review Committee and is on course for transactions full implementation of the Rule well before the 2016 deadline.

Approach to Changes in the Regulatory Environment

AAI prides itself as an insurer that is fully compliant with its regulatory environment. To achieve this status AAI proactively screens its regulatory environment to identify any potential changes and it engages with the relevant regulatory authorities where necessary to ensure that the interests of both the industry and the policyholders are met. An example of AAI's commitment in this regard is reflected in its responses to consultations issued by the IBSL regarding potential regulatory developments such as the most recent consultation on the proposed rules for registration of Loss Adjusters.

Realising Opportunities

Management Discussion and Analysis



We are commercially and morally bound to serve our country and her people well, in return for the long-term profitable growth that we envisage as the leading insurance solutions provider in the industry.

The Sri Lankan economy continues to grow at a higher rate than most other regions, underpinned by increasing trade flows. Our unique competitive position will enable us to benefit from, and indeed support the country's growth story, as we create effective solutions for our policyholders and sustain improvements in our financial performance.

Doing business in Sri Lanka can often be challenging, but we are able to navigate unique environments by employing and developing local skills which, together with our group synergies and extensive footprint, puts us in a prime position to turn challenges into market opportunities.


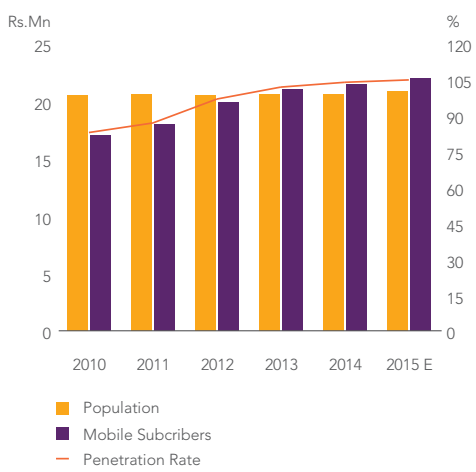
This report highlights some of the exciting growth opportunities we are pursuing together with AAI's response to each.

Key Ares	Presentation	Description / Impact	AAI Response																
Low Insurance Penetration	<table border="1"> <caption>Insurance Penetration by Country</caption> <thead> <tr> <th>Country</th> <th>Penetration (%)</th> </tr> </thead> <tbody> <tr> <td>Singapore</td> <td>~4.8</td> </tr> <tr> <td>India</td> <td>~4.5</td> </tr> <tr> <td>Malaysia</td> <td>~3.3</td> </tr> <tr> <td>Thailand</td> <td>~2.7</td> </tr> <tr> <td>B'desh</td> <td>~0.8</td> </tr> <tr> <td>Vietnam</td> <td>~0.7</td> </tr> <tr> <td>Sri Lanka</td> <td>~0.7</td> </tr> </tbody> </table>	Country	Penetration (%)	Singapore	~4.8	India	~4.5	Malaysia	~3.3	Thailand	~2.7	B'desh	~0.8	Vietnam	~0.7	Sri Lanka	~0.7	<p>Sri Lanka remains heavily under-penetrated with total premiums / GDP ratios much lower in comparison to other Asian countries.</p> <p>Refer case Study 1</p> <p>General Insurance industry also considered as under penetrated compared to the other Asian countries.</p>	<p>AAI aggressively expanded its footprint during 2014 by opening fourteen locations to realize opportunities.</p>
Country	Penetration (%)																		
Singapore	~4.8																		
India	~4.5																		
Malaysia	~3.3																		
Thailand	~2.7																		
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Realising Opportunities

Management Discussion and Analysis

Key Ares	Presentation	Description / Impact	AAI Response																																																								
Increasing trend of ageing population in Sri Lanka	<table border="1"> <caption>Ageing Population in Sri Lanka (%)</caption> <thead> <tr> <th>Year</th> <th>Percentage (%)</th> </tr> </thead> <tbody> <tr> <td>2010</td> <td>19</td> </tr> <tr> <td>2011</td> <td>21</td> </tr> <tr> <td>2012</td> <td>23</td> </tr> <tr> <td>2013</td> <td>24</td> </tr> <tr> <td>2014</td> <td>25</td> </tr> </tbody> </table>	Year	Percentage (%)	2010	19	2011	21	2012	23	2013	24	2014	25	The increasing trend of ageing population creates a rapid demand for health and protection related insurance solutions.	As a leader in healthcare insurance, we launched a new product, 'Buhuman', to realize this opportunity in addition to already available product such as 'Asiri Alliance Medical' and other life related products.																																												
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2011	21																																																										
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Lower exposure to investment and Annuity related products	<table border="1"> <caption>Product Mix Exposure (%)</caption> <thead> <tr> <th>Country</th> <th>Endowment & other (%)</th> <th>Investment & Annuity (%)</th> </tr> </thead> <tbody> <tr> <td>Sri Lanka</td> <td>85</td> <td>15</td> </tr> <tr> <td>Malaysia</td> <td>60</td> <td>40</td> </tr> <tr> <td>Singapore</td> <td>30</td> <td>70</td> </tr> </tbody> </table> <p>Source: IBSL Annual Report 2013</p>	Country	Endowment & other (%)	Investment & Annuity (%)	Sri Lanka	85	15	Malaysia	60	40	Singapore	30	70	Investment and Annuity product mix is lower in Sri Lanka as life insurance is considered a conventional life product rather than an investment product.	The company launched a new savings related insurance product (Asian Alliance Savings Plan) to capitalize on this opportunity.																																												
Country	Endowment & other (%)	Investment & Annuity (%)																																																									
Sri Lanka	85	15																																																									
Malaysia	60	40																																																									
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Growth in Per Capita Income and lower inflation	<table border="1"> <caption>World Economic Growth Projection (%)</caption> <thead> <tr> <th>Year</th> <th>US</th> <th>Germany</th> <th>China</th> <th>India</th> <th>Sri Lanka</th> <th>World</th> </tr> </thead> <tbody> <tr> <td>2009</td> <td>8.5</td> <td>8.0</td> <td>-1.0</td> <td>-5.0</td> <td>4.0</td> <td>2.0</td> </tr> <tr> <td>2010</td> <td>10.0</td> <td>10.0</td> <td>2.0</td> <td>4.0</td> <td>8.0</td> <td>4.0</td> </tr> <tr> <td>2011</td> <td>8.0</td> <td>7.0</td> <td>2.0</td> <td>2.0</td> <td>7.0</td> <td>3.0</td> </tr> <tr> <td>2012</td> <td>7.0</td> <td>5.0</td> <td>2.0</td> <td>1.0</td> <td>6.0</td> <td>2.0</td> </tr> <tr> <td>2013</td> <td>7.0</td> <td>5.0</td> <td>2.0</td> <td>1.0</td> <td>7.0</td> <td>2.0</td> </tr> <tr> <td>2014</td> <td>7.0</td> <td>5.0</td> <td>2.0</td> <td>1.0</td> <td>7.0</td> <td>2.0</td> </tr> <tr> <td>2015 E</td> <td>7.0</td> <td>5.0</td> <td>2.0</td> <td>1.0</td> <td>8.0</td> <td>2.0</td> </tr> </tbody> </table> <p>Figure : Comparison of world economic growth projection 2014</p> <ul style="list-style-type: none"> Inflation decreased to 3.5% in December 2014 from 4.4% in the previous year. 	Year	US	Germany	China	India	Sri Lanka	World	2009	8.5	8.0	-1.0	-5.0	4.0	2.0	2010	10.0	10.0	2.0	4.0	8.0	4.0	2011	8.0	7.0	2.0	2.0	7.0	3.0	2012	7.0	5.0	2.0	1.0	6.0	2.0	2013	7.0	5.0	2.0	1.0	7.0	2.0	2014	7.0	5.0	2.0	1.0	7.0	2.0	2015 E	7.0	5.0	2.0	1.0	8.0	2.0	Emerging manufacturing and service sectors seek more protection from uncertainties which arise in the business environment, hence positively impacting the General insurance Segment.	AAI launched a wide range of products and expanded its footprint to realize these opportunities.
Year	US	Germany	China	India	Sri Lanka	World																																																					
2009	8.5	8.0	-1.0	-5.0	4.0	2.0																																																					
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Key Ares	Presentation	Description / Impact	AAI Response																												
Emergence of new development projects	 <p>Emerging Sri Lanka</p>	Development of new infrastructure facilities across the country and emergence of new market space is being witnessed, creating more opportunities for the insurance industry. Infrastructure developments are taking place rapidly, with new airports, harbours and highways, thereby narrowing distance between urban and rural areas.	Expand distribution channels in rural area through "Hub and Spoke Strategy"																												
Rapidly Growing mobile penetration	 <table border="1"> <caption>Mobile Penetration Data (2010-2015 E)</caption> <thead> <tr> <th>Year</th> <th>Population (Rs.Mn)</th> <th>Mobile Subscribers (Rs.Mn)</th> <th>Penetration Rate (%)</th> </tr> </thead> <tbody> <tr> <td>2010</td> <td>21</td> <td>17</td> <td>81</td> </tr> <tr> <td>2011</td> <td>21</td> <td>18</td> <td>86</td> </tr> <tr> <td>2012</td> <td>21</td> <td>20</td> <td>95</td> </tr> <tr> <td>2013</td> <td>21</td> <td>21</td> <td>100</td> </tr> <tr> <td>2014</td> <td>21</td> <td>22</td> <td>105</td> </tr> <tr> <td>2015 E</td> <td>21</td> <td>23</td> <td>110</td> </tr> </tbody> </table>	Year	Population (Rs.Mn)	Mobile Subscribers (Rs.Mn)	Penetration Rate (%)	2010	21	17	81	2011	21	18	86	2012	21	20	95	2013	21	21	100	2014	21	22	105	2015 E	21	23	110	Growing mobile penetration is expected to surpass 100% in year 2014 and provide grater space in the digital platform.	AAI provided innovative solutions (Such as Click2Claim App) to capitalise on enhanced mobile penetration
Year	Population (Rs.Mn)	Mobile Subscribers (Rs.Mn)	Penetration Rate (%)																												
2010	21	17	81																												
2011	21	18	86																												
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2013	21	21	100																												
2014	21	22	105																												
2015 E	21	23	110																												

Realising Opportunities

Management Discussion and Analysis

Case Study 01 : Relationship between life insurance penetration and Per Capita Income

According to a research conducted by Rudolf Enz, the relationship between the Gross Domestic Production (GDP) and Penetration was developed into an S-curve as shown in Figure 1. Major findings are as follows;

As shown in table 1, there is a steep increase in penetration levels from 1% to 2.4% with an increase in per capita income from US\$ 10,000 to US\$ 26,875 respectively. Table 1 indicates a summary of the results that could be identified from the S-Curve and the relationship is graphically illustrated in Figure 1, which plots the penetration level in other countries

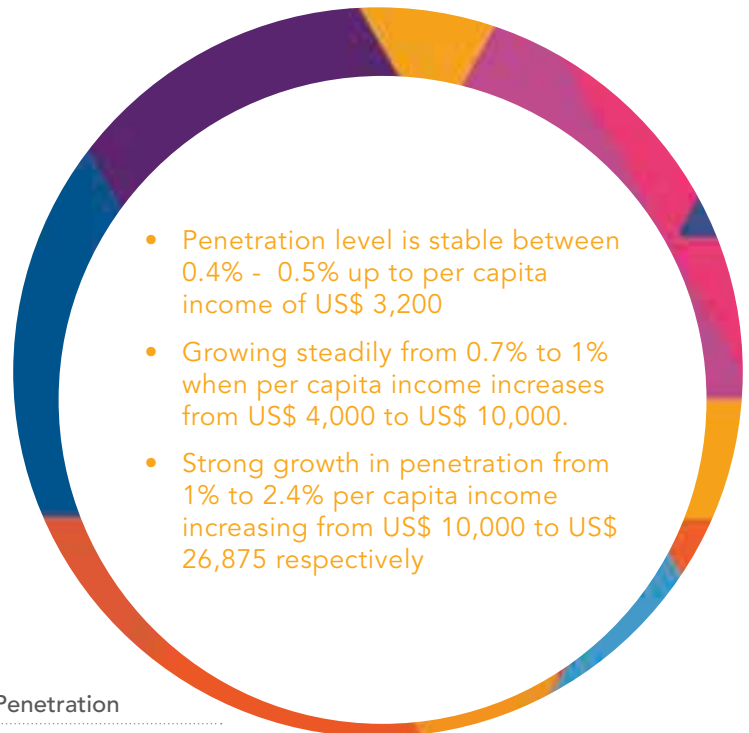
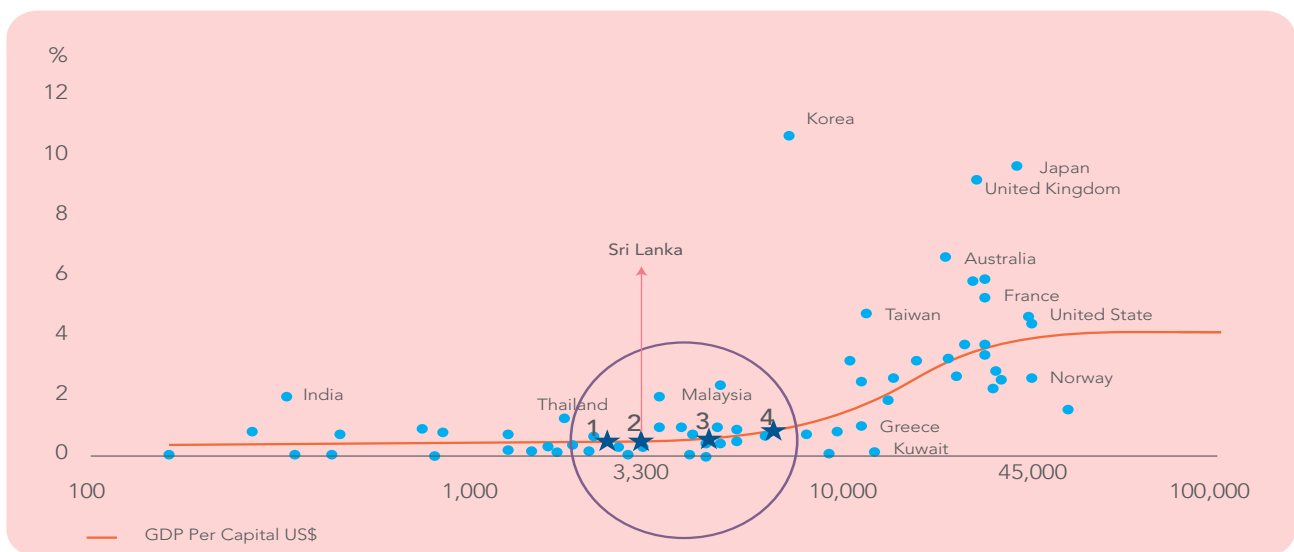


Figure 1: S Curve Relationship between Per Capita GDP and Penetration



S Curve Relationship between Per Capita GDP and Penetration

The S-curve provides some insight into the relationship between per capita income and insurance premiums. There seem to be upper and lower limits to the portion of income that is spent on insurance. Moreover, there is a level of per-capita income – approximately US\$ 15,000 for life insurance (inelastic) - at which point, the income elasticity of the demand for insurance reaches a maximum.

Conclusion

Based on the research findings, it is evident that the Sri Lanka life insurance market is poised for growth as the market starts to increase penetration levels in tandem with increases noted in per capita levels, and we expect strong growth thereafter.

Stakeholder Engagement

Management Discussion and Analysis



Our relationships with all our stakeholders impact directly and indirectly on our business activities and reputation.

Overview

At AAI we believe that our relationships with all our stakeholders have a direct and indirect impact on our business activities and reputation. Proactive and frank stakeholder engagement plays a vital role in helping us maintain sustainable value creation and in identifying our material issues.

Effective management of relationships with stakeholders is crucial to resolving issues facing our company. By using their influence, stakeholders hold the key to the environment in which the company operates and the subsequent financial and operating performance of the company. We build trust with stakeholders, aided by understanding their viewpoints and motivations.

Our stakeholder engagement process implies a willingness to listen; to discuss issues of interest to stakeholders of our company; and our willingness to change how we operate.

The engagement and assessment process involves several stages which can be explained by the following diagram.

Stakeholder identification

Stakeholder identification is important not only for determining who a company's stakeholders are, but also for determining the best way or ways to manage their expectations. Every stakeholder, regardless of his or her importance, wants or expects something from the company or its outcome. Further, identifying stakeholders allows for clear communication. To secure open and constructive dialogue with stakeholders, different means of communication are used by AAI, including communication days, conferences, face-to-face meetings and multi-stakeholder forums, which are always accompanied by the full disclosure of performance reports. The outcome of these processes guides the evolution of AAI's corporate social responsibility and sustainability strategy, policies, targets and practices at all levels.

The first step in our Stakeholder Analysis is to identify who our stakeholders are. As part of this, we considered all the parties;

- who are affected by our activities,
- who have influence or power over it,
- who have an interest in its successful or unsuccessful conclusion.



Stakeholder Engagement

Management Discussion and Analysis

The key questions that we considered were as follows;

- What financial or emotional interest do they have in the outcome of our work? Is it positive or negative?
- What motivates those most of all?
- What information do they want from us?
- How do they want to receive information from us? What is the best way of communicating our message to them?
- What is their current opinion of our work? Is it based on good information?
- Who influences their opinions generally, and who influences their opinion of us? Do some of these influencers therefore become important stakeholders in their own right?
- If they are not likely to be positive, what will win them around to support our project?
- Who else might be influenced by their opinions? Do these people become stakeholders in their own right?

As a result we identified the following individuals / groups as stakeholders of the company.



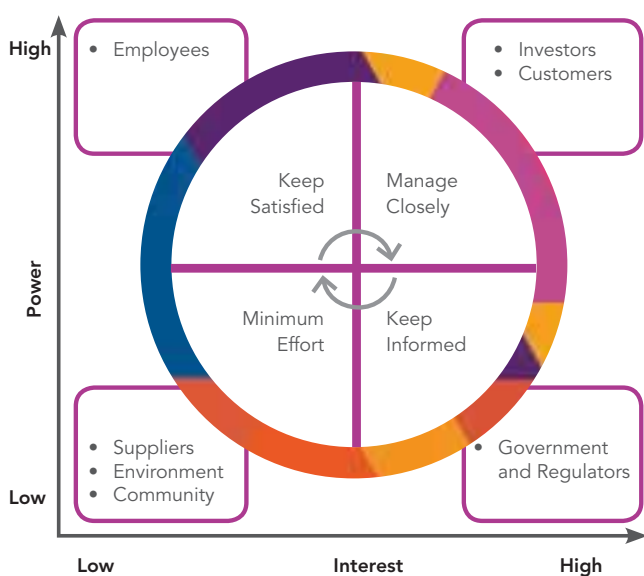
Prioritizing of stakeholders

While we impact and are impacted by numerous stakeholders, we believe that a comprehensive process of prioritizing is necessary for the better understanding and monitoring of our stakeholders and their needs. Hence, we have identified our stakeholders based on the extent of power and interest of each stakeholder category, using a model that illustrates the complex interrelationships and interactions between stakeholders and their impact, or potential impact on organizational decision-making.

AAI's business strategy and corporate responsibility priorities are influenced by our stakeholders. Stakeholders include employees, customers, investors, suppliers, community members, regulators, and others who have an interest in or interact with our Company.

We preferentially engage with those stakeholders who have the greatest potential impact on our operations or that could be significantly affected by our business activities. We set up multiple channels of communication to solicit feedback on our performance, including among our performance on external reporting.

Figure 8: Mendelow matrix relevant to AAI



This model illustrates the complex inter-relationships and interaction between stakeholders and their impact, or potential impact on organizational decision-making.




Based on the assessment carried out using the Mendelow matrix given above, we identified our key stakeholders.





Stakeholder Engagement

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Management Discussion and Analysis

The following table broadly sets out issues raised by our stakeholders, and how we have responded;

Stakeholder (ICON)	Key Expectations/ Commitments	Method of engagement and frequency		Response strategies
Investors 	1. Increased return on Investment. 2. Better interaction 3. Protect and facilitate rights and ensure fairness and transparency. 4. Complying with all statutory and regulatory requirements. 5. Ensuring adequate and timely communication.	Annually	Annual reports, disclosures and reviews	1. Regular email feedback of performance to investors who request same. 2. Improved website which capture the required information content.
		Quarterly	Quarterly Reports	
		Ongoing	Corporate website, Email access to management team.	
Customers 	1. Enhancing accessibility to our services to all segments in society in all districts and provinces. 2. Adequate lead time between placing order for goods / services and delivery date. 3. Satisfaction 4. New products to meet the evolving value propositions.	Annually	Customer satisfaction survey	1. Customer Call Center 2. Systematic upgrading customer centers to provide better service. 3. Introduce click2claim smart App. 4. Self-service insurance- 'Kiosk'. 5. Operational dashboard 6. 365 days insurance 7. Drive Thru Insurance 8. M-cash and Z-cash payment facilitates.
		Regularly	Daily interactions at customer Centers.	
		Ongoing	Corporate website, Complaint Box, Customer Forums, Meetings.	
			Product development forum	
Employees 	1. Ensure a healthy work life Balance. 2. Provide a rewarding career. 3. Build ownership by engaging employees in our business.	Annually	Evaluation based on Balance Score Card, External Evaluation "Great Place to Work" is a global research, consulting and training firm	1. The Infinity system was introduced to allow access through the. Internet on a 24x7 basis from any location at the users' convenience. 2. Maintaining diversity and providing equal opportunity. 3. Introduce Whistleblower policy. 4. Form a Crisis Management structure.
		Quarterly	Branch managers conference	
		Regularly	HR ISYS system provides end to end solution, Open door policy for communication throughout the organization	
		Ongoing	Emails, Intranet, Staff gatherings, facebook.	

Stakeholder (ICON)	Key Expectations/ Commitments	Method of engagement and frequency		Response strategies
Government and Regulatory Authorities 	1. Legal and regulatory compliance 2. Good corporate governance and business ethics 3. Support for government policy	Quarterly	The senior management are members of chambers and industry associations who meet at least on a quarterly basis	Submission of regulatory and statutory returns on a timely basis
		Ongoing	Engagement with the government is carried out on an on-going basis through meetings	
Suppliers 	1. On time settlement of invoices (in line with agreed terms) for services provided/ rendered 2. 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	Annually	Registration of Suppliers	1. Supplier evaluation committee 2. Workshops on sustainable business practices and guidance on implementation
		Quarterly	Supplier review meetings, one-on-one meetings	
		Ongoing	Equality when selecting	
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	Annually	Identify community needs through Customer Care Centre.	1. Leverage IT to minimize impact on environment (paperless office). 2. School Certificate Sponsorships Project. 3. Sponsorships for sports events.
		Ongoing	Sponsorships, Employee involvement in local community projects.	
Environment 	1. Improving Carbon footprint 2. Waste management 3. Energy use and efficiency 4. Protect wild life	Annually	Carbon footprint	1. Recycling of used items 2. Green building and eco friendly practices 3. Funding for Horton Plains – distributing eco-friendly bags 4. Nuwara Eliya visitor guide book 5. Habarana board campaign project 6. Manampitiya board campaign project 7. Minneriya board campaign project
		Ongoing	Environmental projects	

Material aspects

impacting our business

Management Discussion and Analysis



We have used the GRI G4 Guidelines to frame the content of this section. In comparison to previous versions of the GRI, G4 has a significant focus on materiality, enabling us to report on what matters most to our business and our stakeholders.

What matters most

In the year of 2014, the sustainability committee, as described under 'Sustainability Integration Section', introduced a sustainability framework defining the sustainability vision, policies and strategies or management approach towards priority issues. The framework assisted the committee to develop a methodology to focus on the issues that matter most to us and to our stakeholders. The

pillars of the methodology were based on the key priorities of AAI which were identified through the stakeholder engagement process.

We have used the GRI G4 Guidelines to frame the content of this section. In comparison to previous versions of the GRI, G4 has a significant focus on materiality, enabling us to report on what matters most to our business and our stakeholders.

Methodology

We believe that using a stakeholder-based approach brings many benefits such as:

- Enabling the company to elicit the opinions of our most powerful stakeholders to shape our activities at an early stage. Not only does this make it more likely that they will support us, their input can also improve the quality of our business.
- Gaining support from powerful stakeholders can help us to win more resources – this makes it more likely that our business will be successful.
- By communicating with stakeholders early and frequently, we can ensure that they fully understand what we are doing and understand the benefits – this means they can support us actively when necessary.
- We can anticipate what stakeholders reaction may be, and build into our plan the actions that will win stakeholder support.

Defining Report Boundary

During the reporting period, Asian Alliance General Insurance Ltd (AAGI) was formed where AAI PLC prepares consolidated financial statements by consolidating its fully owned subsidiary AAGI Ltd.

This report covers the operations of both company and is compiled in accordance with guidelines laid down by GRI G4- 'in accordance' – core option.

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, statement of financial position and 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.

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 Economic, Human Resource and Environment.

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 PLC. 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 2013 is based on GRI 3.1 application Level

B+. 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.

Restatement and significant changes: There are no restatements or significant changes in scope and aspect boundaries compared to 2013.

Focusing on the issues that matter most

We use a core set of priority issues determined through our sustainability strategy, to guide our overall corporate responsibility approach which places emphasis on the issues that matter most, as defined by the scale of our impact as a business, and by the feedback we received from key stakeholders as part of our reporting process. We believe that our priority issues are deeply relevant to our ability to succeed as a business.

Engaging with our stakeholders and understanding their concerns is critical to helping our company identify its most material issues. Keeping in line with our assessment of the stakeholders, the Information gathered as part of our various stakeholder engagement processes feeds directly into decision-making and drives our business strategy year on year. Below is a graphical representation of how and with whom we engaged to inform this year's strategy.

Face to Face discussions	Documentation	Survey
Product Development forum	Internal and External Audit Reports	Customer surveys
AAI Board members	Audit Committee Reports	Employee suggestions
Executive Management	Risk Committee Reports	
Employees	Board Report	
Customers and Suppliers	Meeting Minutes of weekly review meeting	
Regulators	Global Reporting Initiative's (GRI) Principles - G4	

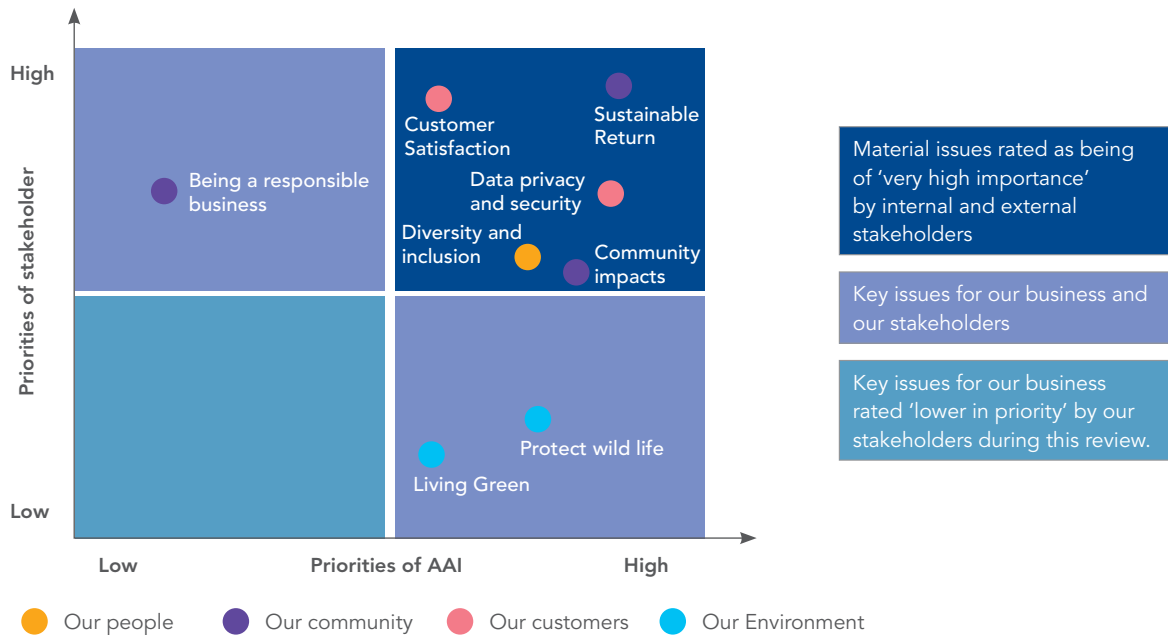
Material aspects

impacting our business

G4-19 (a) G4-20 (a) G4-21 (a)

Management Discussion and Analysis

Our materiality matrix



Mapping Material Issues

Pillar	Material Issue	GRI Material Aspect	Boundary*
Our People	Diversity and inclusion	<ul style="list-style-type: none"> Child Labour Non Discrimination 	Internal (employees), External (customers)
		<ul style="list-style-type: none"> Diversity and Equal Opportunity Equal Remuneration for Women and Men 	Internal (employees)
		<ul style="list-style-type: none"> Training and Education Employment 	Internal (employees)
Our Customers	Customer Satisfaction	<ul style="list-style-type: none"> Customers health and Safety 	External (customers)
	Data privacy and security	<ul style="list-style-type: none"> Data Privacy 	External (customers) Internal (employees)
Our Communities	Sustainable Return	<ul style="list-style-type: none"> Economic performance Indirect Economic impacts 	External (Communities)
	Community impacts	<ul style="list-style-type: none"> Local Communities Marketing Ethics 	External (customers, communities)
	Being a responsible business	<ul style="list-style-type: none"> Anti Corruption Compliance Public policy 	External (customers, communities) Internal (employees)
Our Environment	Protect wild life	<ul style="list-style-type: none"> Overall environmental performance 	External(communities, environment)
	Living green	<ul style="list-style-type: none"> Energy efficiency 	

The outcome of this engagement process enabled us to prioritize the issues that are most material to our business and to our stakeholders at the present time. The priority issues identified through our analysis which are explained in the priority issues matrix are covered in significant detail in this report. For each priority issue, we have included, as per GRI G4 requirements, a disclosure on management approach and at least one related qualitative or quantitative indicator. We also discussed additional topics ("Important Issues") that we identified as having a high level of importance to either external stakeholders or the company itself.

Mapping Material Issues

We have used the prioritization of issues in the materiality matrix to guide the content of this report and to determine the applicable GRI G4 material aspects. The table below

outlines our material issues against corresponding GRI G4 material aspects, where appropriate. In accordance with GRI G4 requirements, it also indicates where the primary impacts of this issue occur in terms of our stakeholders, and whether they are internal or external to our business. Finally, it references the chapters of this report where discussion regarding the issue can be found.

Association Memberships

AAI's management and employees participate in national and regional associations and advocacy organizations related to our priority issues. Our memberships include many leading organizations, some of which are listed below.

Figure 9: AAI Association Memberships



Our Sustainable Strategy

Management Discussion and Analysis



- We understand our customers' needs and our strategy is in line with many of their growth aspirations.
- We are dedicated to achieving exceptional customer service and operational excellence.
- We have experience in providing financial services to previously unbanked customers.

- We employ people who are excited about its prospects.
- We have a unified, experienced leadership team, committed to executing our strategy.

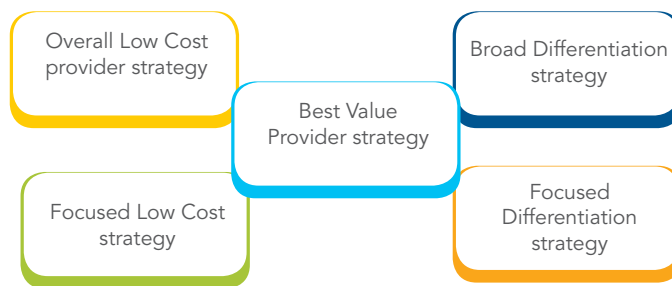
Our Competitive strategic direction

Asian Alliance Insurance is presently operating in a protection-based market where unique skills are required to sell its products as they are fairly differentiated at a reasonable price.

The company continues to operate its competitive strategy as "Best Value provider strategy" (Refer Figure 10), to stake

out middle ground between pursuing a differentiation advantage and low cost advantage and between appealing to broad market (Protection) as a whole and narrow niche. Further, we seek to serve mass value conscious buyers for a good to better service at an economical price by synergizing group advantage, personalize customer engagement at a reasonable price (Value for Money).

Figure 10: AAI Competitive Strategy



The values in placing our Strategy



Our Sustainable Strategy

Management Discussion and Analysis

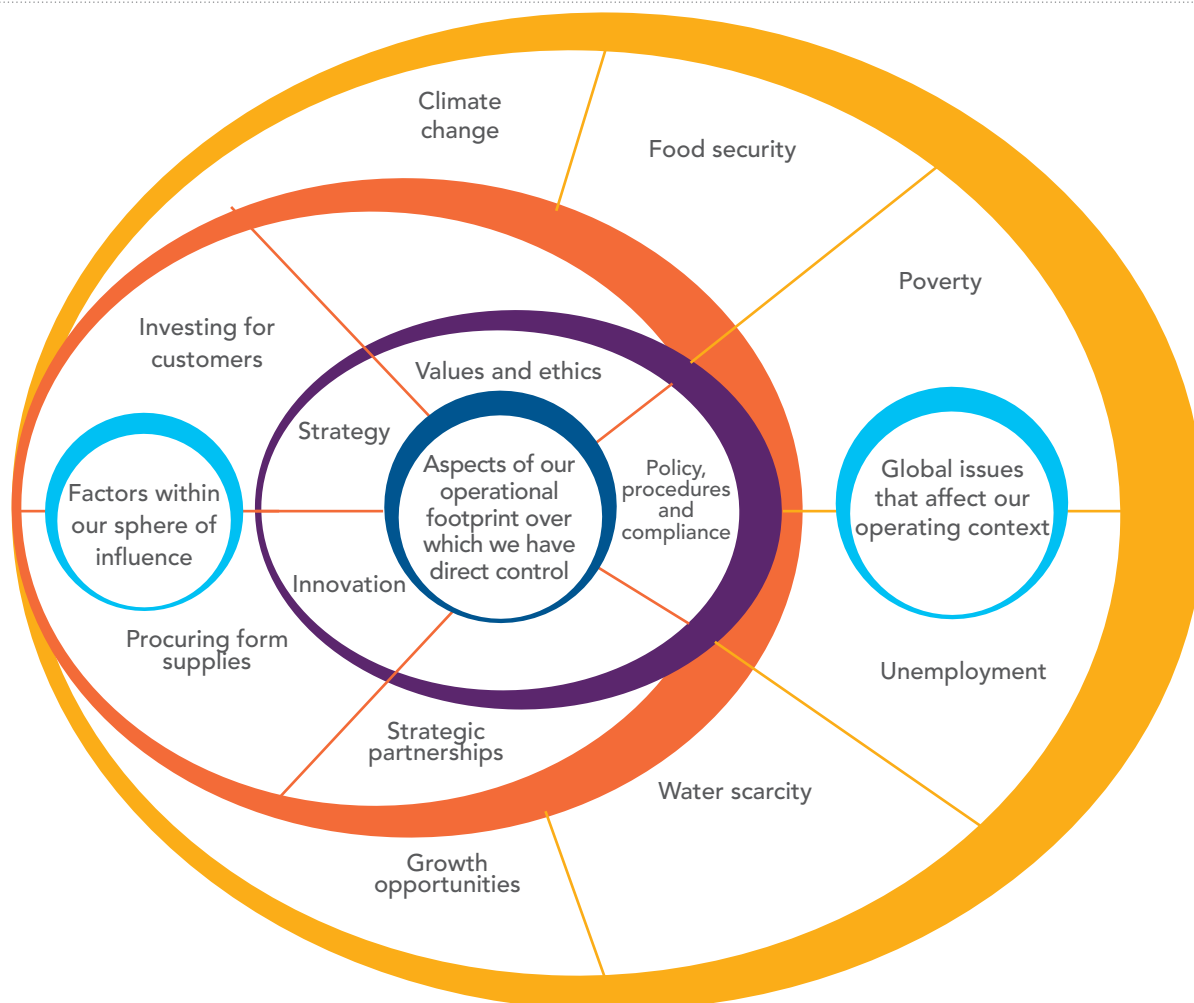
Our social impact underpins our long-term sustainability

The Company contributes to the socioeconomic development of our country in which we operate in a way that is consistent with the nature and size of our operations. We will provide responsible insurance services and products, bearing in mind the needs of society, our customers, our staff, our shareholders, the environment and future generations.

Sustainability as an integral part of our business strategy

We proactively embed sustainability thinking and sustainable business practices at every level of our business. We believe that our most important contribution to sustainable development is to operate an effective, efficient and profitable Company. By providing responsible access to insurance products, we enable individuals to improve their quality of life and enhance their financial security. The very nature of our business positions us to help our customers and stakeholders manage social and environmental challenges and invest for the future, which in turn contributes to the viability and sustainable growth of the economy. The success of our customers, clients and stakeholders guarantees future business, which underpins our sustainability.

Influence and control over factors that impact our sustainability



Executing our strategy

We continued to make steady progress against the strategies. Further table below highlights priorities for 2015 also;

Strategic Objective	Key Initiatives target for 2014	Progress 2014	2015 priorities
Embed customer and client centricity	<ul style="list-style-type: none"> Expand our footprint to increase convenience and accessibility to the customers. Conduct comprehensive research to identify customer perceptions Launch of new products to fulfill customer needs effectively Initiative to ensure sustained growth in transaction volumes Training of customer contact center staff Enhance the facilities of following customer service centers Continuously educate customers about taking proactive action rather than exposing their investments to risks. Use of Group synergies to create competitive advantage Use group synergies to improve the customer contact points cost effectively Use synergies to improve the product quality by improving the performance 	<ul style="list-style-type: none"> Expanded branch network by adding fourteen new branches Lanka Market Research Bureau (Pvt.) Ltd commissioned to conduct research Introduced five new products to fulfill customer needs effectively such as Pension plan, Buhuman, Click 2 Claim etc. Relaunched personalized products based on customer requirements. Launched "Self-service Insurance – Kiosk" Training of customer contact center staff resulted in a marked improvement in customer satisfaction evidence Upgrades were done in regional service offices, Client Relationship Division, Customer Care Centre, Corporate customer service Unit, Policy Conservation Unit. Introduced a social media service desk to deal with queries Launch of "Asian Health Alliance" to provide value addition to our customer Develop retail customer segment through the strategy of "Hub & Spoke" by synergizing Softlogic group opportunities. 	<ul style="list-style-type: none"> Further expand branch network Continue to engage with research activities Facilitate and improve product development capabilities to serve customer needs effectively Provide customers personalized service Continue to train employees to provide first-class service Continue to upgrade service contact points Improve the Use of Social media Exploit synergies to continue to provide greater service Consistently improve service standards Use of group synergies to achieve operational excellence and high level of service levels Continue to leverage on our partnerships, bancassurance and other broker channels

Refer Embedding customer-centricity page 161 to this report for more information

Our Sustainable Strategy

Management Discussion and Analysis

Executing our strategy

We continued to make steady progress against strategies and priorities for 2015.

Strategic Objective	Key Initiatives target for 2014	Progress 2014	2015 priorities
Inspire and motivate our people	<ul style="list-style-type: none"> Building an engaging and performance-driven culture across the business. Encourage to complete Insurance professional exams Encourage employee participation in corporate strategy and planning process Enabled employees to communicate with the company Encourage employees to participate in community development activities 	<ul style="list-style-type: none"> Introduced a group wide employee value proposition programme Sales and service champions Awards to recognize, motivate and reward high achievers in both sales and non-sales category The Company provided financial assistance to employees by providing opportunity for reimbursement Employees were provided opportunities to participate in planning sessions and detail of finalized corporate strategies were communicated to all levels of staff Launched its "Facebook" page to communicate with the company at their leisure through their Facebook accounts Launch of Intranet "Infinity" driving communications and employee engagement Material and presentations of the Digital Academy was done by Employees of the Company 	<ul style="list-style-type: none"> Continue to engage with our employees on our employee value proposition and how it fits within their operating context. Continue to develop on employee training needs Continue to recognise employees at all level Create leaning and development culture by encouraging employees to obtain insurance and other qualifications
Sustainable return through operational excellence	<ul style="list-style-type: none"> Investments in operational and technological infrastructure Invested in the social media platforms to promote products and services Use of technology to improve the operation 	<ul style="list-style-type: none"> Implementation of (Auto Underwriting) Explored more web based products through alliances with mobile service providers. Re launching "Facebook page" Implementation of Lean management to streamline General insurance operations Launching of Operational Dashboard, and OCR facility to scan proposal forms Launch of Click 2 Claim App 	<ul style="list-style-type: none"> Upgrade IT infrastructure to improve efficiencies and effectiveness of internal processes Leverage technology to provide improved customer service and drive efficiency and effectiveness in all functions including learning and development

Refer Employee Our extraordinary people page 147 to this report for more information

Strategic Objective	Key Initiatives target for 2014	Progress 2014	2015 priorities
Deliver as a responsible corporate citizen	<ul style="list-style-type: none"> Product responsibility Improve and contribute to the development of our environment Facilitate in developing community is by promoting knowledge based activities 	<ul style="list-style-type: none"> "We are in the Business of Protection" is our motto and we continuously derive our strategies to cater the protection needs of customers. All products are in accordance with the rules and regulations of the country and have been submitted to the IBSL prior to launch. "Protection of Your Beautiful world" Company conducted a series of projects to protect environment Launch of "Paper Less" office during the year Launched "Digital Academy" to contribute and develop insurance industry by providing material on a digital platform. Support the state education sectors through company's School Certificates Projects 	<ul style="list-style-type: none"> Continue to develop products which serve the needs of society Expand Environmental footprint under theme of "Protection of Your Beautiful world" Launch of Paperless office Phase 2 Improve the content of the Digital academy
Reshape our business to take account of trends in legislation and regulation	<ul style="list-style-type: none"> Segregation of composite companies Prepare for implementation of Risk Based Capital (RBC) Framework 	<ul style="list-style-type: none"> All requirements and approvals obtained and General insurance operations were transferred to separate legal entity w.e.f 1 January 2015. Participated in compulsory parallel run for RBC. Risk committee is updated on time with relevant developments 	<ul style="list-style-type: none"> Pursue opportunities to further realign our business to our strategy Implementation of RBC Comply with the new Accounting Standards issued by Institute of Chartered Accountants w.e.f 1 January 2015.

Material issues impacting our sustainability

In formulating our strategy and determining our strategic priorities, we consider the full range of issues that influence the sustainability of our business and the social, economic and physical environments in which we operate and which, in turn, have a direct impact on our future viability.

Refer our material aspects provided in pages 80 to 83 this report

Our extraordinary performance

Management Discussion and Analysis



“Our performance reflects our commitment to all aspects of the Triple Bottom line and outcomes in relation to main capitals by executing our strategies and leveraging on the AAI business model”



Financial review

Overview

The Company continued its robust performance despite the challenges in the insurance sector and concluded yet another successful financial year recording the highest- ever performance- both for top line as well as bottom line this reflects the success of our continued business strategies which predominantly focus on satisfying customer value propositions and stakeholders' diverse expectations

AAI aggressively expanded its geographical footprint to enhance convenience and upgraded its service centers into fully fledged branches enabling the Company to provide a superior service to its customers.

The macro environment had an impact on the business, particularly with rapidly decreasing interest rates, regulatory

changes such as segregation of the composite Company, RBC implementation and other investment opportunities. The Company evaluated these shifting needs in the business environment and aligned its strategies to derive long term benefits.

The company posted **Rs.752 Million** profit after tax for the period under review and surpassing **Rs.4.7 Billion** in GWP. The Company's Asset base continued to grow during the year to **Rs.10.3 Billion** from Rs. 7.4 Billion in the previous year and it declared dividend of **Rs.10** per share during the year amounting to **Rs.375 Million**.



“2014 was an exceptional year in which our Company crossed Rs. 4.7 Billion Gross Written Premium and recorded Profitability of Rs.750 Million”

Financial Capital Value Creation

Income Statement

At AAI we emphasise “Topmost line” of the customer and “Middle line” which signify expenses of the Company as these are strategic controllable value drivers of the Company.



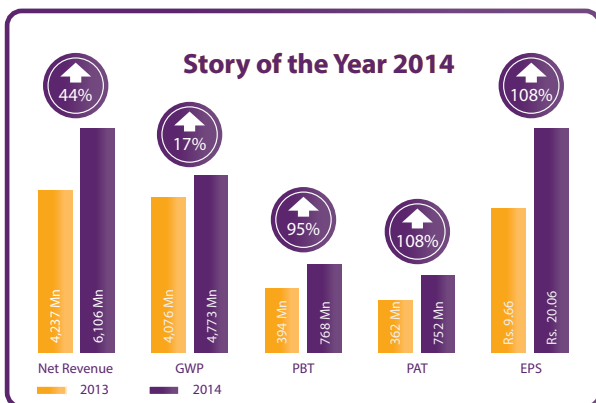
Source: Adaptation from Prof. Uditha Liyanage

Where:

Topmost line: Customer Perceived Value (V) – Price of the Insurance Products (P)

Customer Perceived Value: How much customers believe it can satisfy their needs

Middle Line: Expenses (C)



The Company's net revenue surpassed Rs. 6 billion for the first time in the history of the Company which is a vast increase from Rs. 4 Billion recorded in the year 2013.

The consolidated Gross Written Premium (GWP) of the Company increased by 17% reaching Rs. 4,773 million and overall pre tax profits of the Company surpassed the Rs. 752 million mark with an outstanding increase of 108% in 2014.

Our Company consistently improved its turnover surpassing industry average growth rates during the last five years and has demonstrated a consistently exceptional performance.

In reading our financials it is pertinent to note that information presented for the financial years 2014, 2013, 2012 and 2011 have been prepared in accordance with the new Sri Lanka Accounting Standards while financial information for periods beyond the stated years, unless otherwise stated, are as per the previous Sri Lanka Accounting Standards.

Yearly Overview of Our Company's Financials

Rs. million	2014	2013	2012	Growth 2014
Net Revenue	6,102	4,237	2,859	44%
Gross Written Premium	4,773	4,077	3,224	17%
Reinsurance	553	636	562	-13%
Net Earned Premium	4,140	3,240	2,392	28%
Investments and Other Operating Revenue	1,962	997	466	97%
Net Benefits and Claims	1,548	1,124	705	38%
Change in Insurance Contract Liability - Life	1,253	842	551	49%
Underwriting and Net Acquisition Cost	833	712	573	17%
Operating, Administration and Other Expenses	1,677	1,152	993	46%
Profitability	752	362	73	108%
Dividend Per Share (Rs)	10.00	4.80	-	108%
Other Comprehensive Income	1,094	370	122	196%

Our extraordinary performance

Management Discussion and Analysis

Graphical Presentation of Income Statement



force together with exceptional investment performance from proactive investment due to strategic management of investment.

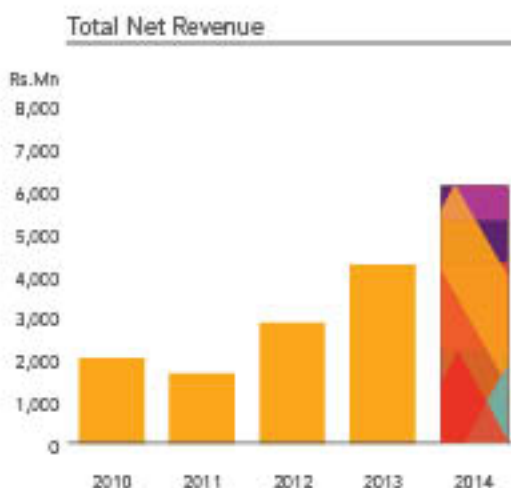
Gross Written Premium (GWP)



Total Net Revenue

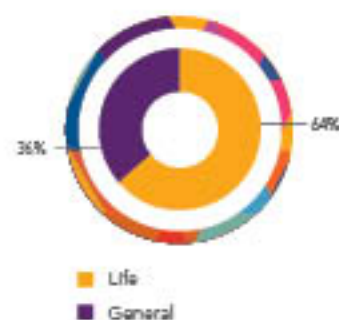
Overall, total net revenue of the Company increased by 44% from Rs. 4.2 billion in 2013 to Rs. 6.1 billion in 2014. Total net revenue consists of net earned premium, income from investments and other operating income.

The Gross Written Premium (GWP) represents the premium charged to underwrite risk of the Company and has shown a significant improvement during the year 2014 recording Rs.4.8 billion which is a 17% growth compared to the previous year which is well above the industry average growth rate of 6%.



Composition of GWP

GWP MIX

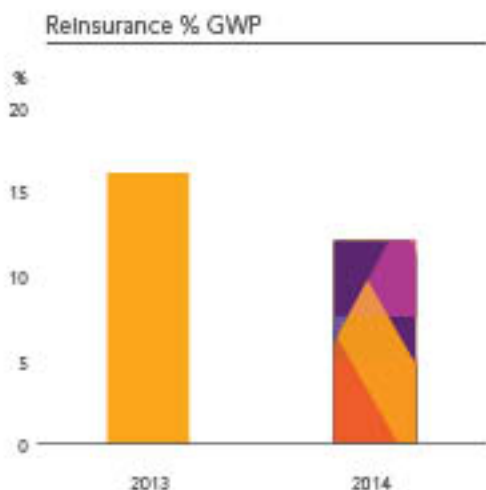


The continued strong growth in net revenue as a result of strategic investments made over the years in terms of developing innovative products, multiple distribution channels and maintaining effective pricing discipline with improved technology, and structured training of the sales

The Life Insurance segment contribution further increased to 64% compared with 62% recorded in year the 2013. A detailed analysis of the GWP for Life Insurance is given on pages 96 to 99 and that of General Insurance on pages 100 to 102.

Reinsurance

During the year, the Company's reinsurance outgo was Rs. 553 million, recording a 13% decrease from the Rs. 636 million ceded in 2013, which is a reduction of Reinsurance to GWP percentage from 16% in year 2013 as against 12% during year 2014. Further General Insurance, which accounted for 58% of the reinsurance outgo in 2014, marked a 26% growth over 2013, while Life Insurance, which accounted for the balance 42%, decreased by 39% compared to 2013, largely due to restructuring of our Life reinsurance arrangements.

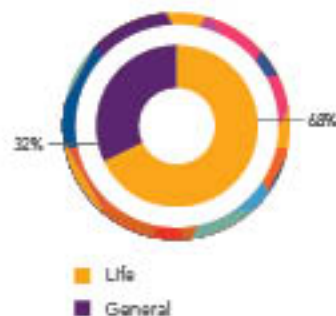


Net Earned Premium (NEP)

In the year 2014, the Company's net earned premium increased to Rs. 4.1 billion, recording an impressive 26% growth from the Rs. 3.2 billion in 2013.

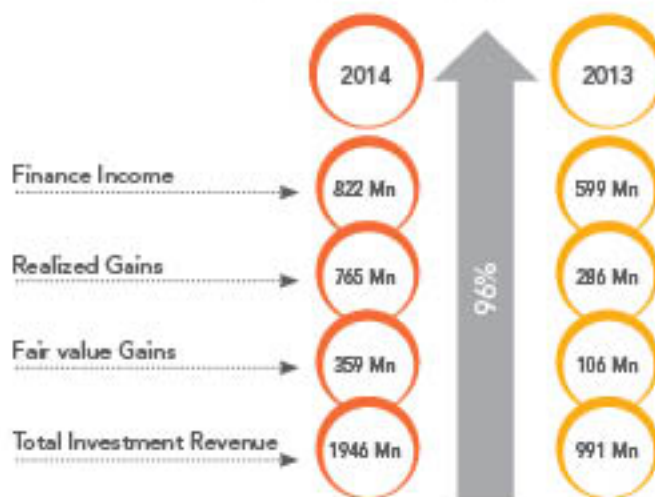
The Life division contributed Rs. 2.8 billion to the earned premium as against the contribution of Rs.2.1 billion in 2013 which is 32% and exceeds the GWP growth mainly due to the savings derived from the restructuring of the reinsurance arrangements. This significant achievement was predominantly due to GWP growth and customized reinsurance arrangements in both Life and General Insurance business of the Company.

Net Earned Premium



General Insurance segment of the Company was able to increase net earned premium (NEP) to Rs.1.3 billion with a growth of 18% which also above the GWP growth due to the higher business volume recorded in motor insurance which has only an excess of loss arrangement expense. The unearned premium reserve is adjusted in arriving at General Insurance NEP.

Investments and Other Operating Revenue



The investment revenue recorded for the year 2014 was Rs. 1,946 million achieving a significant growth of 96% compared to the previous year, where 42% of investment income for the year was earned through finance income which mainly consists of income from Government securities and dividend income. In addition to above Company recorded realisation of the equity and significant sale from Government securities in available-for-sale and Fair Value Through Profit or Loss as shown in above table.

Our extraordinary performance

Management Discussion and Analysis

Composition of Investment Portfolio - 2014



The Company realized significant gains through equity and treasury bonds classified under available for sale financial assets during the year which amounted to Rs. 208 million compared to year 2013.

In addition, the above fair value gains represent an increase of 9% resulting from fair value increase in equity portfolio compared to year 2013.

Overall, the combined fund base amounted to Rs. 8.5 billion as at 31st December 2014, which consist of fixed income securities of 67%, Unit Trusts of 7% and 26% of equity.

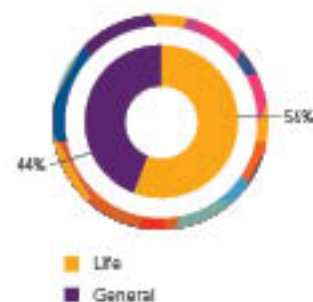
Insurance Claims and Benefits

Details (Rs. million)	2014	2013	Growth 2014
Net Insurance Claims Paid	1,403	1,108	27%
Net Claims and Benefits for outstanding	145	17	178%
Total	1,548	1,124	38%

Insurance claims and benefit expenses are the main costs of the insurance business, which includes gross benefits and claims paid. During the period under review, it increased by 38% from Rs. 1,124 million in 2013 to Rs. 1,548 millions in 2014. This growth reflects the manner in which the Company diligently paid out policyholder claims while maximizing shareholder wealth.

During the year net claims paid increased by 27% from Rs. 1,107 million to Rs. 1,403 million. However net claim outstanding increased by Rs. 128 million over the year 2013 mainly due to the prudent and stringent reserving policy.

Insurance Benefits and Claims

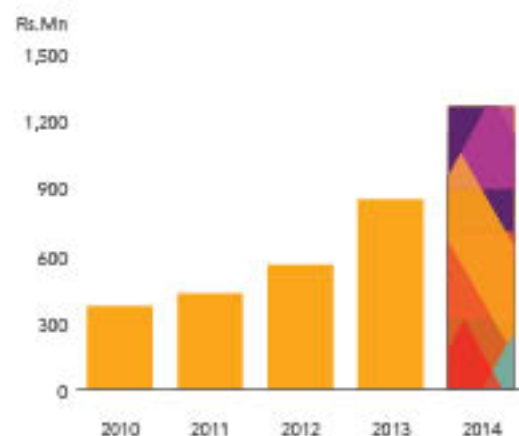


The Life Insurance segment contributed 22% towards claims and benefits, whereas the General Insurance segment accounted for 78% during the year 2014.

Change in Insurance Contract Liability - Life

During year 2014, the Company transferred Rs. 1,253 million to the Life fund, which is 49% higher than the amount transferred in year 2013, due to the higher business growth and exceptional investment performance achieved by the Company to further strengthen its reserving position.

Transfer to Life Fund

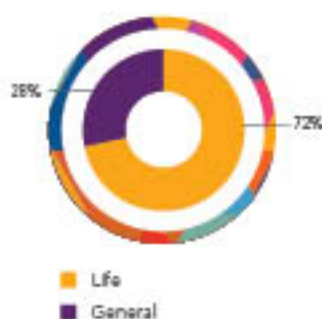


Underwriting and Net Acquisition Cost

The acquisition costs includes commissions and other variable costs directly connected with acquiring new business and renewal of insurance contracts.

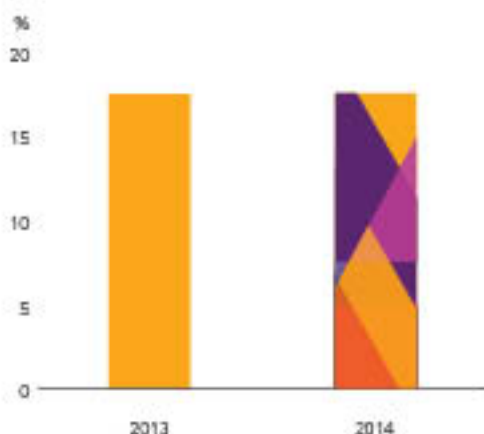
During the year net acquisition cost of the Company increased by 17% to stand at Rs. 833 million. The increase in net acquisition cost was mainly due to growth in new businesses attracted by both Life and General Insurance, which is 72% and 28% respectively.

Underwriting and Net Acquisition Cost



It is noted that costs from Life Insurance, accounting for 72% of the total, was the key reason for the increase in underwriting and net acquisition costs. This trend, however, is on par with the Insurance Industry, where the higher acquisition costs in Life Insurance is a normal phenomenon due to the high commissions paid to intermediaries.

Net Acquisition Cost % GWP



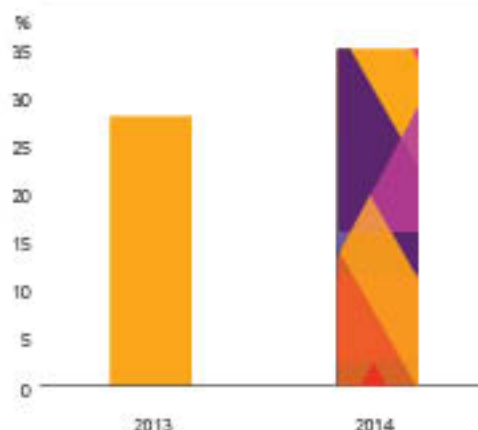
The Company was able to control its acquisition cost in relation to GWP by maintaining level at 17.5% on par with in the year 2013, despite the growth in new business in both Life and General businesses due to higher reinsurance commission income.

Operating, administration and other expenses

The Company spent 35% of its GWP as operational and administration expenses, which amounted to Rs.1,677 million. These expenses, consist of salaries, administration expenses, brand development expense, depreciation and amortization of assets and all other expenses not included under underwriting and net acquisition costs, increased by 46% over the Rs. 1,152 million recorded in 2013. During the year expense included one-off expenses of Rs. 90 million on brand development. However the expense ratio (Expenses % to GWP) adjusted for one-off expenses would remain at 33% which is marginally higher than 28% reported in year 2013. This is due to the expansion of our branch network and expenses incurred to strengthen our capacities where the benefits are expected to flow in the coming year.

The expense ratio of the Life and General Insurance stood at 60% and 45% respectively.

Operating, Administration and Other Expenses % GWP



The Company continued to implement initiatives to leverage information technology to enhance productivity and change the existing operating model and business practices in order to optimise expenses which are discussed in the operational review.

Profit After Taxation

Profit after tax of the Company surged to Rs.752million for the year 2014 with a phenomenal growth of 108% against Rs. 362 million reported in 2013. This has enabled the Company to increase Earnings Per Share to Rs. 20.06 from Rs. 9.66 reported in year 2013. Thus, the Company was able to report sustainable performance to its shareholders over the past year.



Our extraordinary performance

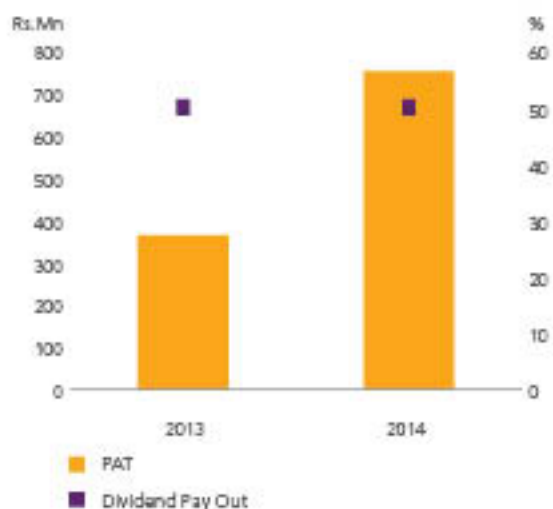
Management Discussion and Analysis

Dividend

AAI's dividend policy focuses on maximizing the shareholder wealth and, market capitalization, achieving wider reach and maintaining a consistent stream of dividends. The Company's healthy financial position enabled it to maintain its dividend payout to shareholders in 2014 as well. The Board of Directors have recommended a dividend of Rs. 10 per share which amounted to Rs. 375 million in relation to 2014.

AAI recognizes the importance of a clear, stable and coherent dividend policy. Dividend payments to shareholders depend on the Company's cash flow and capital position. This translates to a dividend pay-out ratio of 50% during 2014 and 2013 which reflects the consistent adoption of dividend policy of the Company.

Return to Dividend



Other Comprehensive Income

Other comprehensive Income comprises gains and losses arising from valuing financial assets and liabilities classified as Available for Sale (AFS) to their market values. As per the current accounting standards, these should not be considered to arrive at profits but be disclosed separately, unless realized. During the year, the Company recorded Rs. 341 million in the other comprehensive income entirely from fair value appreciation of investments classified as available for sale financial assets.

We have recorded Actuarial Gains/Losses on Employee Benefit Liabilities (Gratuity) also under Other Comprehensive Income in line with the change in the relevant accounting standard, LKAS 19 – Employee Benefits.

During the year, the Company recorded Actuarial Gains on Gratuity of Rs. 1.4 million during the period compared to actuarial loss of Rs. 2.3 million in 2013

Segmental Review – Life Insurance

Snapshot of Life Segmental performance

Figures are Rs. million unless otherwise stated

Description	2014	2013	Change %
Gross Written Premium	3,048	2,520	21%
Reinsurance	(231)	(382)	-40%
Net Earned Premium	2,817	2,139	32%
Net Claims and Benefits	(312)	(214)	46%
Underwriting and Net Acquisition Cost	(715)	(604)	17%
Expenses	(1,155)	(748)	54%
Profit After taxation	840	434	94%

Business Unit Related Key Performance Indicators

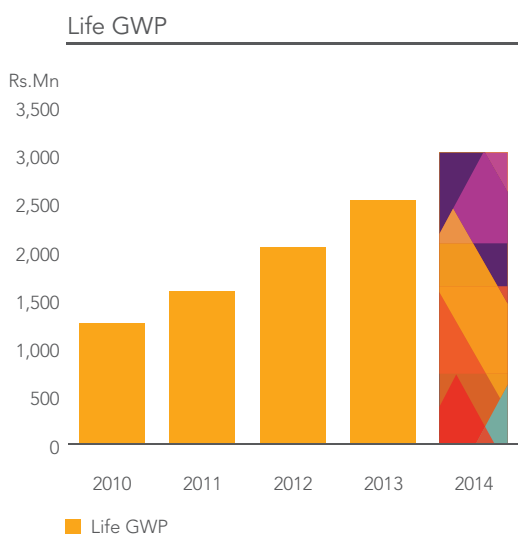
Description	2014	2013
Reinsurance Ratio (Reinsurance/GWP) %	8	15
Claims Ratio (with maturities and surrenders) %	11	8
Claims Ratio (without maturities and surrender's)%	5	5
Net Acquisition Cost Ratio%	25	28
Other Expenses Ratio % GWP	33	30
Expense Ratio % NEP	60	64
Combined Ratio % NEP – with maturities and surrenders	71	64
Combined Ratio % NEP – without maturities and surrenders	65	61

Key Value Drivers

Description	2014	2013	Change %
Annualized New Business Premium (ANBP) Rs. million	1,246	1,024	22%
Average Premium Per Policy (Rs)	81,639	76,187	7%
Persistency Ratio (Year 1)%	79	76	5%
Persistency Ratio (Year 2)%	58	55	5%

Gross Written Premium – Life

Description	2014	2013	Change %
Gross Written Premium	3,048	2,520	21%



Class	Rs. million	2014	2013	Growth
First Year Premium		931	820	14%
Renewal Premium		2,086	1,688	24%
Group Life Premium		27	11	141%
Single Premium		5	2	216%
Total		3,048	2,520	21%

Five year compound growth stands at 19.66%, and the year-on-year growth of the life business was 21% (2013 - 24%)

Commentary

The GWP of the Life segment contribute to 64% of total GWP of the Company and increased by 21% to Rs. 3,048 million by surpassing Rs. 3 billion in history of the Company. Renewal policies continued to be the main premium generator in our product portfolio, contributing 68% of the total Life Insurance GWP. The renewal premium increased to Rs. 2,086 million with an increase of 24% during the period, which is a Rs. 398 million increase compared to the Rs. 1,688 million in 2013. The 31% of the GWP is a gain from first year premium while the group life and single premium represent the balance 1%.

Life market condition details are provided in pages 122 to this report

Performance of Key Value Drivers

The Life insurance GWP of the company depend on the key value drivers such as annualised new business premium (ANBP), average policy value and persistency level. The

Company continuously focus on improving the key value drivers in order to achieve its robust performance growth of the top line. As a result, all the key value drivers mentioned above reported significant growth / improvement during year 2014 when compared to the year 2013.

Please refer page 121 in life operation review for more information

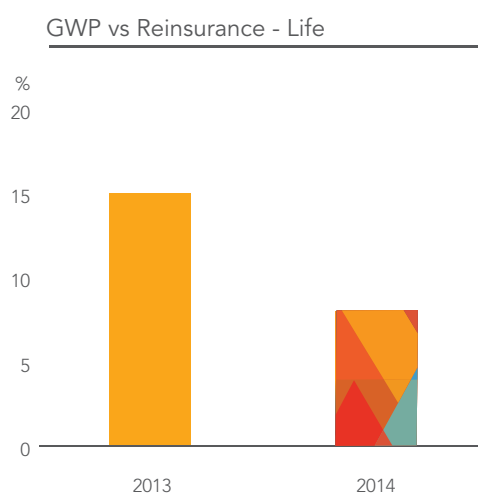
Strategies Executed

The Company continually focuses to deliver first class service to our customers by differentiating from competition, which has enabled us to achieve sustainable growth in GWP. The differentiation and competitive advantage being the specialized knowledge of our sales force.

First year and new business premium growth was reported from the implementation of the market penetration strategy, which also led us to increase our branch network by 14 during the year 2014. In addition to the above, the Company introduced several new products to capitalize on new opportunities via implementing product development strategy.

Performance of the renewal premium increased due to stringent focus on the collection follow-up by our specialised unit.

Reinsurance - Life



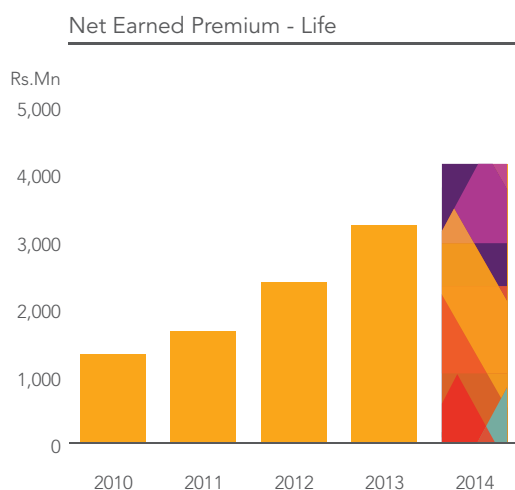
Commentary

Restructuring Life reinsurance arrangements resulted in significant savings by reducing reinsurance outgo from 15% to 8% during the year compared to 2013.

Our extraordinary performance

Management Discussion and Analysis

Net Earned Premium - Life



Five year compound growth stands at 25.77%, and the year-on-year growth of the life business was 32% (2013 - 25%)

Commentary

The Life Insurance segment Net Earned premium steadily increased predominantly due to the robust performance in GWP. During the year 2014 the Company revisited its reinsurance arrangement and made structural changes to optimize its reinsurance arrangement which also contributed to growth of NEP year 2014.

Rs. million	2014	2013	Change
	2,817	2,139	32%

Net Claims and Benefits - Life

Rs. million	2014	2013	Change
	312	214	46%

Category	Rs. million	2014	2013	Growth
Regular Claims		170	128	33%
Maturities		62	35	77%
Policy Surrender		80	51	57%
Total		312	214	46%

Commentary

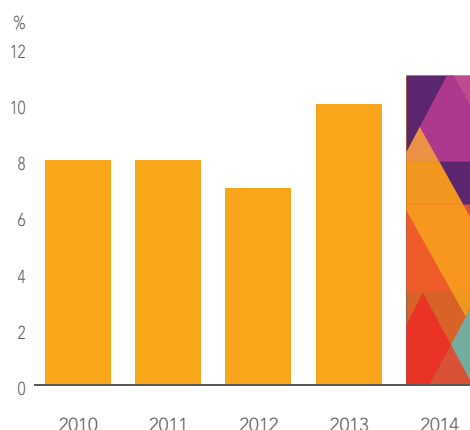
This is the expenses and benefits paid by an insurance company in the form of claims. Net claims and benefit expense increased by 46% during the year mainly due to the marginal increase in the surrenders and maturities.

All other claims were managed at normal levels

Claims Ratio - Life

Description	2014	2013
Claim Ratio (with maturities and surrenders) %	11	10
Claim Ratio (without maturities and surrenders) %	5	5

Claim Ratio - Life



Commentary

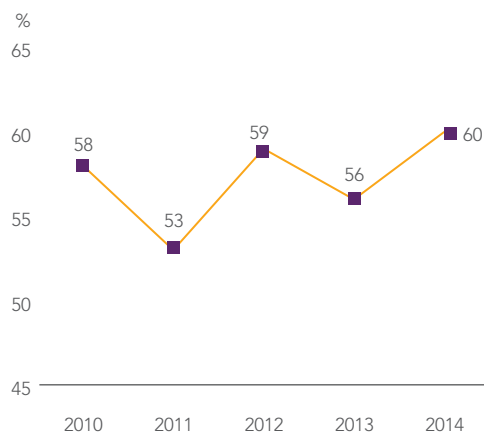
The insurance industry claim ratio refers to net claims as a percentage of net earned premiums. The claims ratio without maturities excludes claims from policy maturities, and is considered the more appropriate indicator to understand trends.

The Company managed its claim ratio favourably due to better risk management policies adopted by the Company.

Expense Ratio - Life

Description	2014	2013
Net Acquisition Cost Ratio%	25	28
Other Expenses Ratio % GWP	33	30
Expense Ratio % NEP	60	64

Expense Ratio - Life



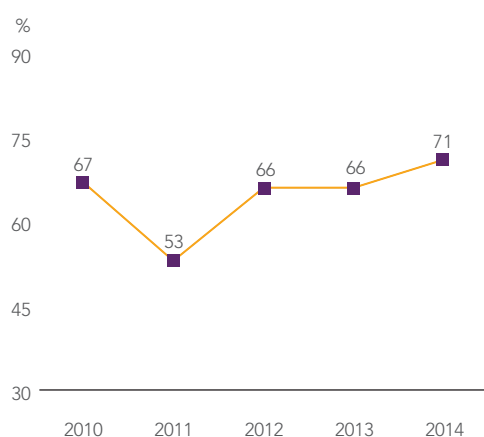
Commentary

The expense ratio increased by 4% during year due to the significant investment made to expand distribution capabilities. The Company expects benefits to flow in the coming year.

Combined Ratio – Life

Description	2014	2013
Combined ratio % NEP – with maturities and surrenders	71	66
Combined ratio % NEP – without maturities and surrenders	65	61

Combined Ratio - Life



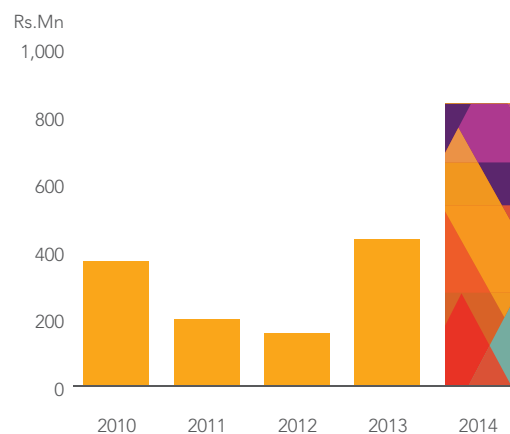
Commentary

The combined ratio increased by 4% during year 2014 due to the investment in expansion. The exceptional performance reported is after considering robust growth in life GWP which included new business premium which is has a comparatively higher acquisition cost.

Profit After Tax - Life

Description - Rs. million	2014	2013	Change %
Profit After Taxation	840	434	94%

Profit After Tax - Life



Five year compound growth stands at 27.07%, and the year-on-year growth of the life business was 94% (2013 - 178%)

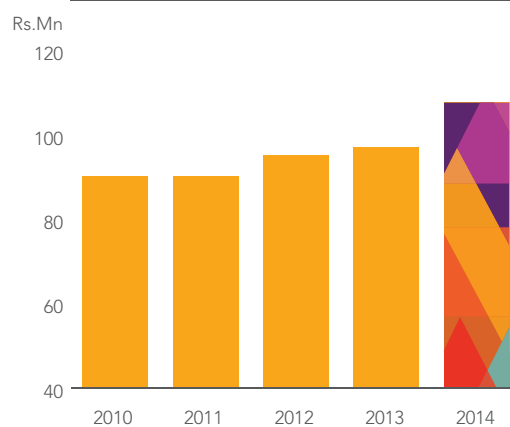
Commentary

The Life Insurance business continues to contribute significantly to the Company's performance as a strong segment of the Company by recording a growth of 94% during the period under review.

Life Insurance Policyholders – Annual Bonus

Description - Rs. million	2014	2013	Change %
Annual Bonus	107.3	97	10.6%

Life Insurance Policyholders - Annual Bonus



Commentary

A part of the Life Insurance surplus is declared as an annual bonus for policyholders Rs. 107.3 million was declared as 10.6% higher than in 2013.

Our extraordinary performance

Management Discussion and Analysis

Segmental Review – General Insurance

Snapshot of General Segmental performance

Figures are Rs. million unless otherwise stated

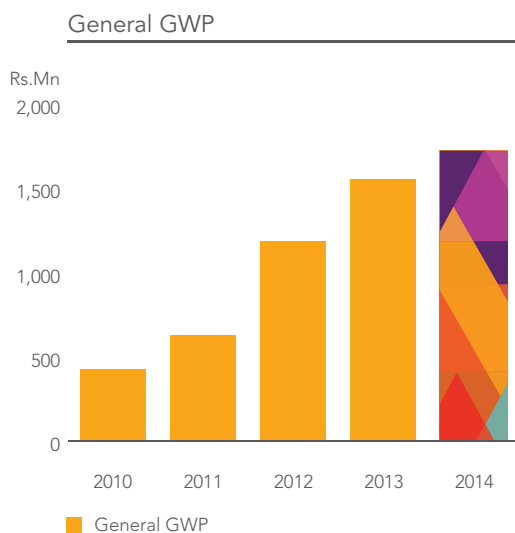
Description	2014	2013	Change %
Gross Written Premium	1,725	1,556	11%
Reinsurance	(321)	(254)	26%
Net Earned Premium	1,323	(1,102)	20%
Net Claims and Benefits	(1,236)	(910)	
Underwriting and Net Acquisition Cost	(119)	(108)	10%
Expenses	(521)	(404)	29%
Loss for the year	(88)	(71)	36%

Key Performance Indicators - General

Description	2014	2013
Reinsurance Ratio (Reinsurance / GWP) %	19	16
Claims Ratio (without outstanding reserve change) %	83	82
Claims Ratio (with outstanding reserve change) %	93	83
Net Acquisition Cost Ratio % GWP	7	7
Expenses Ratio % GWP	35	33
Expense Ratio % NEP	45	46
Combined Ratio %	138	129

Gross Written Premium – General

Description	2014	2013	Change %
Gross Written Premium	1,725	1,556	11%



Class	Rs. million	2014	2013	Growth
Fire		185	137	35%
Motor		887	850	4%
Marine		51	46	11%
Medical		512	439	17%
Miscellaneous		90	84	7%
Total		1,725	1,556	11%

Five year compound growth stands at 32%, and the year-on-year growth of the General business was 11% (2013 - 31%)

Commentary

The General insurance segment contributed to 36% of total GWP of the Company and it has increased by 11% to Rs. 1,725 million, which is well above the market average growth of 4%. The motor Insurance and medical insurance segments remain the dominant classes during the year by contributing 51% and 30% to the top line. Both retail and corporate distribution channels maintained a steady growth momentum in business volumes in 2014. During the year, the General insurance remained the 4th largest medical insurer in the market.

General market condition details are provided on pages 134 to this report

The industry remains intensely price competitive across all classes of General insurance business. AAI was able to leverage its group synergies to maintain its growth momentum despite a walkaway policy adopted for some of the large corporate business especially in the medical class of the business.

Strategies executed

The Company continually focuses to deliver first-class service to our customers by differentiating its product attributes from its competition as service is the key factor of differentiation. In view of this, the company launched its flagship product Click2Claim, during the latter part of the year, as it is expecting step change in the General insurance industry.

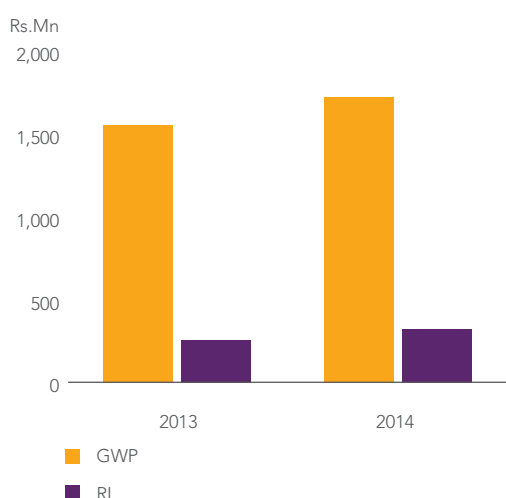
Refer case study provided in page 136 to this report

The company continues to realize synergies from the Asiri Group of Hospitals as the market leader in healthcare as it expands its market presence outside the Western Province in a cost-effective manner.

Reinsurance – General

Description	2014	2013	Change
Reinsurance	321	254	26%

GWP vs Reinsurance - General



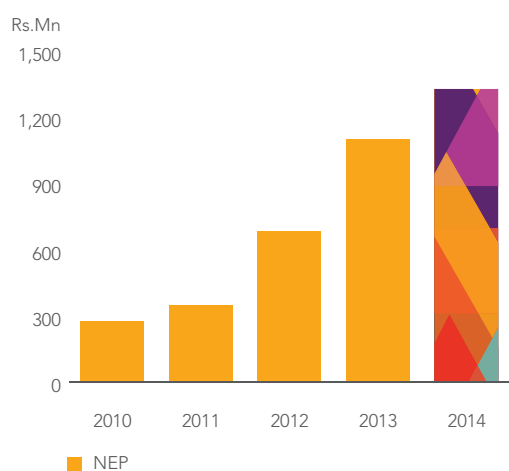
Commentary

Reinsurance as a percentage of GWP increased from 16% in 2013 to 19% in 2014. This was due to the increase of fire GWP by 35% for the fire class which involved significant portion of reinsurance compared to other classes of General insurance (i.e. motor and medical claims)

Net Earned Premium (NEP) – General

Description	2014	2013	Change
Net Earned Premium	1,323	1,102	20%

Net Earned Premium - General



Commentary

The growth rate of is higher compared to GWP growth of 12%. The reason for such high growth a higher transfer from the unearned premium reserve on amount of premium earned in 2013, which reported a significant growth.

Five year compound growth stands at 36.64%, and the year-on-year growth was 20% (2013 - 61%)

Net Claims and Benefits - General

Description	2014	2013	Change
Net Claims and Benefits	1,236	910	36%

Commentary

The claim ratio of General insurance is calculated similar to Life insurance. The company's general claims ratio increased by 10% mainly due to the increase in the claims outstanding reserve due to an increase in claims reserving estimates.

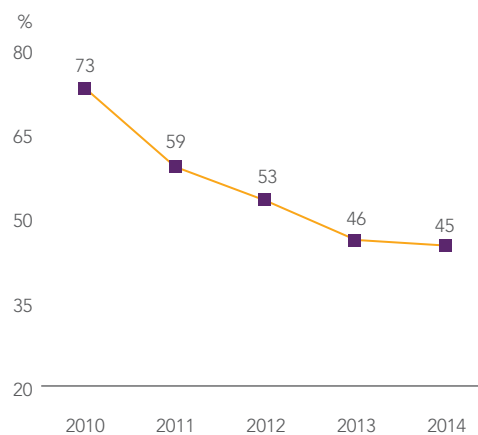
Further the Company took several steps to improve the claims ratio;

- Revamp claims processes
- Strengthening its policy conditions to improve the claims ratios in the coming year.
- Selective underwriting

Expense Ratio – General

Description	2014	2013
Net Acquisition Cost Ratio % GWP	7	7
Expenses Ratio % GWP	35	33
Expense Ratio % NEP	45	46

Expense Ratio - General



Our extraordinary performance

Management Discussion and Analysis

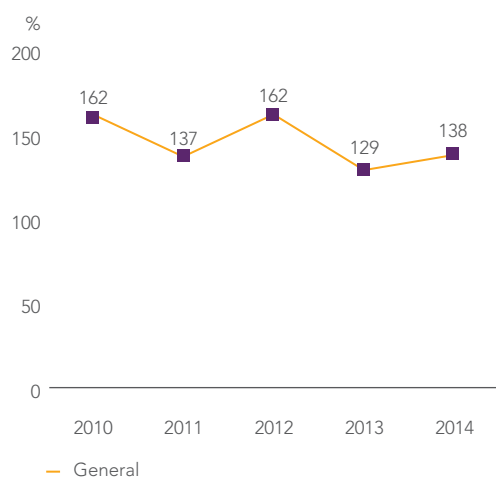
Commentary

The expense ratio reduced by 1% during year 2014 due to the efficient cost control initiatives despite the significant investment made to revamp its business process and improve customer service. The Company expects the benefits to flow in the coming year. The total expenses were managed within budgeted levels during the year.

Combined Ratio – General

Description	2014	2013
Combined Ratio %	138	129

Combined Ratio - General



Commentary

The Combined Ratio refers to the sum of Net Claims and Total Expenses taken as a percentage of Net Earned Premium. The combined ratio is the key measure of underwriting profitability (total of the claims and expense ratios)

Year 2014, our combined ratio increased by 9% mainly due to the increase in the claims ratio as a result of changes done on reserving estimation.

Profit After Tax – General

Description	Rs. million	2014	2013
Loss for the year		88	71

Commentary

The General Insurance segments reported loss of Rs. 88 million during year 2014, which is marginally above the year 2013. However, due to various initiatives and investments made during the year, the company is expecting to turn this in to profitable situation from the segregation of composite insurance companies through cost efficiencies.

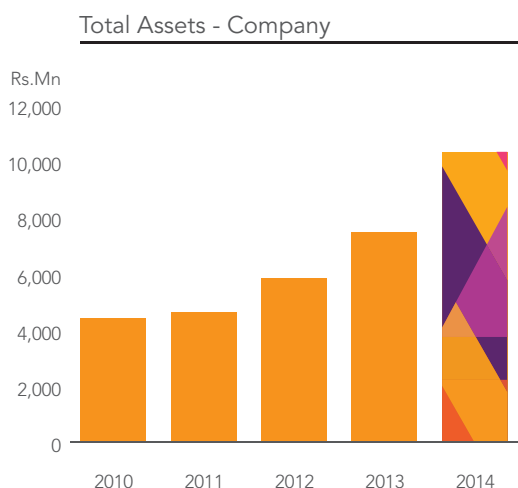
Capital Resources and Liquidity

Statement of Financial Position

Item	2014	2013	Compo- sition
	Rs. Mn	Rs. Mn	
Intangible assets, Property, Plant and Equipment	409	158	4%
Investments in Subsidiary	100	-	1%
Financial Investments	8,464	6,243	82%
Loans to Life Policyholders	134	107	1%
Reinsurance Receivables	160	144	2%
Premium Receivables	460	464	4%
Other Assets	362	168	3%
Deferred Acquisition Cost	101	89	1%
Cash and Cash Equivalents	130	102	1%
Total Assets	10,320	7,475	100%
Total Equity	2,558	1,832	25%
Insurance Contract Liabilities - Life	5,224	3,938	51%
Insurance Contract Liabilities - General	1,139	921	11%
Reinsurance Payable	131	138	1%
Other Liabilities	1,268	647	12%
Total Liabilities	7,762	5,643	75%
Total Equity and Liabilities	10,320	7,475	100%

Total Assets – Company

Description	2014	2013	Growth
Total Assets	10,320	7,475	38%



Over
Rs.10 billion
total assets

Commentary

Continuing our growth momentum, our total assets crossed the Rs. 10 billion mark in December 2014, recording a 38% (2013-28%) growth over the Rs. 7 billion achieved in 2013.

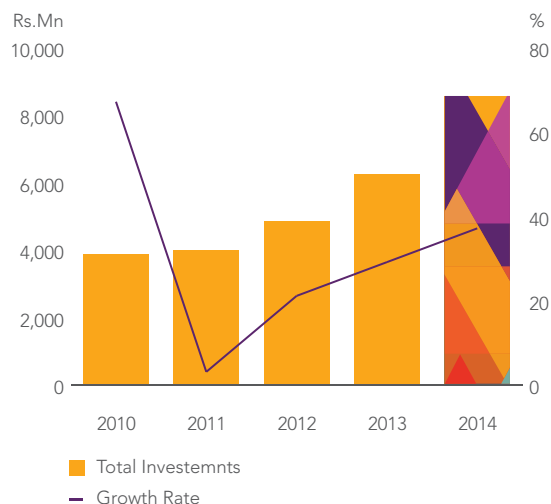
The investment portfolio reached Rs. 8.7 billion (including the investment in subsidiary and policyholder loans) which is 84% of total assets. During the year, investments related asset portfolio recorded 37% (2013 -28%) growth compared to last year.

Five year compound growth stands at 19%, and the year-on-year growth of the total Assets was 38% (2013 - 28%)

Financial Investments – Company

Description	2014	2013	Growth	Contribution
Investments in Subsidiary	100	-	100%	1%
Financial Investments	8,464	6,243	36%	82%
Total Investments	8,564	6,243	37%	83%

Total Investments



Commentary

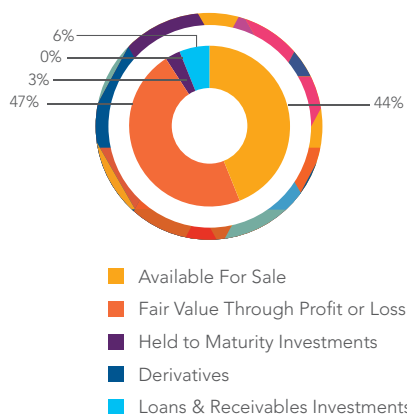
The investment portfolio includes Government securities, corporate securities, bank deposits and equity investment. As at December 2014 our total financial investments portfolio (without policy loans) reached Rs. 8.5 billion by recording growth of 37%.

A majority of the Life and General Insurance fund was invested in Government securities and other fixed income securities according to the guidelines issued by IBSL.

Five-year compound growth stands at 18%, and the year-on-year growth of the financial investments was 37% (2013 - 29%)

The composition of the investment portfolio based on these categories (AFS, FVTPL, and L&R) is given below.

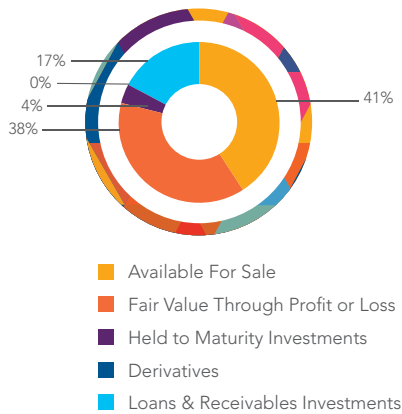
Composition of Investment Portfolio - 2014



Our extraordinary performance

Management Discussion and Analysis

Composition of Investment Portfolio - 2013



Commentary

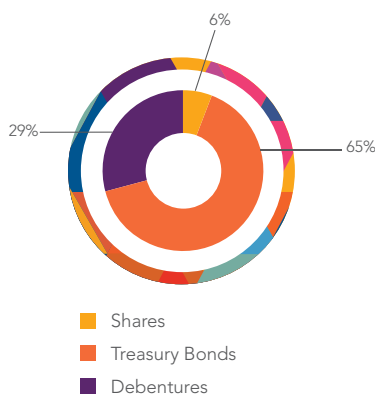
According to Accounting to the Standards (SLFRS / LKASs), the Company categorized financial instruments into four broad segments namely Held to Maturity Instruments, Loans and Receivables, Available for Sale Assets and Fair Value Through Profit and Loss. The above graphs gives the composition of our financial investments according to this classification.

Further details on financial investments are provided in the Investment Management Review appearing on pages 115 to 117.

Details of each category of investments are provided as follows;

Available for sale Financial Investments (AFS)

Composition of AFS



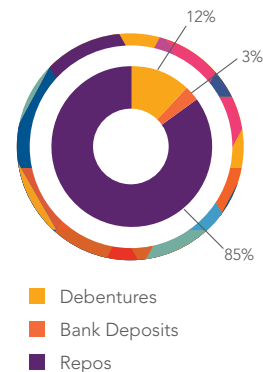
Commentary

Available-for-sale financial assets are financial assets that are designated as available for-sale and those that are not classified in any of the other categories. This type of security is reported at fair value. Changes in value between accounting periods are included in comprehensive income until the securities are sold.

The Company's AFS financial Investments comprised of equity shares 6%, government securities 65% and quoted debentures 29%.

Loans and Receivable Financial Investments (L&R)

Composition of Loans and Receivables

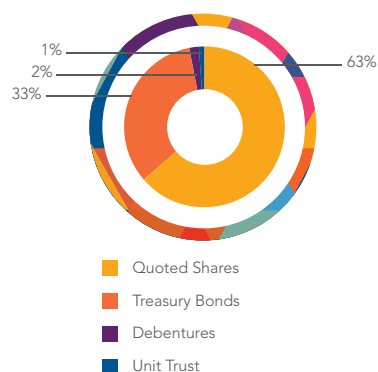


Commentary

Loans and receivables are financial assets with fixed or determinable payments that are not traded in an active market. The company's loans and receivables encompass Government securities 85% with the rest being comprised of debentures and bank deposits.

Fair Value Through Profit and Loss Financial Investments (FVTPL)

Composition of FVTPL



Commentary

The Company's FVTPL Financial assets mainly consist of quoted equity shares of 63% which accounts for Rs. 2,479 million and the balance represent treasury bonds

Held to Maturity Investments (HTM)

Commentary

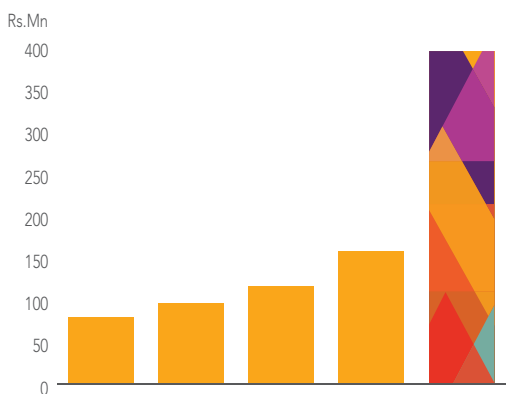
Financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the company intends to hold it to maturity. Accordingly, the company has categorised those financial instruments which fulfills this criteria under the category of HTM.

HTM financial instrument of the Company represents 100% from the Government securities.

Intangibles, Property, Plant and Equipment - Company

Description	2014	2013	Growth	Contribution
Intangibles, Property, Plant and Equipment	409	158	159%	4%

Property, Plant and Equipment



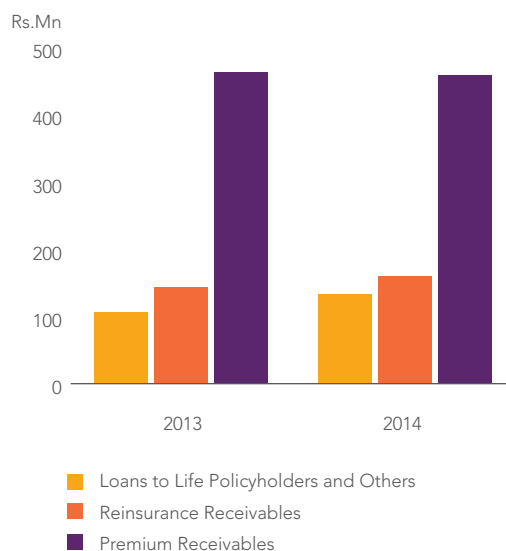
Commentary

The Company held only 4% of its total assets in Intangible Assets, Property, Plant and Equipment, amounting to Rs. 409 million (2013: Rs. 158 million). During the year the Company invested Rs. 170 million for acquisition of Land and Building for the Life corporate office. Excluding this investments investment in PPE only represents 2% and all such assets are being used for the operations of the Company.

Policy Loans, Premiums Receivable and Reinsurance Receivables - Company

Description Rs. millions	2014	2013	Growth	Contribution
Loans to Life Policyholders	134	107	25%	1%
Reinsurance Receivables	160	144	11%	2%
Premium Receivables	460	464	-1%	4%
Total	754	715	5%	7%

Policy Loans, Premiums Receivable and Reinsurance Receivables



Commentary

The policy loans, premiums receivable and reinsurance receivables accounts 7% of total assets amounted to Rs. 754 million (2013: Rs. 715 million).

Policy Loans, which are loans granted to active Life Insurance policyholders, amounted to Rs. 134 million, accounting for 1% of the total assets. Accordingly, Policy loans have increased by 25% over 2013, due to the increase in the number of policies eligible for obtaining such a loan.

Reinsurance receivables increased by 2% to reach Rs. 160 million and accounted for 2% of total asset.

Premiums receivable from customers, which amounted to Rs. 460 million reduced by 1% despite the growth of the general insurance business volume due to implementation of strict credit control and implementation of monitoring process.

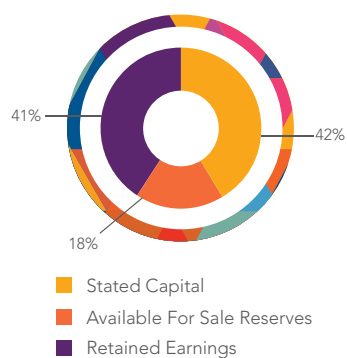
Our extraordinary performance

Management Discussion and Analysis

Shareholders' Funds - Company

Description Rs. millions	2014	2013	Growth	Contribution
Stated Capital	1,063	1,063	0%	10%
Available for Sale Reserves	455	115	296%	4%
Retained Earnings	853	655	30%	8%
Total Equity	2,371	1,832	29%	23%

Shareholder's Funds - Company



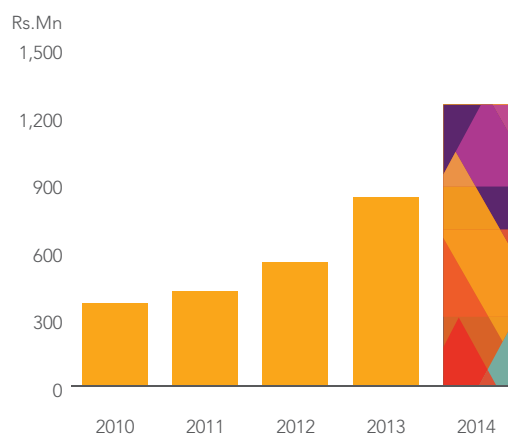
Commentary

Total Shareholder fund of the Company grew by 40% year 2014 and surpassed Rs. 2.5 billion for the first time in the Company's history. Entire shareholders fund falls under Tier 1 capital under Risk based capital framework which is an indicator of the quality of the equity investment.

Life Insurance Contract Liabilities

Description Rs. millions	2014	2013	Growth	Contribution
Insurance Contract Liabilities	5,224	3,938	33%	51%

Transfer to Life Fund



Commentary

The Life Insurance contract liabilities, which refers to the reserves made to meet the future claims and maturities of Life Insurance policyholders.

The Life fund of the company crossed Rs. 5 billion in 2014 and stood at Rs. 5,224 million at the end of the year with a record growth of 33% in comparison with the previous year.

The report on the valuation of the Life Fund, conducted by the appointed independent Consultant Actuary Mr. M. Poopalanathan from Actuarial and Management Consultants (Pvt) Ltd. appears on page 281. As recommended by the Consultant Actuary, adequate provisions, including those for bonuses and dividends to policyholders, and solvency margins have been made.

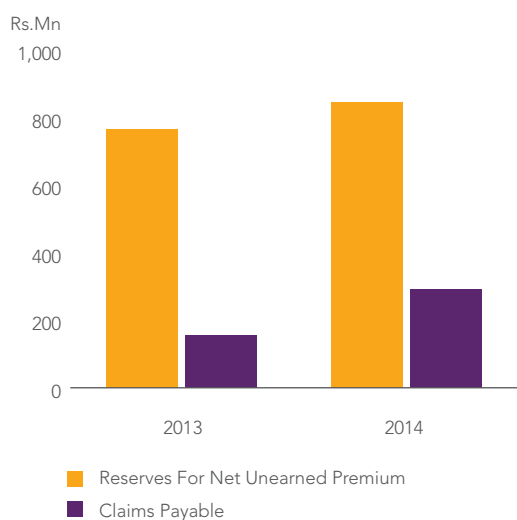
Further, a Liability Adequacy Test (LAT) was performed for the Life Insurance Reserves as required by SLFRS 4 – Insurance Contracts, to identify whether the recorded reserves are adequate to meet future liabilities. The LAT for Life Insurance was performed by Mr. John C Vieren (FSA, MAA), an independent Consultant Actuary from the Pinnacle Consulting Group Ltd. and it has been concluded that the recorded reserves in respect of the Life Insurance business of the Company as at the 31st of December 2014 are adequate to meet the future liabilities of the business.

Five-year compound growth stands at 22%, and the year-on-year growth was 33% (2013 - 30%)

General Insurance Contract Liabilities

Description Rs. millions	2014	2013	Growth	Contribution
Reserves for Net Unearned Premium	845	765	11%	8%
Claims Payable	293	157	88%	3%
Total	1,138	922	24%	11%

General Insurance Contract Liabilities



Commentary

The General Insurance contract liability comprises of reserves relating to the general Insurance business, which includes Net Unearned Premium Reserves, for Claims Outstanding, Incurred But Not Reported (IBNR) Claims Reserves and Incurred But Not Enough Reported (IBNER) Claims Reserves. The General Insurance Contract Liabilities crossed the Rs. 1 Billion mark in 2014, to record Rs. 1,138 million by the year end. This marks a growth of 24% compared to Rs. 921 million in 2013.

All reasonable steps have been taken to ensure that adequate provisioning for claims outstanding, including provisions for IBNR and IBNER reserves, are maintained at adequate levels.

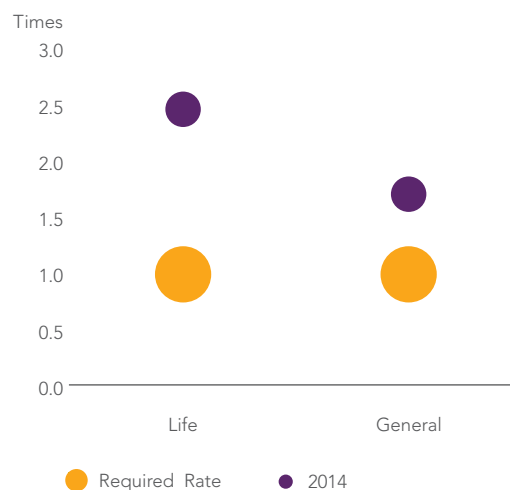
To assist the Company on IBNR and IBNER reserve calculations, an Independent Actuary (NMG Consulting) has been appointed and they have also performed a Liability Adequacy Test (LAT) for General Insurance Reserves, as required by SLFRS 4 – Insurance Contracts, to ascertain whether the recorded reserves are adequate in meeting future liabilities. The LAT was also performed by the Independent Actuary of the Company (NMG Consulting) and it has concluded that the recorded reserves in respect of the General Insurance business of the Company as at the 31st December 2014 are adequate to meet the future liabilities of the business.

Liquidity Position of the Company - Solvency Margins and Approved Assets

Insurers need to maintain their asset liability mix adhering to the Solvency Margin criteria, as per the guidelines issued by the Insurance Board of Sri Lanka (IBSL) which could be good indication of the liquidity level of the company. Further, it is also believed that the Solvency Margin also determines the quality of an insurer's financial position.

	2014 Rs. million	2013 Rs. million
Non Life insurance business		
Value of admissible assets	2,008	1,678
Amount of total liabilities	1,527	1,102
Available solvency margin	481	576
Required solvency margin	281	260
Solvency ratio (times)	1.71	2.21
Life insurance business		
Value of admissible assets	6,713	4,736
Amount of total liabilities	6,109	4,278
Available solvency margin	603	458
Required solvency margin	246	185
Solvency ratio (times)	2.45	2.48

Solvency



Commentary

The statement of solvency for Life and General insurance has been prepared in accordance with solvency margin (General Insurance) Rules-2004 and solvency margin (Life Insurance) Rules 2002 and the amendments thereto.

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

Our extraordinary performance

Management Discussion and Analysis

Statement of Approved Assets

	2014 Rs. million	2013 Rs. million
General Insurance Business		
Approved assets maintained in Non Life insurance Business	1,156	818
Technical reserve	999	781
Approved assets in excess of the technical reserve	157	37
Approved assets as a % of the technical reserve	116%	105%
Required ratio	100%	100%
Life Insurance Business		
Approved assets maintained in Life insurance business	5,665	3,952
Life Insurance fund	4,999	3,746
Approved assets in excess of the Life insurance fund	666	206
Approved assets as a % of Life insurance fund	113%	105%
Required ratio	100%	100%

Commentary

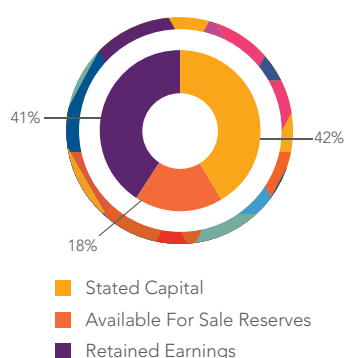
Determined as per section 25 (1) of the regulation of Insurance Industry Act, No.43 of 2000 and the Determination made by the IBSL in terms of the said Act.

It is observed that the Company comfortably met the approved asset criteria throughout the year in both Life Insurance and Non - Life Insurance segments.

Leverage and capital structure

Capital structure

Shareholder's Funds - Company



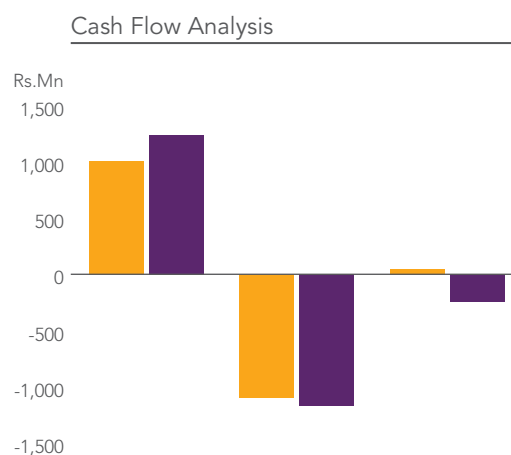
Commentary

The Company is fully equity funded which mainly consist of stated capital of Rs. 1,063 million and retained profit of Rs. 853 million as at 31st December 2014.

The Company policy is to retain at least 50% of profits to fund its operational growth every year.

The company has already complied with the revised capital requirement of Rs. 500 million for each line of business as per the Insurance regulations.

Cash Flow Analysis - Company



Commentary

During the period under review net cash generated from operating activities continuously increased by 27% from Rs. 981 million in 2013 to Rs. 1,242 million in 2014. This growth was largely due to a 19% growth in premium income compared to the previous period.

The majority of these funds were channelled into investing activities. As a result, the overall investment portfolio grew to Rs. 8.4 billion from Rs. 6.2 billion as at end 2013.

The decrease in cash flow from financing activities was mainly on the account of the dividend payment of 2013 and interim dividend payment for 2014.

Five-year compound growth stands at 80%, and the year-on-year growth was 27% (2013 - 19%)

Impact of Changes in Sri Lanka Accounting Standards

The Institute of Chartered Accountants of Sri Lanka has issued the following new Sri Lanka Accounting Standard which will become applicable for financial periods beginning on or after 1st January 2015. Accordingly, these Standards have not been applied in preparing these financial statements.

The following SLFRSs have been issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) that have an effective date in the future and have not been applied in preparing these Financial Statements. Those SLFRSs will have an effect on the accounting policies currently adopted by the Company and may have an impact on the future Financial Statements.

- Sri Lanka Accounting Standard (SLFRS 9) – “Financial Instruments: Classification and Measurement” effective from 1 January 2018 and early adoption is permitted
- Sri Lanka Accounting Standard (SLFRS 15) – “Revenue from Contracts with Customers” effective from 1st January 2017

We are in the process of ascertaining the impact of these standards on AAI’s financial statements. The following new or amended standards are not expected to have an impact of the Group’s consolidated financial statements.

- SLFRS 14 Regulatory Deferral Accounts – effective from 01st January 2016
- Agriculture: Bearer Plants (Amendments to LKAS 16 and LKAS 41) – effective from 01st January 2016

We are in the process of ascertaining the impact of these standards on AAI’s financial statements.

Summary

In what were competitive industry conditions, 2014 was an exceptional year for the company. Looking forward to 2015, the company is confident of continuing to deliver sustainable premium growth and strong profitability.

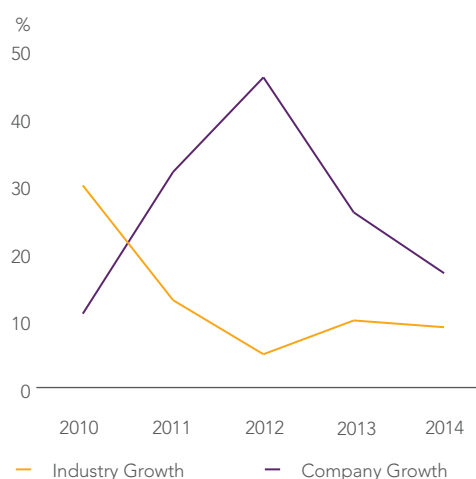
Financial performance in relation to the industry

Consolidated Performance – GWP

The insurance industry maintained its growth momentum in 2014 with combined life and general premiums increasing from Rs. 97 billion to Rs. 103 billion in 2014 with a growth of 6%. During the year the company has outperformed by achieving nearly Rs.4.7Billion consolidated GWP with a growth of 17% which is above the growth rate achieved by the industry.

Premium Income	2014	2013	2012	2011	2010
Industry consolidated Premium Income (Rs.Mn)	103,091	97,230	89,025	78,512	66,253
Company consolidated Premium Income (Rs.Mn)	4,773	4,077	3,224	2,207	1,673
Total Premium as % of GDP	1.15	1.16	1.17	1.2	1.18
Industry Growth rate (%)	6	9	13	19	15
Company Growth rate (%)	17	26	46	32	11

Industry vs Company



Life Insurance – GWP Performance In relation to Industry

The total premium income from Life Insurance reflected a positive 9% over 2013 to reach Rs. 44,650 million. Whereas, the company was able to achieve a premium growth of 21% over the year 2013 which is more than 2 times of industry average growth.

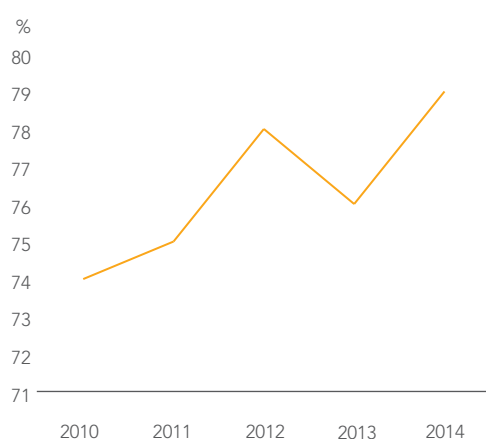
The number of policies issued in 2014 in the Life company has increased to 15,616 with a growth of 8.67% whereas the number of policy issued by the industry is at a growth of 2.66% which represents 547,261 policies.

Our extraordinary performance

Management Discussion and Analysis

Life Insurance	2014	2013	2012	2011	2010
Market Size (Rs. Mn)	44,650	40,666	37,054	35,181	31,152
Company Size (Rs.Mn)	3,048	2,520	2,034	1,579	1,243
Market Growth %	9	10	5	13	30
Company Growth %	21	24	29	27	23

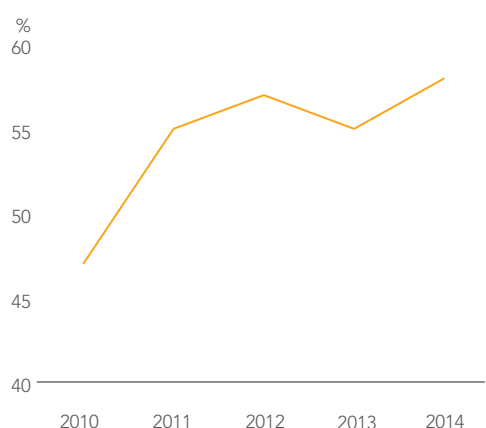
Persistence Ratio Year 1 - 5 Year



Performance of Persistency level relation to Industry

The Life insurance industry premium persistency is considered as key value driver of the achievement of GWP. The company consistently achieved well above industry averages for GWP due to the high level of persistency reached by the company. The table and graph below indicate the comparison of persistency against the industry average level.

Persistence Ratio Year 2 - 5 Year

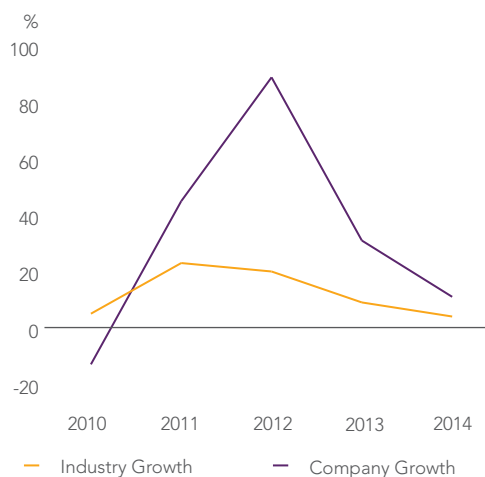


General Insurance - GWP Performance In relation to Industry

In 2014, the premium income from General insurance grew by 4%, which is Rs. 58,441million in 2014 in contrast to Rs. 56,564 million in 2013. A premium growth of 11% was achieved by the company over the year 2014. Motor Insurance continues to sustain a substantial proportion of the Industry's Gross Written Premiums, growing by 6%.

General Insurance	2014	2013	2012	2011	2010
Market Size (Rs. Mn)	58,441	56,564	51,835	43,331	35,101
Company Size (Rs.Mn)	1,725	1,556	1,190	628	431
Market Growth %	4	9	20	23	5
Company Growth %	12	31	89	45	-13

Industry vs Company - General



Profitability and Investor Attractiveness - Industry peer comparison

Description	2014	2013
Profit after tax	752,110	362,335
Total profit from listed companies	6,636,419	6,249,326
AAI share of profit as a % of total profit from listed companies	11%	6%

It shows that the Company increases its profitability level from 6% to 11% out of profit for listed insurance Companies for the year 2014.

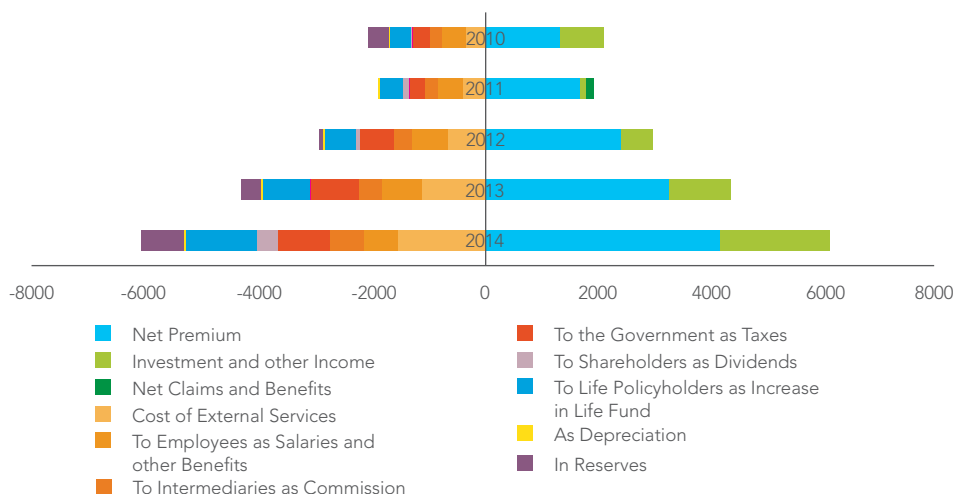
Contribution to the National Economy

Sources of Distribution of Income detail analysis

Source of income	2014	2013	2012	2011	2010
Net premium	4,140,068	3,240,359	2,392,495	1,669,134	1,315,796
Investment and other income	1,962,376	1,099,858	561,678	109,070	766,057
Net claims and benefits	(1,548,661)	(1,124,426)	(659,802)	(394,847)	(349,424)
Cost of external services	(599,998)	(522,251)	(646,940)	(444,865)	(409,376)
Total Value Added	3,953,785	2,693,540	1,647,431	938,492	1,323,053
To employees as salaries and other benefits	603,009	412,291	315,626	241,853	222,189
To intermediaries as commission	926,101	855,829	596,641	260,230	308,319
To the Government as taxes	3,787	3,355	4,810	4,411	3,673
To shareholders as dividends	367,500	180,000	75,000	112,500	32,500
To Life policyholders as increase in Life fund	1,253,098	842,119	551,339	423,656	368,957
Retained with the business					
- as depreciation	48,178	37,611	30,727	23,571	19,407
- in reserves	752,111	362,335	73,290	(127,729)	368,008
	3,953,785	2,693,540	1,647,433	938,492	1,323,053

Value Distribution - 2014

Rs.Mn



Performance

Summary

Management Discussion and Analysis

Stakeholder Key Performance Indicators – Financial Indicators

Indicator	2014	2013	%
Financial Performance			
Total net revenue (Rs. Mn)	6,102	4,237	44%
Profit After taxation (Rs. Mn)	752	362	108%
Market Capitalisation (Rs. Mn)	5,430	3,206	69%
Returns to Investors			
Return on Equity	39%	21%	85%
Earnings Per Share (Rs.)	20.06	9.66	108%
Dividends Per Share (Rs.)	10	4.8	108%
Market Price Per Share VWA (Rs.)	144.8	85.5	69%
P/E Ratio (Times)	7.22	8.85	-18%
Life Insurance Operations			
GWP (Rs. Mn.)	3,048	2,520	21%
Market Share	7%	6%	
Life Fund (Rs. Mn.)	5,224	3,938	33%
Average policy value	81,639	77,778	5%
Lapse Ratio (First year)	21%	25%	
Lapse Ratio (Second year)	42%	45%	
Premium Persistency Ratio	79%	75%	
General Insurance			
GWP (Rs. Mn.)	1,725	1,556	11%
Market Share	5.04%	4.75%	
Fund (Rs. Mn.)	1,139	921	24%
Number of Policies			

Non Financial Highlights

Management Discussion and Analysis

Employees

Employee Productivity

Rs. '000	2014	2013	2012	2011	2010
Revenue per Employee	8,360	6,856	5,132	4,022	6,205
Gross written premium per Employee	6,539	6,597	5,789	5,133	5,149
Profit per employee	1,030	586	132	(461)	1,132
Value added per employee	5,804	4,626	3,105	4,690	4,784
Number of employees	730	618	557	430	325



Employee Indicators

	2014	2013
Staff Strength (Category wise)		
AGM and above	15	12
Assistant Manager and above	157	186
Executives	216	220
Non-Executives	166	200

Age Analysis of Staff

	2014	2013
Age below 30	338	358
Above ages of 30 and less than 50	363	238
Above age of 50	29	22

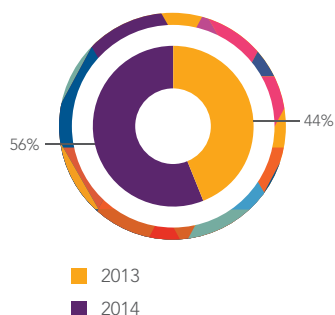
Non Financial Highlights

Management Discussion and Analysis

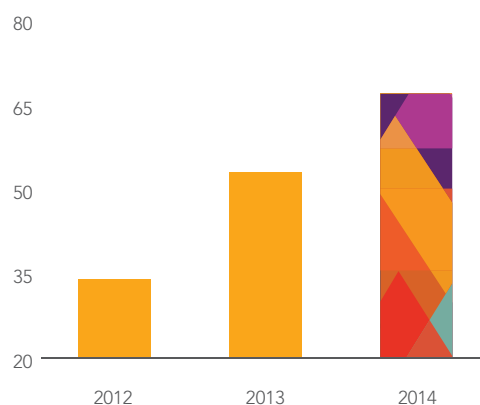
Customers

Rs' 000	2014	2013	2012
Number of Branches	67	53	34
Claims and Benefits paid	1,403,402	1,107,921	1,060,187
Growth in GWP %	21%	26%	46%
Number of New products	5	3	2

Claims and Benefits Paid



Number of Branches



Environment



Investment Review

Management Discussion and Analysis

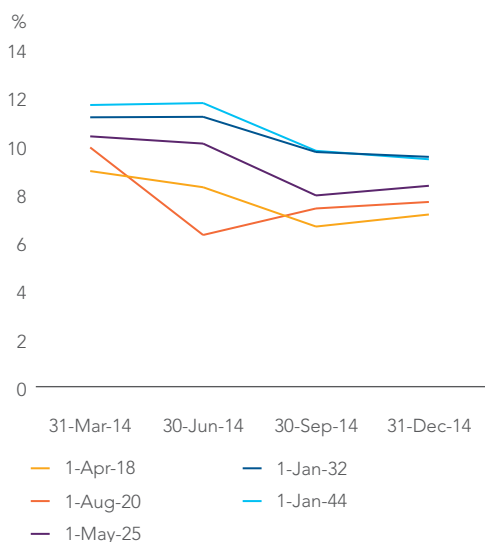
The Company is proud to announce an exceptional year in terms of return on its investments. Active management of the portfolio together with prudent asset allocation taking in to account risk and reward of investments resulted in returns far exceeding benchmark yields during the year.

Accurate forecasting of interest rate trends combined with expertise and experience of the treasury team in taking positions along the yield curve of the Fixed Income Securities portfolio allowed the company to reap rich dividends as a result of the reducing rate trend witnessed during 2014. Combined with exceptional gains achieved from its equity portfolio, which far outstripped the benchmark ASPI yield for the second consecutive year, the company was able to achieve and record its highest investment income in the history of the company.

Treasury bond portfolio

The Treasury bond portfolio was actively managed to maximize returns for the year under review, taking into account cash flows and accurate forecasting of reducing trends. This scenario resulted in all cash flows being accounted for due to positions taken on Treasury bonds during the course of the year, thus maximizing returns in a scenario of reducing interest rate trends, particularly in the second half of 2014, where rates reduced by approximately 250 basis points across the yield curve. However, care was taken to build positions considering both duration of liabilities as well as achievement of budgeted returns on the portfolio.

Treasury Bond Rate Movement - 2014



The Corporate debt portfolio

The corporate debt portfolio at the beginning of the year was further boosted with investments made in investment grade rated instruments, with focus on corporate debt instruments issued by the financial sector taking into account counterparty risk.

Equity portfolio

The equity portfolio, restructured to focus on growth sectors such as banking, diversified and manufacturing and was able to reap the benefits of an exceptional year for listed equities. Returns achieved on the portfolio exceeded 20%, and it is expected that this portfolio will continue to outperform the ASPI index return in the coming years, though constant monitoring of the portfolio will be maintained to take advantage of exceptional gains.

Asset Liability Committee (ALCO)

History has been created in the insurance industry with the first-ever ALCO being formed to manage the asset-liability mismatch between long term liabilities of the insurance products versus long term assets in the investment portfolio.

The primary objective of the ALCO committee is to actively manage AAI's statement of financial position whilst complying with regulatory requirements to maximize the risk adjusted returns to shareholders over the long term. The committee meets on a quarterly basis, and decisions are escalated to the Risk Committee for further deliberation if required.

Composition of funds

The composition of the funds are monitored on the basis of the respective portfolios and the shareholders' funds, as separate capital bases were created for both Life and General operations in preparation for the splitting of operations as required by the Insurance Board of Sri Lanka by 2015.

Therefore, the funds were monitored in the following composition:

•	Life Portfolio Fund
•	General Portfolio Fund
•	Life Shareholders Fund
•	General Shareholders Fund

Investment Review

Management Discussion and Analysis

Life portfolio Fund

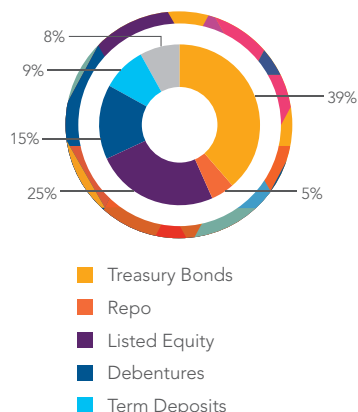
Accurate forecasting of interest rates and subsequent building of positions along the yield curve proved more beneficial to returns achieved on the Life Fund, as 63% of the fund consisted of Government securities. The significant exposure allowed the fund to capitalize on the decreasing interest rate scenario and obtain maximum returns as a result.

The ALCO committee took cognizance of bonds purchased by the Life Fund and noted the resulting extension of the duration of assets due to majority of new investments in Government securities being focused on the long end of the yield curve.

Investment in listed corporate debt was restricted to high investment grade rated debt issues made by banks and diversified companies to minimize counterparty risk, and ensure stable and sustainable returns over the mid-term.

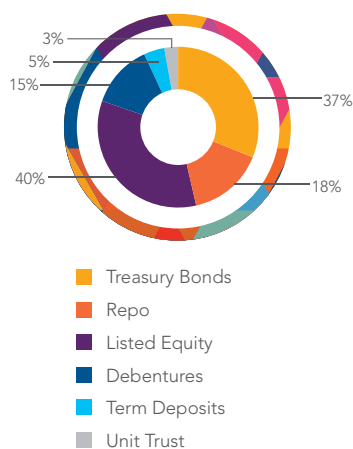
The listed equities portfolio provided major gains for the year and assisted in the fund, achieving record investment income and yields for the period. Focus placed on investing in specific sectors such as banking, diversified and manufacturing paid rich dividends as yields achieved on said sectors surpassed the ASPI growth for the year.

Life Asset Mix - 2013

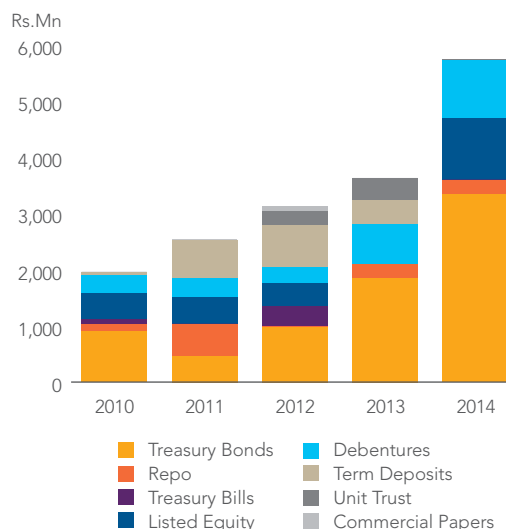


The fund grew by 36% as a result of market to market gains on investment portfolio combined with 21% growth in GWP. Yield on the fund reached 17.8% on the back of strategies deployed during the year. The growth of the investment base can be seen below;

Life Asset Mix - 2014



5 Year Breakdown of Assets – Life

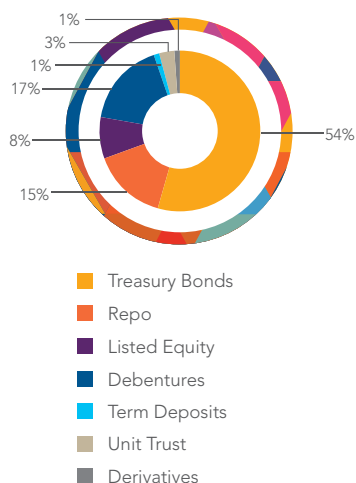


General portfolio Fund

The fund in question too showed significant gains over the previous year, as FIS yields improved significantly as a result of active trading on Government securities portfolio which represented 70% of the total fund. The duration of the portfolio was limited to the short end of the yield curve and this assisted in a realignment of the portfolio to take advantage of favourable interest rate trends witnessed in the market. The listed equity portfolio too benefited from an upward trend in the ASPI to yield positive returns for the year after a focused restructuring of the portfolio.

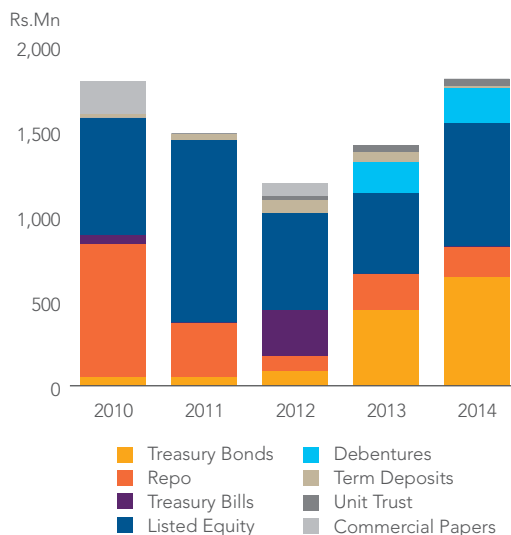
The asset mix of the fund is as follows at year-end:

General Asset Mix - 2014



The investment base grew on the back of continued growth of General insurance 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



Future

The supplementary budget presented on 29th January 2015, in tandem with declarations by the government point to a stable interest rate and exchange regime in the coming year. This will provide further impetus towards increasing private sector credit growth as well as further price reduction of essential goods and fuel.

However, the treasury team has noted factors both domestic and foreign which may impact inflation as well as the exchange rate, which in turn may result in a shift in the yield curve, depending on the fiscal policy that the government adopts to counter identified impacts.

- Demand side pressure on inflation as a result of increased consumption levels
- Depreciation pressure on USD:LKR exchange rate
- Increase in private sector credit growth
- Price of oil – forecasts for year-end oil prices are US\$70 per barrel
- Quantitative easing measures adopted for the European Union
- Quantitative easing measures adopted for the Japanese economy

The Treasury, taking into account above mentioned factors and subsequent impact on interest rates, will maintain constant monitoring of the respective portfolios in order to achieve budgeted investment returns to satisfy requirements of both the company's policyholders and shareholders, whilst remaining within the guidelines of the Investment Policy and other applicable guidelines.

Key Accounting Concepts of Simplified Insurance Financial

Management Discussion and Analysis



As part of our efforts to make our integrated report accessible and understandable to our stakeholders, a guide to explain key accounting concepts that are fundamental to understanding our business has been provided.

Q: Why Insurance Accounting differs from normal Accounting?

A: Summary of the extract of Income Statement is as follows.

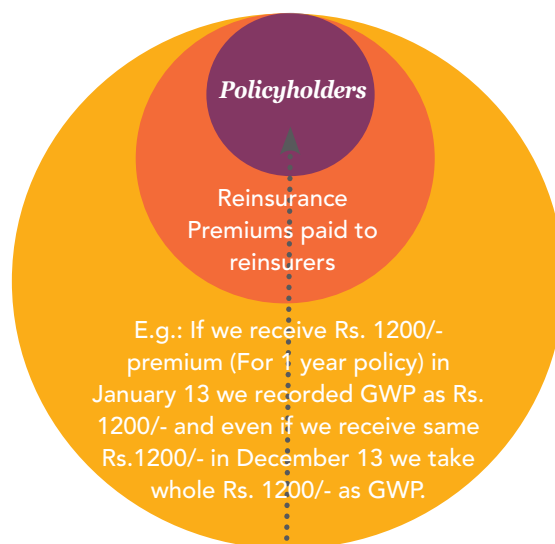
For the year ended 31 December 2014

Income Statement	2014 Rs. '000
Gross Written Premium	4,773,295
Less: Premium ceded to reinsurers	(552,563)
Net earned premium	4,140,068
Net Insurance benefits and claims	(1,548,661)
Net Acquisition cost	(833,325)
Increase in Life Fund	(1,253,098)

Note: Only the insurance specific part of the income statement is extracted.

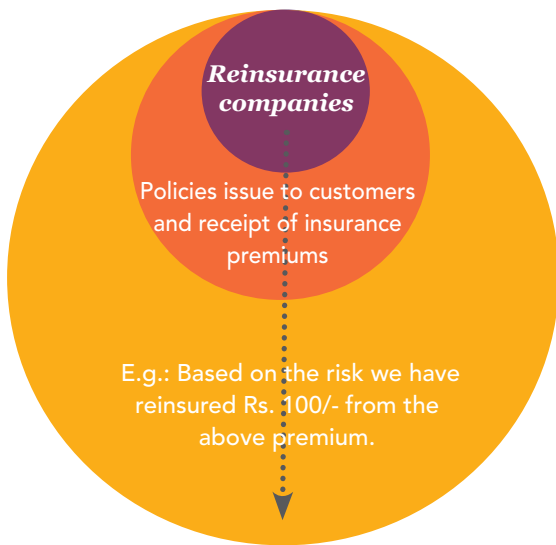
Q: What is meant by Gross Written Premium?

A: Gross Written Premium (GWP) represents the price charged by insurance companies in order to pay claims or benefits applicable under the life insurance policy. GWP is comparable with the "Turnover" of a trading or manufacturing organization. However, GWP is accounted on an accrual basis.



Q: What is Reinsurance Premium?

A: Reinsurance is the process whereby part of the risk/s undertaken by the insurance Company is transferred to another entity called the reinsurance company, for which the insurance company pays a premium known as the “Reinsurance Premium”.



Q: What is Net earned premium / unearned premium?

A: This is the portion of premium which is applicable for the financial year and earned by the insurer. This represents the amount of GWP less reinsurance outgo that is relevant to the accounting period.

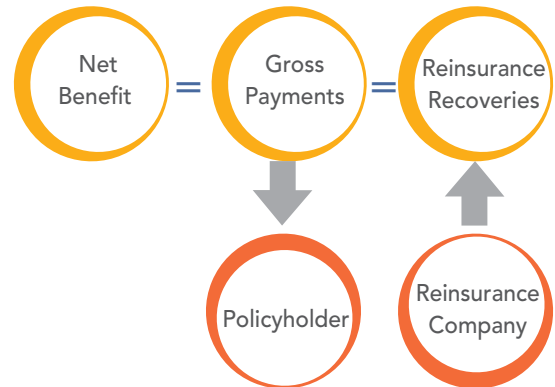
Q: What is Net benefits and claims?

A: If the incident against which the insurance cover was obtained occurs, the insurance company indemnifies the insured with an agreed sum, which is known as a claim.

In addition to claims which are common to both General Insurance and Life insurance, the income statement consists of other benefits paid to Life policy holders, such as gratuity, surrenders, policy maturities and annuities.

Part of the claim payment is reimbursed by the reinsurance company to the insurance company based on the proportion of risk/s transferred. This is known as the Reinsurance Recoveries.

The benefits and claims net of reinsurance recoveries are treated as net benefits and claims.



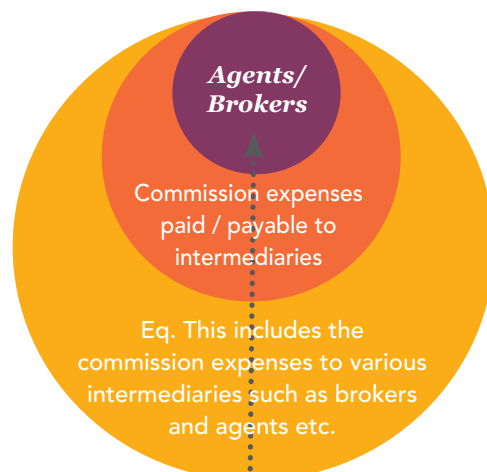
Q: What is included in Net acquisition expenses?

A: This consists of Commission, Franchise fee, deferred acquisition expenses net of Reinsurance commission.

Deferred acquisition expenses

In the General insurance business the commission is split into the period covered by the policy and amount applicable for the reporting period is taken as the commission charge. The balance portion is maintained in a reserve and is known as the Deferred Acquisition Expenses Reserve.

The terms Written Premium, Earned premium, Commission and Claims when stated as ‘Gross’ refers to the absolute amount and ‘Net’ refers to the amount left after deducting the reinsurance portion.



Key Accounting Concepts of Simplified Insurance Financial

Management Discussion and Analysis

Q: What is change in Insurance Contract liabilities - Life Fund?

A: For the purpose of meeting the policyholders' future liabilities the insurer is required to maintain a separate fund with sufficient assets to cover an actuarially determined provision which is known as the Long Term insurance fund. The amount added to the fund during the current year will appear in the statement of income as change in Insurance Contract liability - Life Fund.

Q: What are the key elements in the Statement of Financial Position related to insurance?

A: Summary of the extract of Statement of Financial Position is follows.

Statement of Financial Position

As at 31 December 2014

Liabilities	2014
	Rs. '000
Insurance Contract Liabilities	4,999,563
Unclaimed benefits	224,132
Life Insurance Contract Liabilities	5,223,695
Reserves for Net Unearned Premium	845,323
Gross Claims Payable	293,371
General Insurance Contract Liabilities	1,138,694

Note: Only the insurance specific part of the Statement of Financial Position is extracted.

Q: What is Long term policy liability?

A: In Long Term insurance business, due to the longer duration of the policy period, insurance companies are required to maintain a separate fund to meet future policy holders' obligations. This is known as the 'Long Term Policy liability'. The size of the fund that needs to be maintained is determined by the actuarial valuation which happens annually.

This process estimates the excess of the assets over the policyholder's liabilities of the fund after distribution of dividends to the policyholders as at the year end. The excess is generally known as the Life Surplus and referred to as Transfer to Shareholders Funds in the financial statements.

Q: What is unearned premium reserve?

A: Unearned premiums are premiums received by an insurer relating to cover provided outside the current accounting period. Such premiums are treated as a liability until they have been 'earned' during the period to which they relate.

Q: What is meant by Claims incurred but not reported?

A: This is the provision for an estimated amount made for claims that could be incurred as at the reporting date, but not informed to the insurer as at the Statement of Financial Position date. This is estimate is based on an actuarial valuation.

Life Insurance

Operational Review

Management Discussion and Analysis

“At Asian Alliance Life, we wish to contribute to society by answering the needs of each individual customer and providing the most suitable insurance solutions to customers, and their families through our tailored product range.”



Management Discussion And Analysis

Life Insurance

Operational Review

Management Discussion and Analysis

The Company continuously strive to achieve the complete trust of customers by offering lifelong peace and security. Our single-minded focus has been on customers, the company and employees, as we see these three value creation points as interrelated to each other.

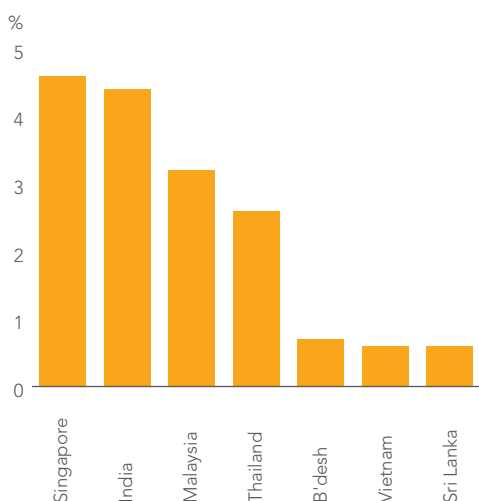
“We are in the Business of Protection” is our motto and we continuously derive our strategies to cater to the protection needs of customers, from this belief, the Company remains focused on providing world-class insurance solutions to its customers

Life Insurance Market Composition

The life insurance industry is expected to report a 9.2% growth in 2014. This equal to the growth rate generated in 2013, but it lags behind the true potential of the market when the significant under penetration / catch up potential of the local industry compared to regional players.



The Life insurance penetration measured by premiums as a percentage of GDP, has



Refer Case study on page 74 for more information

stagnated at 0.5% of GDP. Although long term insurance business has grown in absolute terms over the last five years, long term insurance penetration was comparatively low due to various reasons such as the perception of the general public towards insurance, lack of adequate awareness, inefficiencies in policy management etc.

In the backdrop of improving socioeconomic conditions, the relatively low level of penetration is indicative of the significant “catch up” potential of the sector. As graphically illustrated in the next column, Sri Lanka lags in the penetration levels achieved by many of its regional neighbours, including India.

547, 261 were sold during 2014 - an increase of 3% compared with growth in 2013.

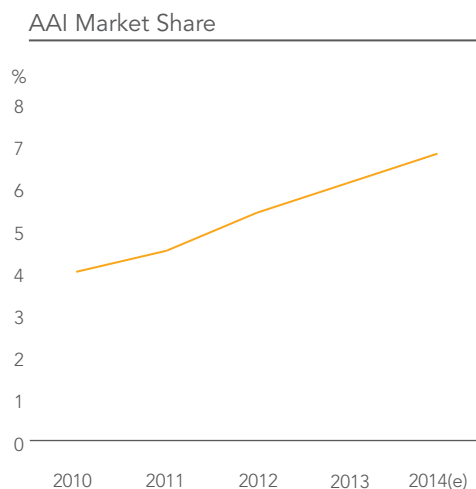
Market Attractiveness

Reasons for the Life Insurance industry considered more attractive was analysed has already been discussed.

Refer Industry overview on 62 for more information

Market Share

The top 5 insurance companies are expected to account for occupy 82% of market share, though 15 players are operating in this industry. AAI consistently increased its relative market share as follows despite the challenges faced.



In addition to the above, intense competition (Major Competitors) is discussed in Industry Overview on page 62

Business review

Life insurance premiums increased by 21% from Rs. 2.5 billion in 2013 to Rs. 3 billion in 2014. There was a noteworthy increase in the average premium per policy (Average case size) sold and persistency level over the previous year.

Refer Life financial review page 96 for more information

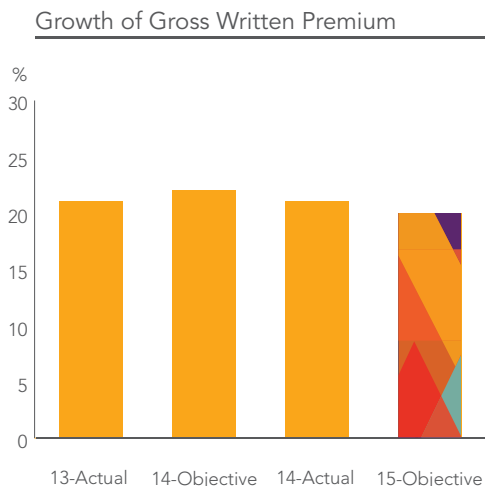
Data related to the life insurance market, growth rate and AAI's growth rate is provided in the Industry Overview.

For more information, refer performance relating to industry on page 109

Current Performance against Objectives

The key performance indicators used to manage the life business and the rationale for their use is outlined below.

Growth of Gross Written premium

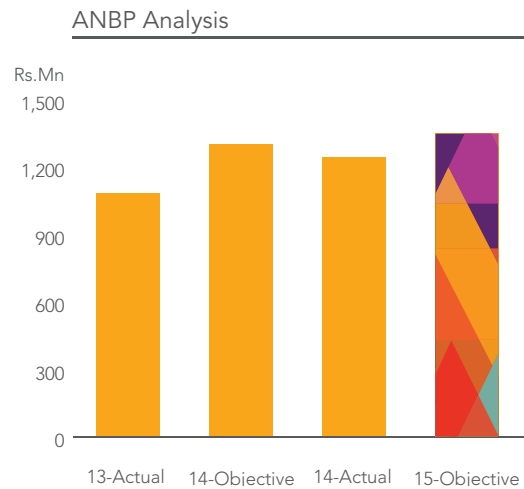


Commentary

The amount of business we were able to secure in terms of new business and renewals.

GWP was 21% higher than 2013, but marginally lower than budget due to lower achievement of group life premiums.

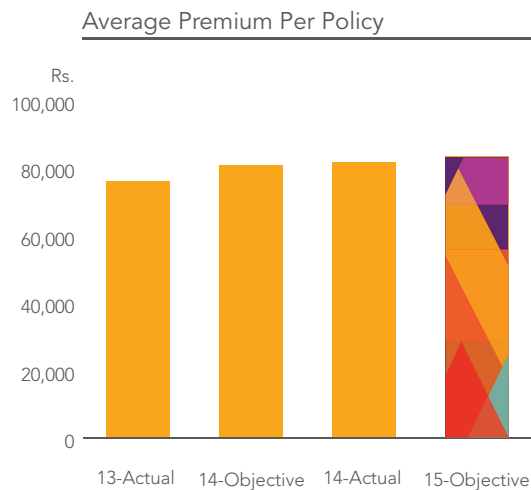
Increase in new business premium on an annualized basis (ANBP)



Commentary

This shows the amount of new business we were able to secure. Increase in Average Case Size positively contributed to ANBP.

Average Premium Per Policy



Commentary

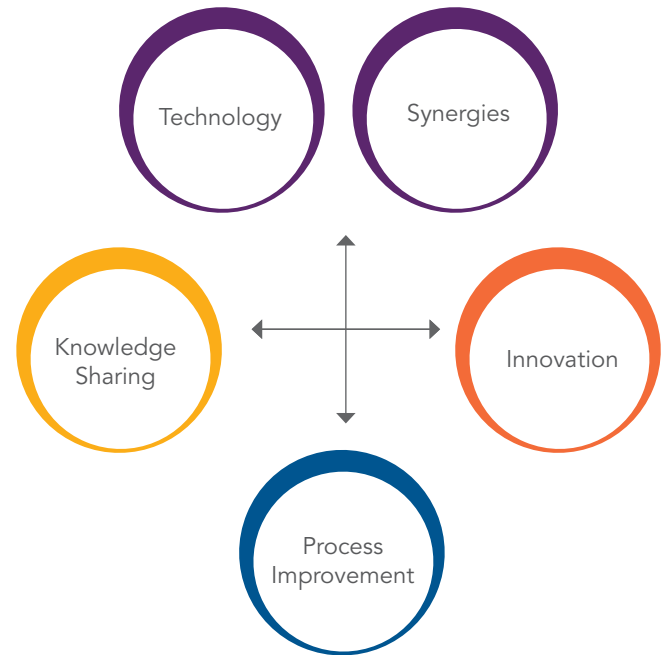
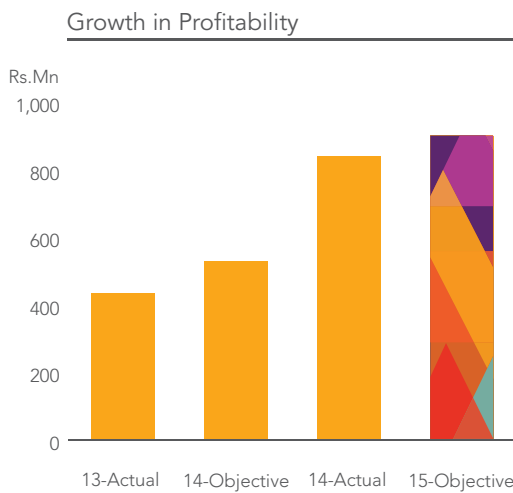
Average Case Size (premium per policy) increased by 7% compared to year 2013.

Life Insurance

Operational Review

Management Discussion and Analysis

Growth in Profitability (PAT)

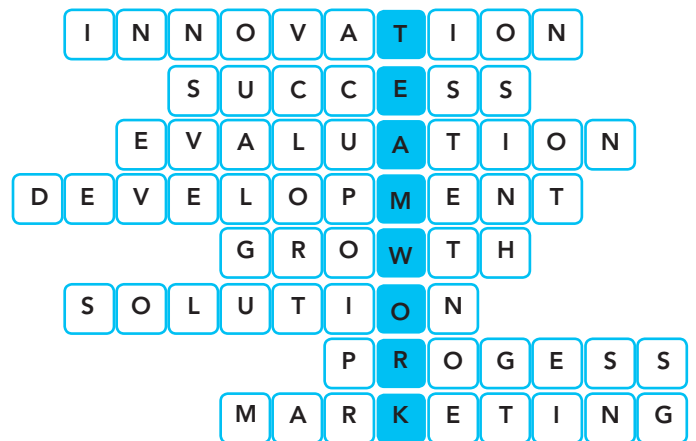


Commentary

Profitability exceeded budget by a wide margin. Several initiatives have been taken to ensure the long term sustainability of the business and based on projections, it is likely that life profits will continue to grow on a sustainable basis in future.

Our Critical Success Factors

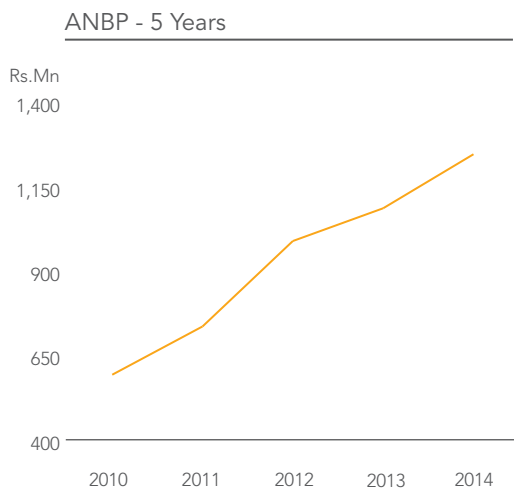
Our People are the most valuable asset who create a competitive advantage and who continuously leverages on use of technological developments, innovation, Continuous process improvements and the synergies of the Softlogic group synergies. Focusing on the above areas reaped fruitful results as the changes and developments resulted in a continuous value creation.



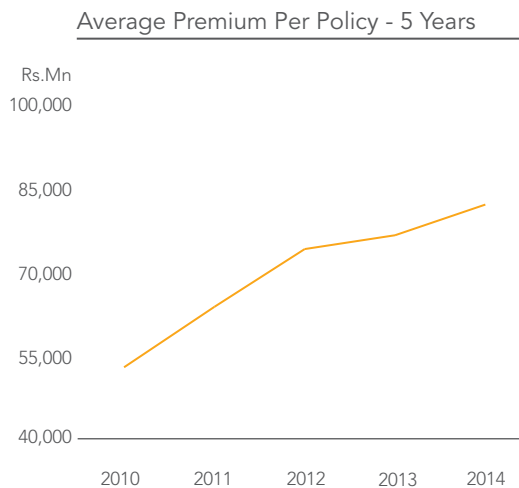
Our group synergies and continuous focus on key value drivers ensure sustainable performance. Summary of the key value drivers of the last 5 years are as follows;

Description	2014	2013
Annualized New Business Premium (ANBP) Rs. million	1,246	590
Average Premium Per Policy (Rs)	81,639	76,187
Persistency Ratio (Year 1) (%)	79	76
Persistency Ratio (Year 2) (%)	58	55

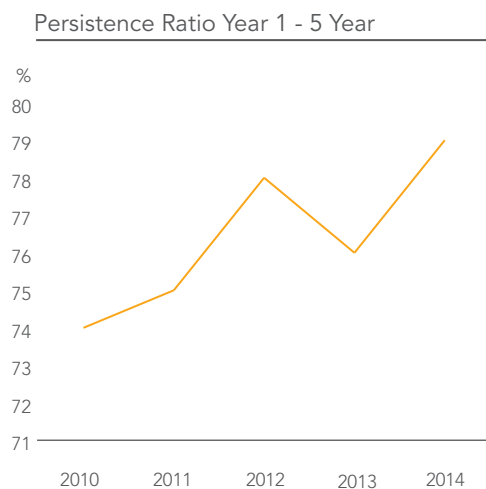
Trend lines on ANBP



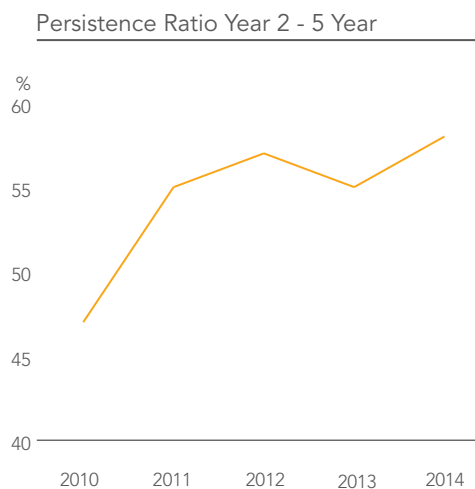
Trend lines on APPP for last 5 years



Trend lines on Persistency (Year 1)



Trend lines on Persistency (Year 2) for last 5 years



Life Insurance

Operational Review

Management Discussion and Analysis

We have taken initiatives to achieve key objectives for the future prospects of the life business and key initiatives taken are summarized in the table shown below.



Strategic Objective	Initiative
<p data-bbox="148 595 643 624">Embed customer and client centricity</p>  	<p data-bbox="719 640 1166 669">Expanding geographical presence</p> <p data-bbox="719 680 1394 864">The company encourages organic growth which empowers the expansion of regional hubs and their 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.</p> <p data-bbox="719 920 1426 1037">Therefore the Company expanded the branch network by adding 10 new branches in the following areas; Makola, Thalawathugoda, Trincomalee Metro , Galle East, Jaffna Metro, Kadawatha, Monaragala, Malabe, Badulla, Seeduwa.</p> <p data-bbox="719 1077 1433 1160">The expansion of the branch network facilitated the Company to achieve significant GWP growth in 2014 and increase market share to 11%.</p>
	<p data-bbox="719 1435 1158 1464">Conduct comprehensive research</p> <p data-bbox="719 1476 1410 1559">In order to identify markets and customer needs the Company has carried our perception study through Lanka Market Research Bureau (Pvt) Ltd.</p>

Strategic Objective	Initiative
<p data-bbox="146 517 639 548">Embed customer and client centricity</p> 	<p data-bbox="715 562 901 593">New Products</p> <p data-bbox="715 607 1428 696">We need to constantly identify the needs of our existing and potential customers and upgrade our product portfolio to provide adequate solutions.</p> <p data-bbox="715 730 1428 853">During the year 2014 we were able to launch "Alliance Protected Savings Plan" which was mainly developed to address two key emerging needs of the public at large. This caters to a the savings requirement of the customers combined with protection.</p> <p data-bbox="715 887 1437 1070">"Retire with pride" Alliance Retirement Plan was launched successfully at the latter part of 2014. The main objective of this product was to complete the addressing of each stage of the human life cycle. The Company has successfully positioned our products in the market place and manifest in the growth rate of the top line.</p>
	<p data-bbox="715 1088 1366 1120">Enhance the facilities of customer service centers</p> <p data-bbox="715 1133 1433 1285">The ability to retain customers was the reason for the excellent operational growth, impeccable reputation and sustainability of the business. The 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</p> <p data-bbox="715 1319 1390 1413">Upgrades were done in the Regional service offices, Client Relationship Unit, Customer Care Centre, Corporate Customer Service Unit, Policy Conservation Unit.</p>
<p data-bbox="146 1512 391 1543">Advisor training session</p> 	<p data-bbox="715 1512 1187 1543">Training of Advisors and employees</p> <p data-bbox="715 1556 1404 1740">The Company trains and develop skills to optimize individual contribution by supporting it with well-designed products and services, underscored by the core value of protection, whilst also providing first class services to our valued customers. Training of customer contact center staff resulted in a marked improvement in customer satisfaction.</p>

Life Insurance

Operational Review

Management Discussion and Analysis

Strategic Objective	Initiative
<p data-bbox="145 521 639 555">Embed customer and client centricity</p> 	<p data-bbox="711 562 1169 595">Launch of "Asian Health Alliance"</p> <p data-bbox="711 607 1345 640">Asian Alliance signed a MOU with Apollo Hospitals, India.</p> <p data-bbox="711 651 1437 835">The unique brand of "Asian Health Alliance" combines the Softlogic entities, Asian Alliance Insurance and Asiri Hospitals, with Apollo Hospitals India, and is aimed at creating the premier Health Insurance platform in the country where clients and their families will have access to the best medical attention both locally and overseas.</p>
<p data-bbox="145 958 453 992">Operational Excellence</p> 	<p data-bbox="711 1003 948 1037">Field Underwriter</p> <p data-bbox="711 1048 1426 1267">For the first time in the Sri Lankan Insurance Industry the "field underwriter" concept has launched successfully where a group of high performing advisers selected based on certain parameters ex. business volume, profitability and retention etc. and given higher non-medical and financial underwriting limits in acknowledgement of their effort and empowering them to be real field underwriters.</p>
 <div data-bbox="467 1805 687 2011" style="background-color: orange; border-radius: 50%; width: 138px; height: 92px; display: flex; align-items: center; justify-content: center; text-align: center; color: white; font-weight: bold; font-size: 24px;"> <p data-bbox="517 1861 639 1962">Industry 1st</p> </div>	<p data-bbox="711 1402 1286 1435">Asian Alliance Life Operational Dash Board</p> <p data-bbox="711 1447 1426 1541">Life operational Dash board was introduced to the insurance industry by the company during the period and this is the flagship innovation of the life operation.</p> <p data-bbox="711 1563 1437 1753">This is a monitoring tool to evaluate the performance of each department at any given point of time. This tool acts as a proactive engine where the management team can see the number of claims in each and every stage until the claim reaches its final line. When the claim gets delayed management can step in and solve the problem.</p> <p data-bbox="711 1776 1398 1906">This Monitoring tool can also be used to measure the staff performance through the individual MIS generated through the system. This can be useful in performance appraisals since it includes actual performance of staff.</p>

Strategic Objective	Initiative
<p>Operational Excellence</p> 	<p>Auto underwriting</p> <p>With the intention of making the best use of advancement in technology the company has moved in to Auto Underwriting where Non-medical straight forward policies are underwritten through the system without any manual involvement. Necessary controls and validation has been embedded to maintain the best practice and adequate controls in the underwriting process.</p>
	<p>Optical Character Recognition (OCR)</p> <p>In the early part of the year, company commenced scanning proposal forms and extracted the data in the manually filled proposal form to the system through a process called Optical Character Recognition. This eliminates the data entry errors at the point of part from the life operations which saves time for strategic work and improves working standards of the underwriting department.</p>
	<p>Launched of Life "O" App</p> <p>During the year the Company launched its e learning platform and all the manuals for three main departments underwriting, claims and servicing have been uploaded to the intranet where branch staff can use those manuals as an online learning tool when procedure information requirement arises. These manuals are updated as and when the process changes or develops further.</p>
 <p>AAI Life Operational Team</p>	<p>"Our Objective is to be the pioneers of insurance process innovation and set a standard for other players to benchmark"</p>

Life Insurance

Operational Review

Management Discussion and Analysis

Our Products

▶ Participating Products

Alliance Family Plan
Alliance Child Plan



▶ Term Cover Products

Asian Alliance Level term Plan
Decreasing term Assurance Plan (DTAP)



▶ Health Insurance

Asiri Alliance Medical
Alliance Premium Relief Plan



▶ Riders

Additional Life Benefit - Option to increase the life cover provided on Alliance Family Plan or Alliance Child plan.



▶ Dividend Based Investment Account Products

Alliance Protected Savings Plan
Retire with Pride – Asian Alliance Retirement Plan







Details of product with brief description as follows;


Participating Products	
Alliance Family Plan	
	<p>Alliance Family Plan is an endowment plan which provides a life cover during the term of the policy or a lump sum payment together with accumulated bonuses declared every year on reversionary basis at maturity.</p> <p>Term of the policy varies from 5 to 40 years. This product can be tailored by adding on various riders as per the protection needs of the customer. An additional loyalty bonus is paid on policies that have been in-force for more than 10 years.</p>
Alliance Child Plan	
	<p>Alliance Child Plan provides a life cover during the plan period, with the child being named as the beneficiary. When the premium ceases, the Life Assured will begin to receive the sum assured together with the accumulated bonuses (declared yearly on reversionary basis). An additional loyalty bonus is paid on policies that have been in-force for more than 10 years.</p> <p>Child benefits are as follows</p> <ul style="list-style-type: none"> At the end of the term of the policy child will start receiving a 200% of the sum assured at 40% per year for 5 consecutive years In the demise of the life assured during the child benefit paying period, the child will receive double the financial benefit for the remaining years
	
Term Products with Total Refund of Premiums	
Alliance Health Care Plan	
	<p>Alliance Family Plan is an endowment plan which provides a life cover during the term of the policy or a lump sum payment together with accumulated bonuses declared every year on reversionary basis at maturity.</p> <p>Term of the policy varies from 5 to 40 years. This product can be tailored by adding on various riders as per the protection needs of the customer. An additional loyalty bonus is paid on policies that have been in-force for more than 10 years.</p>
Alliance Premium Relief Plan	
	<p>Alliance Premium Relief Plan is an innovative tailor made insurance solution to meet the future protection needs of the policyholder. This product releases you from conventional premium payments whilst providing the protection benefits throughout the original term of the policy while guaranteeing a full premium refund at the maturity.</p>

Life Insurance

Operational Review

Management Discussion and Analysis

Dividend Based Investment Account Products	
Alliance Protected Savings Plan	
	<p>The Protected Savings Plan is a unique product that combines the benefits of term insurance with those of a bank savings account. The product offers an attractive dividend rate credited to the account on a monthly basis. After the first 90 days of the policy, the policyholder is able to make withdrawals (partial surrenders) from the policy using any Sampath Bank ATM island-wide. In addition to the flexibility offered by the partial surrender option of the policy, it also offers a life cover equal to twice the sum assured or the Sum Assured whichever is lower. The Sum Assured is calculated as the savings premium times the term of the policy. The policyholder is not charged a premium for the life cover provided, the full amount of the savings premium is allocated to the savings fund and accumulates dividends.</p>
Retire with Pride – Asian Alliance Retirement Plan	
	<p>The product provides retirement options to the policyholder where they can choose to receive the accumulated fund balance as a lump sum or select from one of four annuity options upon reaching retirement age. The annuity options are 10 year certain, lifetime or two joint lifetime options. There is a minimum guaranteed benefit in each case but the actual retirement benefit could be higher depending on the performance of the fund. The policyholder has the option of paying a single premium or regular premiums in order to build up the retirement fund. The policyholder is provided with a life cover as well as premium protection benefit (for regular premium policies) at no additional cost and is able to include additional riders as with existing conventional products.</p>
Term Cover Products	
Asian Alliance Level term Plan	
	<p>Asian Alliance Level Term plan is a simple term life insurance product 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.</p>
Decreasing term Assurance Plan (DTAP)	
	<p>This plan covers against non-payment of loan due to death or total disability due to sickness or accident. The period of the plan will depend on the loan repayment period and will cover the outstanding balance of the loan at any given time.</p>

Riders	
Additional Life Benefit - Option to increase the life cover provided on Alliance Family Plan or Alliance Child plan.	
<p>Relief Plan</p> <p>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.</p> 	<p>Family Healthcare Benefit</p> <p>Hospital bill reimbursement benefit with the annual benefit amount ranging from 50,000 to 3,000,000. On policies with a healthcare benefit amount above 1,500,000 hospitalisation in Malaysia, Singapore and India is also covered under the policy.</p>
	<p>100 Years PLUS Life Cover</p> <p>Whole of life assurance rider with a limited paying term. 10% of the benefit amount will be paid immediately on intimation of death (up to a maximum of 200,000).</p>
	<p>Total Permanent Disability Benefit</p> <p>60% of the sum assured will be paid at the outset in the event of a Total Permanent disability and the balance 40% will be paid in 4 equal installments spread over a period of 4 years</p>
	<p>Partial Permanent Disability Benefit</p> <p>A percentage of the Sum assured will be paid based on the type of partial permanent disability listed down in the benefit schedule in the policy contract</p>
	<p>Premium Protector Benefit</p> <p>Waiver of premium benefit in the event of a total and permanent disability</p>
	<p>Spouse Cover Benefit</p> <p>Optional life cover provided to the spouse of the main policyholder.</p>
	<p>Hospitalization Benefit</p> <p>Daily benefit paid in the event of hospitalization, to help cover loss of income, medical bills, transport costs etc.</p>
	<p>Family Income benefit</p> <p>A monthly benefit paid in the event of a death or a total and permanent disability of the main life assured.</p>
	<p>Critical Illness Super Benefit</p> <p>The benefit will be paid if the Life Assured is diagnosed for the first time as suffering from or proved to have undergone the type of surgery indicated in the list of 36 Critical Illnesses given in the Policy contracts. The policyholder has the option of having the spouse covered under the same policy as well.</p>

Future Outlook

The Company is targeting a 24% GWP growth in 2015, judging by the present year's performance. All our systems and processes are primed to achieve this ambitious target. Since 2012, the company has sustained an above industry growth rate without any downward dips. The company focuses on booking long term customers. The company enjoys a policy retention rate of 79%, underpinned by a watertight and intricate policy conservation framework, which ensures repeat customers. The staff has special instructions to ensure that no business is dropped and that we deliver and exceed customer expectations on both the financial and operational aspects. More importantly, our system of having a special team to support policyholders from the second year onwards frees the advisors to go out and book more new business without getting bogged down by follow-ups of existing customers.

We believe that AAI is the most innovative Life insurance company and we strive to benchmark the industry through dynamic products and solutions that leverage on advanced IT platforms. Our business model places customer convenience and protection ahead of all other outcomes and the host of initiatives that were introduced during 2014 to enhance service of Life operations offers an insight into how far we will go to deliver our promise of trust and protection to our customers.

Life penetration is still low in Sri Lanka and we see tremendous opportunity to gain market share by using innovative approaches to growing the market so that many more citizens can derive the enduring benefits of Life insurance.

General Insurance

Operational Review

Management Discussion and Analysis



Rs. 58 billion
2014 General Insurance
Market Volume

General Insurance Market Competition

The General insurance industry comprised of 19 service providers as at December 2014, including the National Insurance Trust Fund, which transacts General insurance business. Seven companies function as standalone General insurance companies and the others provide life insurance services in addition to General insurance solutions. The General insurance industry report a 4% growth in 2014 from Rs. 56 billion in 2013 to Rs. 58 billion 2014. Growth was driven mainly by the motor segment, which benefited from a record number of new vehicle registrations, followed by the medical insurance class due to the increase of corporate medical schemes. Most classes of General insurance remained extremely price competitive, however, it is envisaged that the attention to price will change post segregation.

General insurance penetration measured by premiums as a percentage of GDP has stagnated around the 0.6% levels. Although the General insurance business has grown in absolute terms over the last five years, penetration was comparatively low due to various reasons such as price competition and perception of the general public towards insurance.

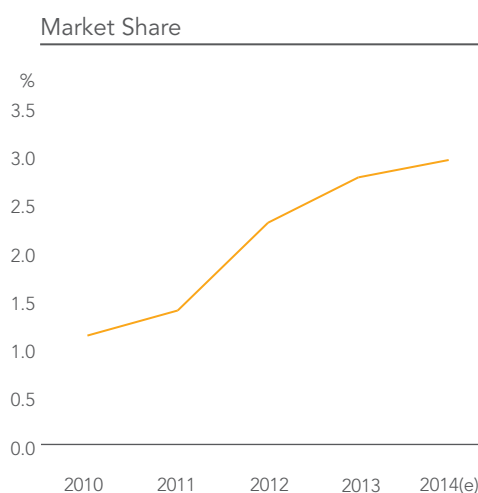
Market Attractiveness

In the backdrop of improving socio economic conditions, the relatively low level of penetration and lowering of price competition subsequent to segregation could be viewed as attractive.

Refer Industry overview and attractiveness on 62 to 68 for more information

Market Share

AAI consistently increased its relative market share as despite the challenges.



In addition to the above, intense market competition (Major Competitors) is discussed in the industry review on page 64

General insurance Business review

General insurance premiums increased by 11% from Rs. 1.5 billion in 2013 to Rs. 1.7 billion in 2014 which was ahead of the industry growth rate.

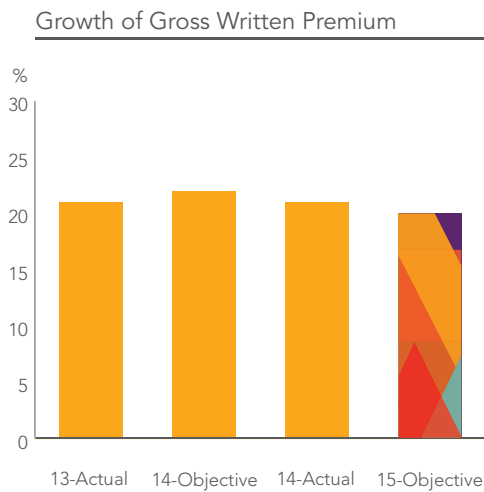
Description	2014	2013	2012	2011
Market Size	58,441	56,564	51,797	43,331
Market growth %	4	9	20	23
AAI growth %	11	31	95	46

Source: IBSL Annual Report and Industry Statistics

The Company's Performance against objectives - General insurance

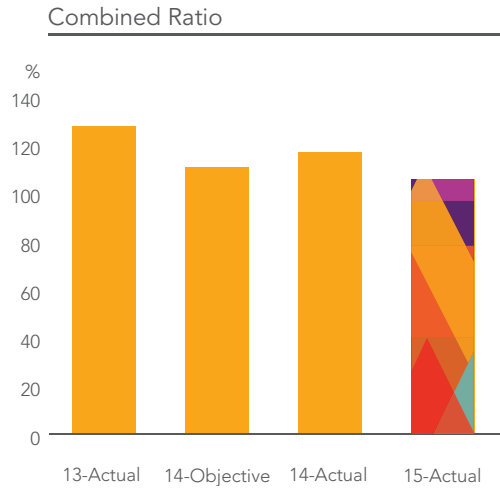
The key performance indicators used to manage the General business and the rationale for their use is outlined below.

Growth of Gross Written Premium



Commentary
GWP was 11% lower than 2013 and the budgeted performance, due to the walk-away strategy on pricing adopted during the year, particularly in the medical insurance class.

Combined Ratio



Commentary
The combined ratio is above the budget due to a higher than anticipated claims ratio.

Please refer General insurance business review for more information.

General Insurance

Operational Review

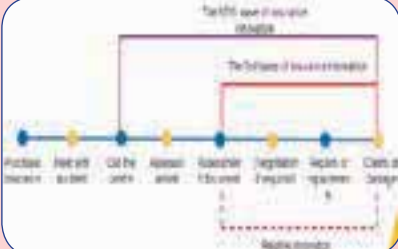
Management Discussion and Analysis



“We are committed to leverage technology to deliver superior solutions to our customers”

The General Insurance business has embarked on the latest game-changing innovation that is completely oriented towards customer convenience. The following table summarises key objectives for the future prospects of the General business along with key initiatives which are also explained in the table below.

Strategic Objective	Initiative
Embed customer and client centricity	
	<p>Launch of Drive thru</p> <p>AAI launched “DRIVE – THRU” innovation for first time in Sri Lanka to provide greater convenience to policyholders with a guarantee of policy within 10 minutes. Further, policyholders can obtain facilities such as renewals and endorsements, as well as value-added services such as facility to renew their revenue license.</p>
	<p>Launch of “Click 2 Claim” Motor Insurance Product</p> <p>The Company launched ‘Click2Claim’, a groundbreaking motor insurance policy offering two of the most crucial convenience factors of the 21st century – speed and smartphone technology. For years motor insurance policies have predominantly been given issuance of the reputation of being a time-consuming inconvenient practice. Please Refer Case Study - 02</p>
	<p>Self-Service Insurance “Kiosk”</p> <p>Capitalizing the group synergies and leveraging the technology the Company introduces novel concept of a Self-Service Insurance facility</p>



Case Study - 02

Motor insurance policies have predominantly been given the reputation of being a time-consuming inconvenient practice. Having recognised this issue, Asian Alliance has unveiled a revolutionary way of offering their clients convenience when collecting their insurance claim after a motor accident. In the event of an accident occurring, the policyholder has to go through many processes in order to claim their insurance cover. ‘Click2Claim’ differentiates itself by wiping out the waiting time and hassle a client has to go through until an insurance assessor gets to the location.
















Strategic Objective	Initiative
Embed customer and client centricity	
	<p>Conducted comprehensive research</p> <p>Perception study was carried out by Lanka Market Research Bureau (Pvt.) Ltd towards understanding customer perceptions and needs that are poorly or partially met by the industry.</p>
	<p>Regional Business Expansion</p> <p>The company encourages organic growth which empowers cost effectiveness by implementing a "Hub and Spoke Strategy" by capitalizing on that Softlogic retail and Softlogic Finance outlets, mainly in Bandarawela, Negombo, JaEla and Wennappuwa.</p>
	<p>Launched new "Drivers Kit"</p> <p>In order to differentiate its products, the Company introduced a new Drivers Kit to its customers.</p>
Operational Excellence	
	<p>Implementation of Lean Principles in its operations</p> <p>The Company implemented "Lean" to revamp its General insurance operations and to maximize customer value while minimizing waste. Simply, lean means creating more value for customers with fewer resources.</p>
	<p>Explored more web based products</p> <p>The company explored more web based products through alliances with mobile service providers and investment in social media platforms to promote products and services.</p>

General Insurance



Operational Review

Management Discussion and Analysis

General Our Products

▶ Motor Insurance Click2Claim		▶ Corporate Plans Contractor's Plant and Machinery Insurance	
▶ Health Insurance Buhuman Pensioners		▶ Corporate Plans Stocks Through-put Insurance	
▶ Health Insurance Asiri Alliance Medical		▶ Corporate Plans Boiler All Risks Insurance	
▶ Personal Plans Burglary Insurance		▶ Corporate Plans Fire Insurance	
▶ Personal Plans Travel Insurance		▶ Corporate Plans Machinery Breakdown Insurance	
▶ Personal Plans Professional Indemnity Insurance		▶ Liability Insurance Marine Insurance	
▶ Personal Plans Personal Accident Insurance		▶ Liability Insurance Employer's Liability and / or Workmen's Compensation Insurance	
▶ Corporate Plans Cash in Transit Insurance			

Details of product with brief description as follows:

Specialised Products	Features
Motor Insurance 	Click2Claim With a simple Click2Claim, motor customers will be able to intimate their claims to the company and avoid any inconvenience associated with an accident, and promptly be informed of their claim settlement. This ground breaking motor insurance policy offers two of the most crucial factors in the 21st century- speed and smart phone technology.
Health Insurance 	Buhuman Pensioners Every pensioner under this cover will be empowered with the strength to face the challenges and sicknesses that may occur during their retirement. The policy is available under three insurance plans and pensioners may choose the policy that suits them best depending on their financial strength. They are given the option of paying the monthly premium directly from their pension.



Specialised Products	Features
	<p>Asiri Alliance Medical</p> <p>The Company offers a range of comprehensive individual medical insurance products which offer individual medical cover of up to one million rupees.</p>
Personal Plans	
	<p>Burglary Insurance</p> <p>Covers movable items against forcible and violent entry to or exit from the premises.</p>
	<p>Travel Insurance</p> <p>This is another form of comprehensive insurance cover for the traveler. The policy covers personal accident, reimbursement of medical expenses, personal liability, loss of baggage/ personal effects/money/passport, hijacking, cancellation of flights, etc.</p>
	<p>Professional Indemnity Insurance</p> <p>Covers the legal liability towards third parties for losses caused due to the negligence of the insured and erroneous advice.</p>
	<p>Personal Accident Insurance</p> <p>Covers the insured person against death or injury due to accidental, external and visible means. The policy can be extended to cover Riot, Strike and Terrorism as well as weekly benefit in respect of temporary permanent or partial disability.</p>

General Insurance

Operational Review

Management Discussion and Analysis

Specialised Products	Features
Corporate Plans	
	<p>Cash in Transit Insurance</p> <p>Covers cash other than cheques whilst in transit and in premises due to various kinds of losses. The policy can be extended to cover Riot, Strike and Terrorism.</p>
	<p>Contractor's Plant and Machinery Insurance</p> <p>Covers the contractor's mobile plant and machinery against various types of risks including transit losses. Policy can be extended to include Riot and Strike and Terrorism. This is an ideal policy for owners who hire such equipment to contractors.</p>
	<p>Stocks Through-put Insurance</p> <p>Covers stocks from the stages of raw material, processing to until the finished goods are placed on board the vessel.</p>
	<p>Boiler All Risks Insurance</p> <p>A specific insurance to cover the Boilers and resulting third party bodily injury, death and property damage due to boiler explosion.</p>
	<p>Deterioration of Goods in Cold Storage Insurance</p> <p>This insurance indemnifies the client in respect of damage to stocks in cold storage due to rise/fall in the temperature caused by breakdown of refrigerating apparatus/equipment, failure of the public power supply or refrigerant fumes escaping from the apparatus.</p>

Specialised Products	Features
Corporate Plans	
	<p>Fire Insurance</p> <p>To cover buildings, plant and machinery and stocks against Fire/Lightning and Electrical short-circuiting. The Policy can be extended to cover host of additional perils such as Strike, Riot and Terrorism damages including Natural Perils, Burst Pipes, Impact damage, Aircraft damage and Electrical extra.</p>
	<p>Machinery Breakdown Insurance</p> <p>Covers Plant and Machinery against breakdown due to various causes which are not covered under a comprehensive fire policy.</p>
	<p>Marine Insurance</p> <p>Covers goods in transit by Air, Sea, Rail or Road due to various losses or damages.</p>
Liability Insurance	
	<p>Employer's Liability and / or Workmen's Compensation Insurance</p> <p>Covers employer's legal liability towards its employees in respect of death or injury caused to the employees whilst in and arising out of employment. The policy can be extended to cover to and from office travel, Riot, Strike and Terrorism.</p>

Future Outlook

We expect 2015 to be a watershed year for insurance in Sri Lanka, as the segregation process is likely to bring about a big change in market dynamics. Going ahead, the company will continue to consolidate its market share through the many initiatives taken. 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. 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 the areas of innovating new products and services, while making the company future ready.

Information Technology

Review

Management Discussion and Analysis



The IT team became a centre of excellence during the year, collaborating with various business units within the company to generate technological innovation, ensuring that the dynamism of our IT capability and execution had a distinctive impact on strategic product development.

Knowledge management is becoming increasingly more important in an era where there is a surfeit of information. Data offers a wealth of information to decision-makers, but it is equally important to filter the right data to the right employees so that they are well informed to make the right business decisions. Asian Alliance Insurance (AAI) has leveraged strongly on its robust IT platform over the years to deliver the best products and services to customers, in the industry. In keeping with this legacy of advanced knowledge management systems and processes, several IT innovations were launched with system expanded and consolidated to support the business goals of the organization during the year 2014.

Partner in Strategic Value Creation

As the fastest growing insurance firm in the country, AAI has gained a reputation for deploying products and services on an advanced IT platform. The period under review has been immensely challenging as the IT team was called on to work round the clock to facilitate the deployment of several one-of-a-kind IT-backed insurance solutions to the market.



Robust IT-backed solutions as follows;



Click 2Claim APP

A home-grown and purely in-house designed mobile app called Click2Claim was released to customers to yet again enhance customer convenience by reducing time spent by policyholders at accident sites. The app facilitates motor insurance policyholders to take a photograph of the damage to their vehicle via their mobile phone and send it to the company through the app to be processed.

Drive Thru Insurance

Our IT platform, which has enabled this service, allows a customer to merely hand over a copy of the vehicle registration and national identity card via the Drive Thru, while remaining in their car. This unique service has shrunk the time that customers usually take to renew or receive their motor insurance policy into a transaction that takes a few seconds.

Self-Service Kiosk

Special self-service interactive consoles or kiosks have been designed by the IT team to automate traditional processes. The company's sales advisors can now process their paper

work through the kiosk, without having to visit branches. In time, this service will be released to customers so that they can service their policies at the click of a button, once again without having to visit branches.

Life ePortal

This mobile app allows life policyholders to log into the AAI portal and gain instant access to a host of services, for example, viewing receipts, paying premiums and so on.

Enhanced Operational Excellence

Delivering service excellence is a driving force in our business strategy and to achieve this, we have elevated our IT systems and processes to the next level, not willing to merely match industry trends. These new IT-backed solutions are pioneering in every respect and propel the company to the forefront of an exclusive set of innovation and dynamic companies - not only in the insurance field, but across diverse sectors. These new products and services have improved operational efficiency by leaps and bounds and empowered employees to focus on more strategic areas of the business.

Going Digital

Further, we continue to forge ahead with substantial gains towards achieving our vision of being a paperless office by the year 2017. We are deploying a system whereby all paperwork relating to claims/policies/customer information will be scanned and information digitally extracted to be stored in our computer system, doing away with the need to maintain files of paperwork. This has eliminated the data entry function in the company.

At the Cutting Edge

Investment in improving the IT architecture of the company to facilitate the launch of the new products and services has been focused upon and is strategic in nature. However, since we are part of the conglomerate, Softlogic Holdings, we share a consolidated data centre with the group, as this imparts a retinue of benefits to the company in cost management due to shared resources. We are able to better leverage to gain advanced technology and sophisticated and reliable IT platforms through combined group synergy. As a result of this group strength, we can assure customers of speed of transactions, information security and a one-stop-shop for all their needs.

An Exciting Future

Along with deploying new development in IT, we remained focused on strengthening our IT security and compliance to enhance security and reduce IT related risks and vulnerability. The company now has fully-functional and advanced IT platforms for both Life and General operations. The Non Life operation has been fitted out with a totally new ICT framework to offer us the edge in the fiercely contested General insurance arena. We expect the Click2Claim product to be an industry game-changer and are confident about launching even better solutions in the period ahead.

We will continue to be focused on expanding our self-service kiosks across the country for our sales advisors and eventually for our customers. Meanwhile, key system enhancements will be sustained and our IT development capabilities further enhanced. Superior business analyst skills housed in our team enable us to foresee the impact of our solutions on customers and deploy our services accordingly within a short period of time. Speed is of the essence in development of IT solutions and our IT team remains at the cutting edge in all these respects.

We are proud that our organizational IT framework and expertise is now a key enabler of positive business outcomes for the company. Going ahead, our endeavour will be to make further advances in IT to deliver customer convenience by way of IT-backed solutions.

Shareholder Value creation

G4-9 (a)

Management Discussion and Analysis

Existing and Potential Investors

We aim to deliver superior shareholder returns over the long term by balancing our short and long term objectives and responding to the social and environmental issues inherent in our business. Our performance with relation to the shareholders is summarised below.

Commitment	2014 Update
<ul style="list-style-type: none"> • Manage business performance to consistently deliver growth and profitability targets. • Implement a robust risk management system. • Embed effective internal controls into key operational processes. • Comply with all relevant regulatory / statutory requirements. • Obtain reinsurance arrangements with reinsurers whose financial stability is confirmed by ratings which are in line with IBSL regulations. 	<ul style="list-style-type: none"> • Achieved the largest profit figure in the Company's history. • Recorded well above the industry average growth in life and General Insurance segments of the market. • Reinsurance programme led by reinsurers who have been assigned at least an "A" rating by international rating agencies and strengthened process to review reinsurer ratings.

Financial performance – The Company

Economic	2014	2013
Gross written premium Total amount we receive from life and general customers as payments for their insurance policies	Rs. 4.8 billion	Rs. 4 billion
Net Earned premium	Rs. 4.1 billion	Rs. 3.2 billion
Net profit Profit after tax attributable to our ordinary shareholders from life and general insurance businesses	Rs. 752 million	Rs. 362 million
Return on net assets Net profit attributable to our ordinary shareholders as a percentage of net assets (Excluding AFS Reserves) as at year end	39%	21%

The total of Life and General insurance premiums increased by 17% from Rs. 4 billion in 2013 to Rs 4.8 billion in 2014. Profit after tax for the Company increased from Rs. 362 million in 2013 to Rs. 752 million in 2014. This is a growth of 108% and the highest ever profit achieved in the history of the Company.

Earning Value

Earnings per share (EPS) in 2014 amounted to Rs. 20.06, giving a price earnings ratio of 7.13.

Dividends

Dividend for the financial year amounted to Rs. 10 per share and this is a 108% increase compared to Rs. 4.80 declared in year 2013.

Please refer Investor Relation and Stakeholder engagement sections for more information on page 258.

Achieving Sustainable, Profitable Growth

The company has implemented the following initiatives in line with our strategic objective of delivering sustainable, profitable growth in the medium to long term.

Corporate Governance

During the year, the company reviewed its governance structures in the context of 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 as well as the Rules on Corporate Governance published by the Colombo Stock Exchange. Several aspects of the governance process were improved upon during the year.

The details of these improvements as well as the overall structure are provided on pages 208 to 211 of this report.

Risk Management Initiatives

The company has a robust risk management framework with a Risk Management Committee chaired by the Mr. Jatinder Mukhi. All functions are represented by relevant senior management staff. The objectives of the Committee are to identify risks which will impact AAI's performance and implement suitable mitigation / management strategies.

The Risk Management Committee provides detailed information regarding organizational risks to the Audit Committee who in turn report to the Board of Directors. An overview of AAI's risk management process is provided on pages 256 to 257.

Business Continuity Planning

The business continuity plan was successfully implemented and tested during the year and was based on real life scenarios and was well attended by staff members. At the end of the session, the Executive Committee critically reviewed the current system and identified areas for improvement.

Performance Management

The Board has implemented a robust performance management system encompassing a detailed strategic planning process linked to strategic objectives for the Company. These objectives are then distilled into key performance indicators which are monitored on a regular basis at line management, senior management and Board levels. The details of the company's performance governance framework are provided on pages 241 to 243 of this report.

Shareholder

Value creation

Management Discussion and Analysis

Contribution to the National Economy

Sources of Distribution of Income detail analysis

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	2014 Rs.'000	2013 Rs.'000
Invested equity		
Shareholders' funds	2,373,664	1,831,694
Earnings		
Profit after tax	752,111	362,335
Cost of equity (based on 12 months weighted average Treasury Bill rate plus 3.5% for the risk premium)	10.19%	14.12%
Cost of average equity	241,876	258,635
Economic value added	510,235	103,700

Our extraordinary people

Management Discussion and Analysis



For us to achieve our business strategy, we need talented people who deliver superior results. To support and enable our people to give their best, we provide an engaging and fulfilling environment with opportunities for personal and professional development growth, maintain a competitive reward strategy and continuously enhance our people practices.

Why It Matters

Our responsibility goes deeper than merely meeting and exceeding our customers' expectations. It also relates to the way we care for and develop our employees, maintain collaborative relationships with our suppliers, and help communities thrive. Employees are our core stakeholders and the true value of our business lies in them. Our constant endeavour is to attract, invest in, develop and retain the best talent in the industry. Our philosophy and culture of knowledge and learning has made the AAI workplace a crucible of leadership, where great leaders are built.

At the same time, AAI's operations can have an impact, positive or negative, on the human rights of a broad set of people, including employees, customers, suppliers and their employees, business partners, and communities in which a company operates. This would affect their working conditions, impact the supply chain, housing standards of living, people's health, life and security. Therefore, we concentrate on our impact on the human rights of our employees and customers in areas of non-discrimination and child labour in this section.

What we are doing

Employees are the driving factor behind AAI's swift ascendancy as one of the 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 see that we, as their employer, are ensuring career progression and enhancement of their skill sets, it sets the stage for a power packed performance by field staff and back office employees. By strengthening their technical training and soft skills, the company can expect them to think out of the box and innovate to set benchmarks in the industry.

2014 was decisive

2014 was a decisive year because we had a compelling agenda of diverse commitments to ensure that the segregation of the Life and General operations was a success from the angle of using resources optimally. In the first instance, the industry as a whole faced an era of uncertainty, mainly due to unavoidable employee restructuring. Assuring them of job security and addressing any doubts was a mission in which we achieved our chief main goal – to retain our key personnel. Another challenge during the year was that with the impending split, the number of companies expanded, thereby opening up employment opportunities for trained insurance personnel. Fortunately, we had pre-empted this situation and structured our well-defined career progression, development and training model to engage and retain employees who understood the value that AAI adds to their career path and to their earning capacity. Service and innovation were the two key attributes that we focused on through the year. We made a concerted effort to channel employees to think outside the box, to focus on innovation and to lead rather than follow. AAI not only achieved the segregation compliance before schedule, the transition too was extremely smooth and commendable.

A key focus this year was enhancing our services to the employees and in turn training them to enhance the experience that customers have with them. Our Code of Conduct defines the standards we set for ourselves in our business interactions with all stakeholders. This Code also applies equally to all company employees and helps us ensure that we always strive to do the right thing. Building on this foundation, we encouraged a responsible business through the way we engage and the way we develop as an ethical supply chain to cap what has indeed been a fruitful year in so many ways.

Our extraordinary people

Management Discussion and Analysis

Diversity and Inclusion

AAI promotes a workplace that is inclusive of all employees, regardless of gender, ethnicity or age. We embrace diversity and have committed to a number of programmes aimed at further embedding principles of inclusiveness. The company employs a multi-pronged approach to reach out to potential candidates, usually fresh recruits, by taking part in education and job fairs.

Talent Acquisition

Our HR team travels to distant geographical locations where we have branches and recruits locally for those branches and even for the Colombo branches. This has not only benefited the local youth, but also enhanced our talent pool, helping us to expand our choices rather than being relegated to recruit within Colombo.

The initiatives to support employees include:

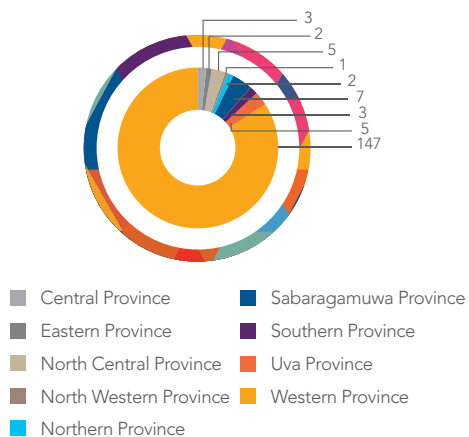
•	Building stronger partnerships with colleges and universities that serve diverse populations
•	Strengthening our company's internship program as a pipeline where diverse talent can be identified early in their careers
•	Leveraging our Employee Resource Groups as a talent source through the company's ongoing employee referral program

At the same time, the company does not hire anyone below 18 years of age and also does not engage in any form of child labour or related activities as a company policy. According to our 'environmental and social policy, we do not accept business which involves child labour. To identify this, we have included a questionnaire in all our insurance agreements to ensure that we do not involve or participate in any kind of child labour activities by insuring any activity, production use of, trade in, distribution of or involving such a practice.

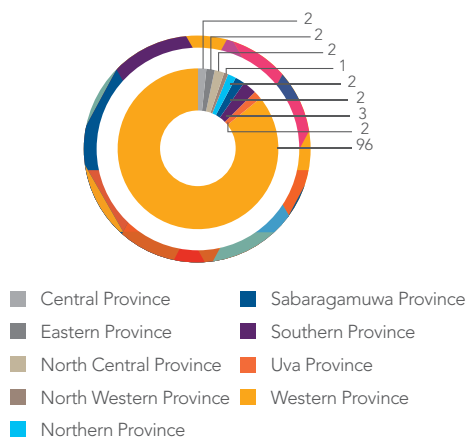
We report the status of child labour in every risk committee meeting and discuss whether there are any matters arising in this regard each year.

Highlights of diversification of job opportunities provided by AAI in FY14

Male Employment Hires - Gender and Region

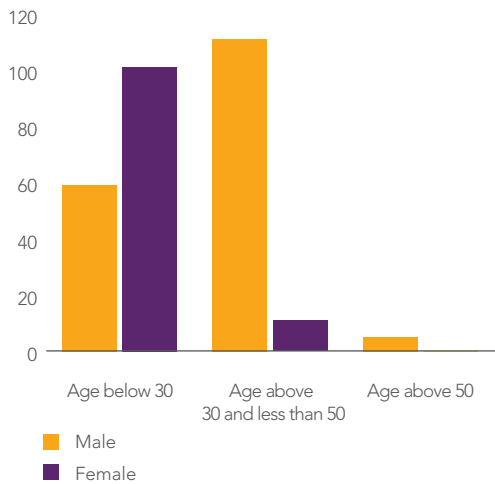


Female Employment Hires - Gender and Region

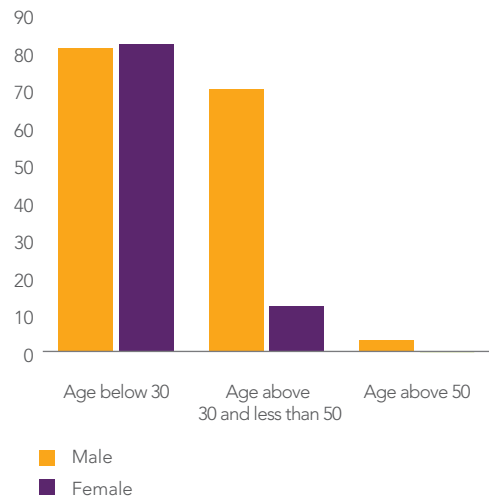


Also, we participated at the Education Exhibition and Job Fair 2014 to provide opportunities to those who are willing to join the Insurance sector. This was mainly targeted at school leavers and young adults.

Employment Hires
- Gender and Age - 2014



Employment Hires
- Gender and Age - 2013



Training in technical, behavioural soft skills and personnel grooming through 80 training programmes in 2014.



AAI HR members explaining the career opportunities to school leavers at Edex 2014

Highlights of our training program in FY14



An outward Bound Training programme was held at Kithulgala on the 20th & 21st of September 2014 in the areas of teamwork, team bonding, communication, leadership, time management, problem solving, decision making, motivation, change and personal development.

Our extraordinary people

Management Discussion and Analysis

Personal Grooming Training



The main objective of personal grooming training is to emphasize the importance of personal hygiene and good grooming on the job. This program was held at Renuka Hotel on the 30th of November 2014.

Talent Development

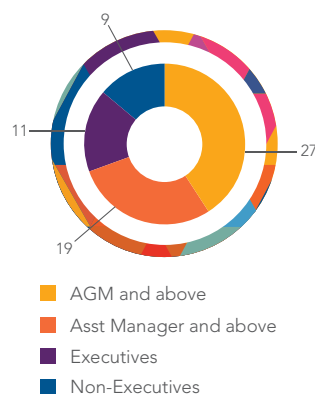
Training and career development are very vital in any company or organization that aims at progressing. Training simply refers to the process of acquiring the essential skills required for a certain job. It targets specific goals, for instance, understanding a process and operating a certain machine or system. Career development, on the other hand, puts emphasis on broader skills, which are applicable in a wide range of situations. This includes decision making, thinking creatively and managing people. We build and retain our talented workforce by:

- Designing and launching targeted high potential programmes for diverse talent
- Utilizing diversity as a key component in the succession planning process for future leaders

Other training sessions for FY2014

Scope of training	No of Trainings	%
Compliance	14	23%
Financial reporting	7	12%
IT	4	7%
Operations	19	32%
Overall	14	23%
Strategy	2	3%
Total	60	100%

Average Hours of Training per Employee - 2014



Bringing in new Talent

The company offers internships in its IT and Finance departments to mentor future leaders to gaining first-hand experience of working life and the skills they need to build in the future to be successful and contributing employees. In 2014 too, we had 2 interns from institutions and they were given a 9-week training. A certificate was also handed to them at the end of their internship period.

Career Transition

AAI also assist transition programs to employees who are willing to change their career path or to give opportunities to grow with the Softlogic group (our holding company). During the reporting period your company has supported the transformation such employees to a new path. For example: some of the employees from IT and Finance divisions were given opportunities to transfer from their division to other divisions. A special training programmes was given to these employees for 6 months as assistance to carry out their duties.

Employment Highlight

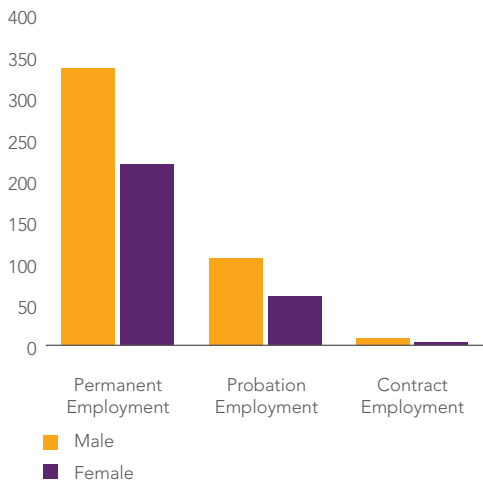
Employment
- Gender and Category - 2014



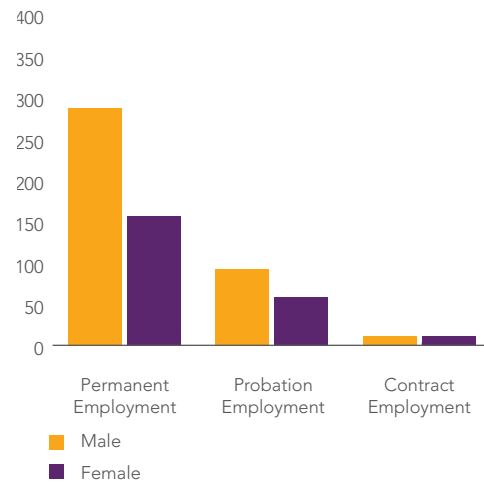
Employment
- Gender and Category - 2013



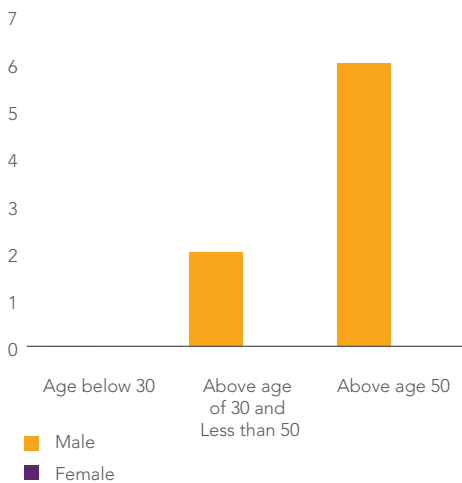
Employees - Gender and Contract - 2014



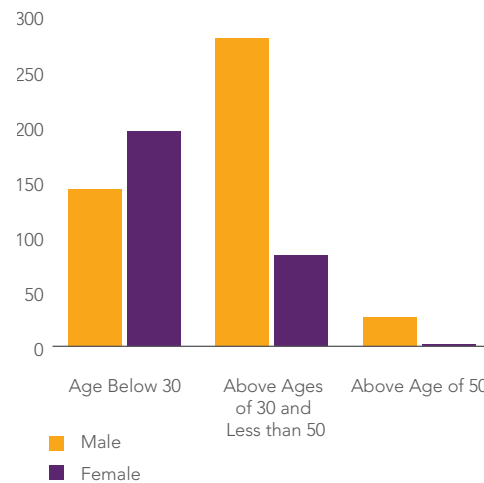
Employees - Gender and Contract - 2013



Governance Bodies - Gender and Age



Employment - Gender and Age



Our extraordinary people

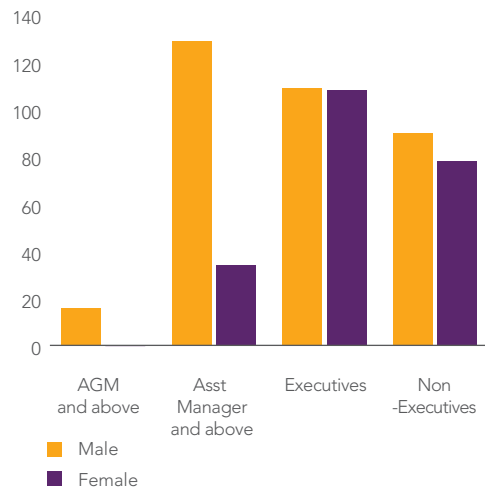
Management Discussion and Analysis

Employment Highlight

Employees - Gender and Supervision

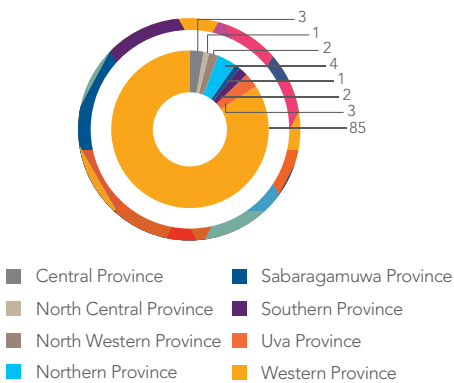


Employees who Received a Regular Performance Review - 2014

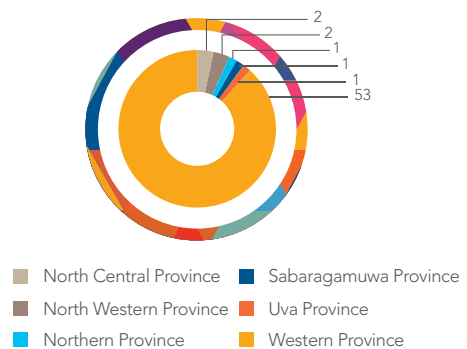


Employment Turnover Highlight

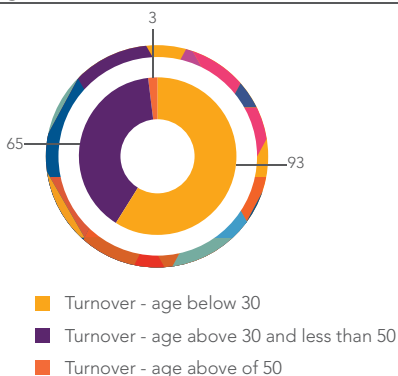
Male Employment Turnover - Gender and Region



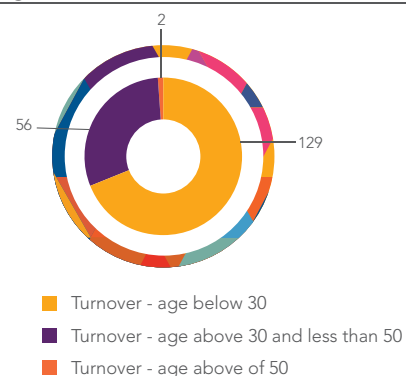
Female Employment Turnover - Gender and Region



Employment Turnover - Age - 2014



Employment Turnover - Age - 2013



Gender Diversity

AAI is committed to providing employees and employee candidates the right to equal employment opportunities and a discrimination-free work environment, where employment practices are based upon an individual's capabilities and qualifications without regard to race, gender, age, colour, religion, national origin, sexual orientation, disability, veteran or marital status or any other protected characteristics as established by applicable law. This policy of equal employment opportunity applies to all personnel policies and procedures including recruitment and hiring, promotions, transfers, and terminations, as well as compensation, benefits and other terms, conditions and privileges of employment.

Increasing gender diversity in the workplace is proving to make businesses more productive across the globe. At AAI, we believe in gender diversity, and over the years our ratio of male to female employees has been steadily improving.

Ensuring a Safe and Healthy Workplace

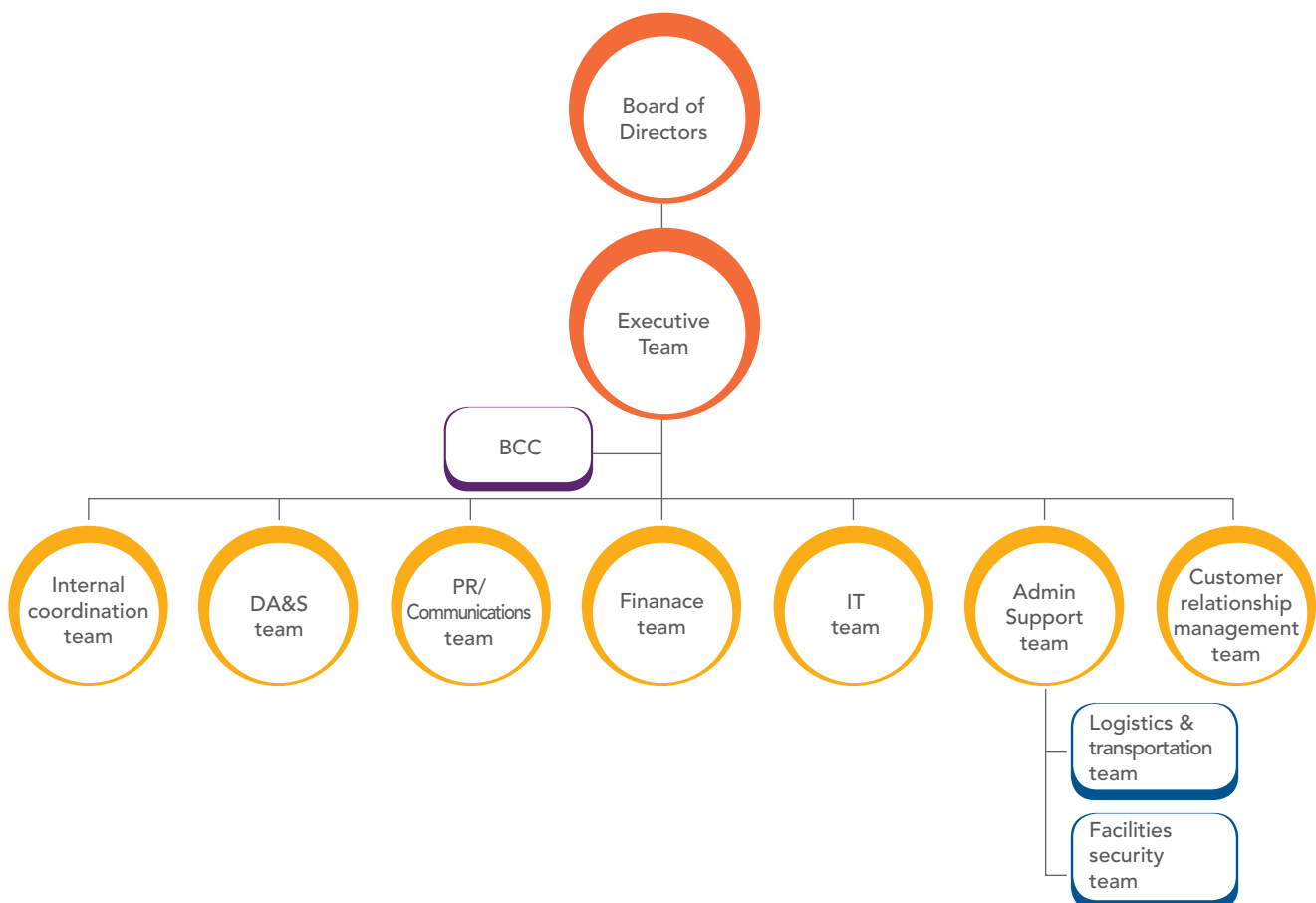
We strive to provide a safe and healthy work environment for those working for, and on behalf of, the company. We develop and implement health and safety management programmes designed to promote a safe and healthy work environment, avoid unsafe situations, maintain legal compliance, and respond to incidents and medical emergencies.

For example, we have established an ergonomics training and assessment programme for all employees. The overall aim of the programme is to reduce incidents of pain, discomfort, and ergonomics-related injuries.

Highlights of our safety program in FY14:

<ul style="list-style-type: none"> • A business continuity plan was established in the year conducted by the crisis management command structure to ensure the health and safety of employees
<ul style="list-style-type: none"> • Preventive measures implemented at AAI in order to prevent / mitigate the risks or threats that may adversely affect the operations of the company.
<ul style="list-style-type: none"> • Upgrading Safety devices in Nawam Mawatha and Ward Place office locations

AAI crisis management structure



Our extraordinary people

Management Discussion and Analysis

Future Direction

Looking ahead, we plan to work closely with our internal partners to develop a consistent and robust programme for health and safety management. We are also working to improve measurement systems for health and safety performance throughout our operations.

Our leadership and commitment to employee health, well-being and workplace safety dates back to the very beginnings of our operations. Positioned initially on a platform of protection, we extended this pillar to our employees as well and drew up a culture that keeps employee well-being squarely at the forefront of our priorities. Employee well-being is incorporated in every aspect of our business. We invest in the health, safety and well-being of our employees as we recognize that this contributes to employee satisfaction. The company actively promotes an optimal work-life balance.

Non Discrimination

Human rights law discusses a workplace free from discrimination and harassment. It is important to AAI as an employer because we understand our rights and responsibilities under the human rights and anti-discrimination law. By putting effective anti-discrimination and anti-harassment procedures in place in our business, we can improve productivity and increase efficiency.

AAI whistle blower policy

To identify acts of discrimination, the Whistleblower Policy provides a means by which our employees and third parties can raise concerns regarding actual or suspected contraventions of our ethical and legal standards, without fear of repercussions.

We train our team to blow the whistle

AAI launched a comprehensive whistleblower program based upon a Board approved whistleblower policy in 2014. The whistleblower policy defines the number of channels available for employees wishing to raise a complaint through the Whistleblower Policy. Where the whistleblower has concerns about the resolution of the matter, an escalation avenue to the Chairman of the Audit Committee is also available. There were no incidents of discrimination reported for 2014.

Listening to Employees

At AAI, we consider our employees as the greatest asset of the company which adds the competitive edge to our business. Therefore, we are committed to create the ideal conditions in which employees offer more of their capabilities and potential.

AAI Employee Engagement Model

AAI's employee engagement model brings together the company's leadership qualities, company values, and the employees' experience as the foundation for employee engagement and our company's long-term success.

Employee engagement is driven by leadership quality, effective rewards, strong workplace culture and values, enabling productivity and support of performance and development. Figure 1 is a summarised snapshot of the engagement summary for the year 2014.

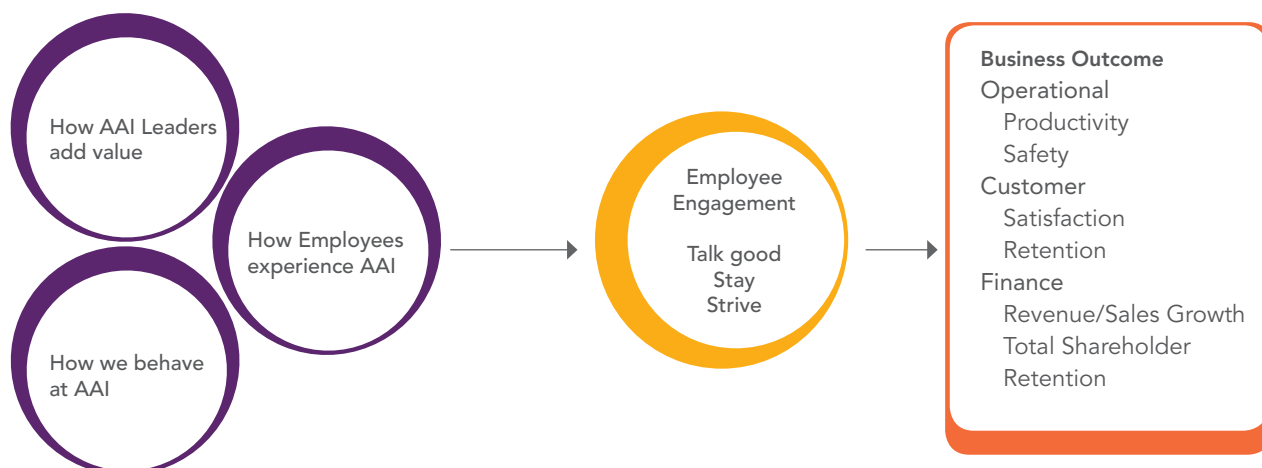




Figure 11: Snapshot of the engagement summary for the year 2014.



Our extraordinary people

Management Discussion and Analysis

Apart from the above, employee engagement in 2014 resulted in the introduction of new HR initiatives for the year 2015.

HR Initiatives- 2015

Scope	Programme
Launch of "The Training Calendar"	Highlights the training programs that are planned for the first and second quarter, captured via the training needs analysis. Based on this calendar employees may request for training programs that have been scheduled.
In-house doctor visits	In house doctor to visit Head Office and Ward Place. Visits will be on the 1st and 3rd Friday of every month. Schedule is as follows: 12.30pm- 2.30pm at Head Office / 3.00 pm – 5.00 pm at Ward Place. This will reduce the time and money spent on outside consultancy.
HR hotline for leave and attendance	Hotline to assist staff on urgent leave and attendance queries.
Staff Flexi hours – Managers and above	Flexi hours will promote a healthier work life balance. The head of the department must give approval prior to obtaining a flexi hour schedule to ensure the smooth operation of the department. Flexi time slots are as follows: 7.30 am-4.00 pm / 8.30 am-5.00 pm/ 9.00 am-5.30 pm/ 9.30 am-6.00 pm.
AAI Talent Pool - Selection panel to be established	This committee will put together a pool of talented staff from all departments and categories. The committee will then propose a special retention and motivational tools/plan targeting these selected individuals.
Critical Illness cover for staff	Launch of additional protection on top of the medical cover for employees. This is optional: where employees can choose to pay a minimal fee to receive this cover. Example: To receive a Rs. 500,000 policy the minimum fee would be Rs. 950, which covers 35 critical ailments.
Work hard play hard - Company Events	Office events will be organized by the sports club to promote a positive work environment. Events will include: Auvrudu event (April)/ Quiz night (July)/ Talent Competition (October)/ Dinner Dance and Kiddies Party (December)
Leadership development program	Continuing our development series for Managers and Senior Managers; a number of focused training programs will be launched to improve managerial skills. This plan will include foreign training programs.
Staff grooming – Staff Uniforms	Staff uniforms to be provided to selected grades of staff

Highlights of our Employee activities Engagement in FY14

Performance Appraisal	
 <p>Financial How do we appear to the shareholders?</p> <p>Customer How do our customers perceive us?</p> <p>Balanced Scorecard</p> <p>Internal At what processes should we excel?</p> <p>Innovation What should we learn to grow and prosper?</p>	<p>Performance appraisal is a method of evaluating the productivity of the employees in the workplace, in terms of the qualitative and quantitative aspects of the job.</p> <p>At Asian Alliance Insurance performance evaluation is conducted annually based on the objectives set at the beginning of the year. Performance objectives / goals are set and informed to the staff to maintain a fair evaluation process.</p> <p>These goals are specific and realistic with regard to their job function. The main aim of our performance evaluation is to measure and improve performance of the staff and in turn reward based on their performance grading and to increase their future potential and value to the company. It also includes providing feedback, understanding training needs, identifying poor performers and guides them towards enhancing performance, clarifying job roles and responsibilities. Assistant Managers and grades above are appraised online based on the Balanced Scorecard method where their KPI's are categorized into four segments. Non-Executive and Executive staff members are evaluated manually where they are appraised by their respective Department Head/Divisional Head. The HR department hands over the summarized data of the online appraisal as well as the manual appraisal to the respective Divisional Heads for their approval. Once the performance evaluations are finalized and approved by the Managing Director of the company, based on the appraisal grading, increments and bonuses are granted to the staff.</p>
Participation in the Corporate strategy and planning process	
<p>We continued the practice of conducting an interactive strategic planning process involving representatives from all functional areas. Planning sessions were initiated for the year 2015 planning discussions. Strategic and tactical action plans arising from these meetings are fine-tuned and deliberated in detail by the Executive Committee and finally presented to the Board of Directors for approval.</p> <p>Strategy cascade</p> <p>Board Approved corporate strategy was communicated to all levels of the company, as we believe that our employees are the key to achieve sustainable growth</p>	
Management Development Programme (MDP)	
<p>MDP programme is focused at selected individuals who are identified as key individuals to take the company to the next level. This is initiated to strengthen overall capabilities of the participants to reach greater heights. This was conducted in August for 14 staff members who are at a managerial grade.</p>	
Asian Alliance Close group Facebook Page	
	<p>AAI launched its "Facebook" page and enabled employees to communicate with the company at their leisure through their Facebook accounts. This created an opportunity for employees to share and collaborate with the company and with each other.</p>

Our extraordinary people

Management Discussion and Analysis

AAI Sparkling Night – 2014



The AAI general division organized a Christmas party where they spread the happiness by sharing gifts with each other and financially supporting those in need.

Life Christmas carol Service



AAI Life Christmas Carols were held on the 23rd December 2014 at Nawam Mawatha head office to celebrate the joy of Christmas.

Good Job Cards



Appreciation is a fundamental human need. Employees respond to appreciation expressed through recognition of their good work because it confirms their work is valued. When employees and their work are valued, their satisfaction and productivity rises, and they are motivated to maintain or improve their good work. Therefore we give "good job cards" to employees who performed well at their jobs.

15th Anniversary Celebration



AAI celebrated its 15th Year of Excellence by engaging in religious activities on the 1st of December 2014

Life Cricket Carnival



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

Idea Box



The Idea Box, kept as an anonymous option for employees to reach the management, has brought in interesting suggestions, ideas and even complaints, which are swiftly addressed to the greatest extent possible.

Further, the company's intranet system, Infinity, is proving to be extremely useful in driving communications and employee engagement.

Infinity Website



Our intranet plays a vital role in the engagement process within the company. With the re-launch of the intranet, the interface was transformed into an easy to use system where employees could access the required information in a more efficient manner with just the click of a button. All the information required by our employees to effectively discharge their duties are available on the intranet providing more convenience for the staff, e.g. operational process and procedure manuals

Dress Down Day



A dress down day is an opportunity to wear the company T-shirt which makes staff feel more comfortable whilst they work, to show a more personal style and appear a little more approachable maybe. Happy staff are generally considered to be more productive. Therefore, the last Friday of every month is considered "Dress down Day" for AAI where all employees are given the freedom to wear the company T-shirt and enjoy working.

Our extraordinary people

Management Discussion and Analysis

AAI Employee Awards 2014



Having this medium at hand has encouraged employees to share their special moments with colleagues.

During the year, we focused strongly on change management and ramped up internal focused communication amongst employees. In tandem with these awareness building initiatives, we complied with statutory rules and regulations, thereby ensuring that workers of all levels were kept engaged and that they took ownership of ensuring a smooth transition. This close engagement with our stakeholders has ensured that the company is not in any way liable for any malpractice or grievance regarding labour.

Awards such as the Employee of the Year and the Managing Director's award continue to inspire exceptional achievements amongst employees. We also have a separate forum for sales staff, Staff Congress, to recognize star sales staff.

Employees Reaching Out to the Community



AAI encourages employees to volunteer time and resources to charitable causes. We believe that volunteerism helps to strengthen connections between employees, the company and the communities where we operate. For example, AAI's staff get together with the Softlogic group contributed towards the people who were affected by the landslide at Koslanda. The dry rations collected were handed over to "Sirasa Sahana Yaththara" to hand over to the victims.



Employees of Asian Alliance participated in developing and conducting presentations of our flagships community programs of Digital academy and youth

Link to the site: http://www.asianalliance.lk/digital_academy-21-1.html

Embedding customer-centricity

Management Discussion and Analysis



“We serve more than
115,000 Customers
Island wide”

Why it matters

How we serve our customers is material to delivering our business strategy and our brand promise of ‘to provide quality products and services through quality people and processes’ We are uniquely placed to offer better connectivity with customers who seek a different array of financial solutions.

Top most line = *Value-Price*

At Asian Alliance we consistently look forward to improve “Top Most Line” which is the difference between customer perceived value and the price of the products.

Thereby customer satisfaction means not just the use of a policy product that was purchased from an insurance company for a cost, but also the satisfaction that is obtained when the customers get the expected benefits such as peace of mind (Customer perceived Value) during the product cycle and speedy payment when a claim is filed. Customer experience, on the other hand, is the positive feelings that a customer has when he or she goes through the entire cycle, right from purchasing a product to getting paid when a claim is made.

To achieve the objective of maximizing customer perceived value we focus on customer value propositions, in other words the promise of value to be delivered and acknowledged and a belief from the customer that value will be delivered and experienced. Value propositions are integral to our business model and details of propositions are provided below together with our responses;

Customer Priority Action Areas

Value Proposition	AAI Response 2014
Financial Security	Increased protection based products portfolio
Convenience of purchasing policy	<ul style="list-style-type: none"> Expanded distribution and agent network Introduction of Drive Thru Self-Insurance “Kiosk”
Fair and equitable claim processing	The company diligently paid its claims
Speed of claims processing	Click 2 Claim Product
High return	Life Investment plan
Low cost	<ul style="list-style-type: none"> Operational cost was reduced by the introduction of technological solutions to its back-end systems
Governance	Strengthen its governance
Brand recognition	Strengthen its brand further

Unfortunately, many insurance companies falter in providing the right customer experience because they get mired in overseeing claims and settling them. As a result, customers do not get the right response from agents or they have to wait too long to get their claims settled. Such situations have a negative impact on customer experience. AAI on the other hand recognizes the importance of the customer and focuses on customer experience and other aspects of the policy’s life-cycle. AAI believes that a holistic approach to improving the entire customer experience and having proper management of the process helps to retain/gain satisfied customers and a competitive edge.

Embedding customer-centricity

Management Discussion and Analysis

How we do it

Fundamental to the delivery of our business strategy is the ability to build strong and lasting relationships with our customers. Our focus is on

•	Improving customer experience and building trust,
•	Offering our customers the products and services they need, and
•	Improve customer convenience, fair and secure.

With our operations being nation wide we are able to offer our customers an unparalleled financial solution as well as local knowledge and expertise.

Our customers expect accessibility combined with a speedy and efficient response to their queries. We strive to go beyond the requirements of basic compliance with consumer protection and financial regulation by offering transparent products and services complemented by informed, objective and professional advice. It comes down to creating a suitable delivery model, through the right distribution channels and at a fair price.

AAI reiterates its commitment to the customers by focusing on four main dimensions of customer service as detailed in the customer charter of AAI.

Our Customer Charter sets out the standards and experience our customers can expect when they engage with us and supports our objective of providing a better customer experience. The Customer Charter was introduced in the year 2014 to reflect on what our customers have told us is important to them – making insurance easier, offering solutions that meet their needs, putting them in control and taking accountability if things go wrong.

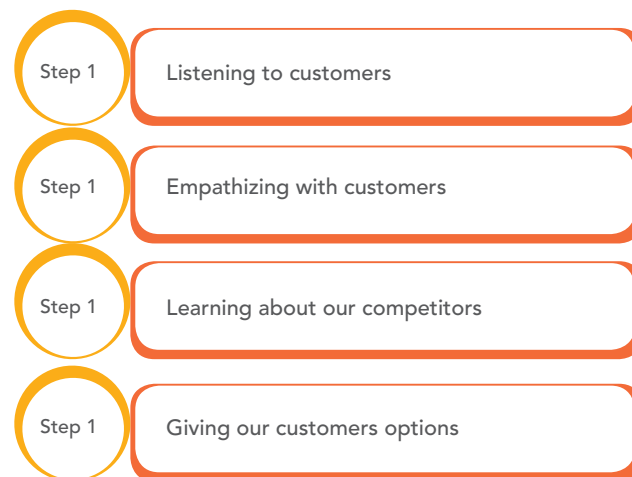


We understand our customers

We believe that it is imperative that we understand our customers and their needs so that we can continue to offer solutions that meet their needs. A business cannot survive without conducting ongoing efforts to better understand customer needs. To discover if our products or services are having a positive effect and creating customer loyalty, we take time to ascertain a customer's emotional and material needs, then offer valuable incentives to remain loyal to AAI.

However, no matter how good a product or service is, the simple truth is that no one will buy it if they don't want it or believe they don't need it. This is one of the driving mottos of AAI and we know that unless we clearly understand what it is our customers really want, we cannot persuade anyone that they want or need to buy what we are offering.

AAI has a 'four step' approach in understanding our customers.



Step 1 Listening to customers

Whether talking on the phone with a customer or conducting business in person, we always take a minute to ask our customer why they purchase our product. AAI has a welcome call programme to find out if our customers are happy with the quality and price in exchange for the services being offered.



Furthermore, we conduct a customer satisfaction survey to obtain valuable insights as to what were the grounds of dissatisfaction, if any. Thanks to the customer satisfaction survey, the satisfaction of our clients is measured in a consistent manner across the company, with questions regarding customers' experience with our staff, the quality of advice provided and whether the response is in line with the client's actual requirements. We analyse the results of the survey and integrate the suggestions made by our

customers in a feasible manner to bring the performance of products or services to strike the perfect balance between customer satisfaction and financial interests of the company.

The most recent customer satisfaction survey revealed that the customer satisfaction rate is 87% which is something we take pride in as a recognized insurance provider.

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	

Step 2 Empathizing with customers.

When our customer offers feedback about us, we take time to put ourselves in their place. We believe that our customers want to be acknowledged for taking the time to comment and do not want to be unfairly judged if they have issues with our service. We allow our customer to tell their story and offer expedient ways to address unmet needs.

There were a myriad cases where we put ourselves in place of the customer and accordingly AAI paid 15 claims on exgratia basis amounting to Rs. 3,110,385 in the year 2014, which is 1% of the total claims paid in the same year.

And we are proud to say that there were no instances where our customers had to consult the insurance ombudsman's office during the year of 2014.

Step 3 Learning from our competitors

AAI considers healthy competition to be the best tutor. AAI extensively researches the segments it operates in to understand what our competitors are doing differently and then we attempt to provide more enhanced solutions to our customers, since it is our responsibility as a service provider to reward our customers for their loyalty and belief.

Step 4 Giving our customers options

Every week, The senior management meets and analyses the product performance of both segments whilst brainstorming for new and innovative ideas based on the results of step 1, 2 and 3. The objective here is to match the high standards of our customers by optimizing the products and services of AAI to further suit their needs. During the year 2014, AAI launched a series of solutions to meet the specific needs of our targeted customers which is discussed in detail in the general review section on page 134 and the life review section on page 121.

"We offer affordable quality products to our valued customers"

AAI has a wide range of financial solutions for both retail and corporate customers and its financial solutions are mainly focused on the Life and General Insurance segments. AAI has a range of products for both segments which strengthen the company's competitive advantage as well as guarantee customer satisfaction due to its unique features and the embedded operational simplicity. Anyone can easily understand the desired product or service and if further assistance is needed, our customers do not have to look very far.

Embedding customer-centricity

Management Discussion and Analysis

The Company strictly follows its formalized products introduction process which requires approval from a product development forum before launching new products to its Customers;

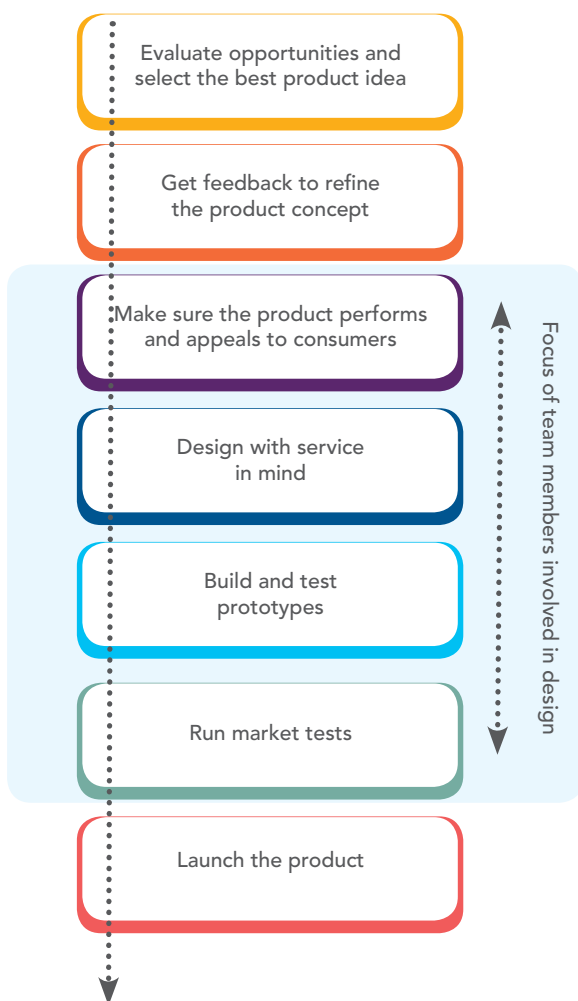


Figure : AAI Product Development process

During the year AAI launched five new products.

Launch of Protected Savings Plan	• Added Life protection with industry highest returns on savings – above 2% of the bank savings rate
	• Monthly dividend declaration/ communication – dividend will be credited to your account on a daily basis
	• Tax free maturities
	• Minimum/no medical requirements
	• Flexible term option
	• Top up premium facility when necessary
	• Cancellations – total refund will be made within 90 days if you are not satisfied with the policy
	• Withdrawal of the full fund at any time
	• Added life cover for protection of your loved ones
	• Fund doubles in the event of a death
• 4 times of the fund in the event of an accidental death	
Alliance Retirement Plan	• Flexible retirement options - Upon reaching retirement age the policyholder can choose.
	• Healthcare benefit
	• Family healthcare benefit
	• Family healthcare super benefit
	• Critical illness cover
	• Whole of Life insurance cover – Upto 5 Million, 100 years +
	• Death Benefit
Buhuman pensioners insurance	• Every pensioner under this cover will be empowered with the strength to face the challenges and sicknesses that may occur during their retired life. The policy is available under three insurance plans and pensioners may choose the best fitting policy depending on their financial strength
Click2Claim	• 100% Air Bag cover
	• Rs. 10,000/- worth of free towing
	• Rs. 50,000/- worth of Hospitalization cover due to accident including ambulance service
	• Rs. 1,000,000/- Personal Accident cover (up to 04 passengers including Driver subject to a Rs. 250,000/- per passenger limit)
	• Taxi allowance of Rs. 2,000/- per day up to 5 days excluding 1st 3 days
	• Rs. 5,000/- special windscreen cover

Social responsibility

AAI does not sell or market products that are banned in certain markets and neither subject to stakeholder questions or public debate. Our products designs are governed by a Board Approved environment and social management policy (ESMS Policy). The ESMS policy has a standard exclusion list which governs the ethical dimensions of services offered by AAI.

1. Forced labour or child labour
2. Hazardous materials such unbounded asbestos fibers and products containing PCBs .
3. Any product or activity deemed illegal under host country laws or regulations or international conventions and agreements.
4. Cross-border trade in waste and waste products unless compliant with the Basel Convention and the underlying regulations.
5. The following
 - a) weapons and ammunitions
 - b) radioactive materials
 - c) gambling, casinos and equivalent enterprises
6. Drift net fishing in the marine environment using nets in excess of 2.5 km in length
7. Pornography or prostitution.
8. Significant conversion or degradation of Critical Habitat
9. Wildlife or wildlife products regulated under CITES
10. Racist and anti-democratic media.
11. Hazardous materials such unbounded asbestos fibers and products containing PCBs
12. Significant alteration, damage, or removal of any critical cultural heritage.
13. Relocation of Indigenous Peoples from traditional or culturally significant land

In any event, if there is an instance that relates to the scope of the ESMS policy, the acceptability of such businesses are decided at the highest points of decision making of AAI. During 2014, there were no instances reported on the breach of principles of the ESMS policy. On the regulatory perspective, our products and services are directly affected by the Insurance Board of Sri Lanka (IBSL). The boundaries and regulatory requirements set by the IBSL require all insurance companies to obtain prior approval for new products in the Life Segment. Furthermore, AAI is responsible to comply with the provisions of Sri Lanka

Consumer Affairs Authorities. Act, No. 9 of 2003 and amendments thereto. The compliance with the ESMS policy and the regulators' requirements are monitored by the compliance officer and the extent of compliance is reported to the audit committee during its meetings.

We are proud to announce that there were no fines for non-compliance with laws and regulations concerning the provisions related to use of products and services from our regulators and neither has the company identified any non-compliance with related laws and regulations to the best of company's knowledge.

Products Awareness

Anyone with internet access can log in to the corporate website and obtain a comprehensive understanding of the products and services offered by AAI with a single click of the mouse. Furthermore, AAI has a dedicated customer service hotline backed by a team of dedicated customer service agents to satisfy customer needs and requirements 24-hours-a-day and 7 days per week. Our customers can always simply walk in to our head office or any of 67 branches located island-wide to meet our insurance specialists that would be more than happy to listen to their needs.

By providing different choices and striving to simplify the way AAI conducts business, AAI has established it self as a unique and a 360-degree insurance solution provider.

Delivering Superior Customer Service

At AAI, we have consistently improved the quality of our customer service and strive to be a benchmark in the industry. We firmly believe that price is not a long term differentiator, but that consumers will look to partner with an insurance company which offers them convenience and transparency.

•	Asian Health Alliance
•	Introduction of Click 2 Claim App
•	SMS based claims settlement facility
•	Drive Thru
•	Self-Insurance premium settlement and renewal facility
•	Implementation of Life operational dash board

Embedding customer-centricity

Management Discussion and Analysis

Better connectivity (Convenience)

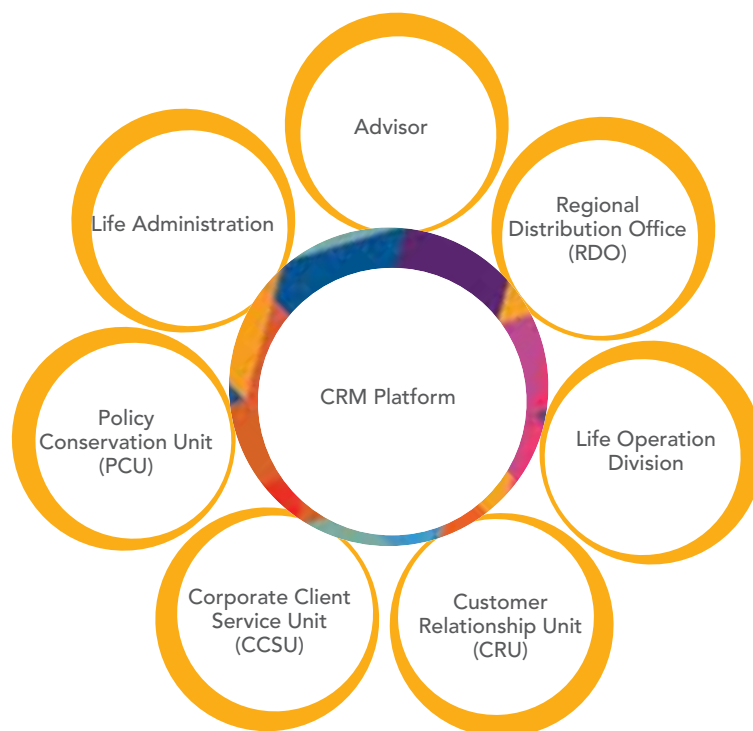
Since 1999, AAI evolved into a reputed composite insurance solutions provider at the forefront of the industry. Its extensive branch network of Regional Distribution Offices located strategically throughout Sri Lanka was one of the critical success factors of this status quo. Our branch network as well as the agents' network are both displayed on the corporate website and in summary we are an institution that is nation-wide.

During the year AAI expanded its reach by opening 15 new branches in Thalawathugoda, Trincomalee, Galle East, Badulla, Malabe, Monaragala, Makola, Seeduwa, Kadawatha, Jaffna, Bandarawela, Negombo, Ja Ela, Ward Place and Wennappuwa and capitalized on the group synergies by allowing customers to obtain our specialty service in selected 7 Softlogic outlets in Anuradhapura, Badulla, Dambulla, Kurunegala, Polonnaruwa, Rathnapura and Nuwara Eliya.

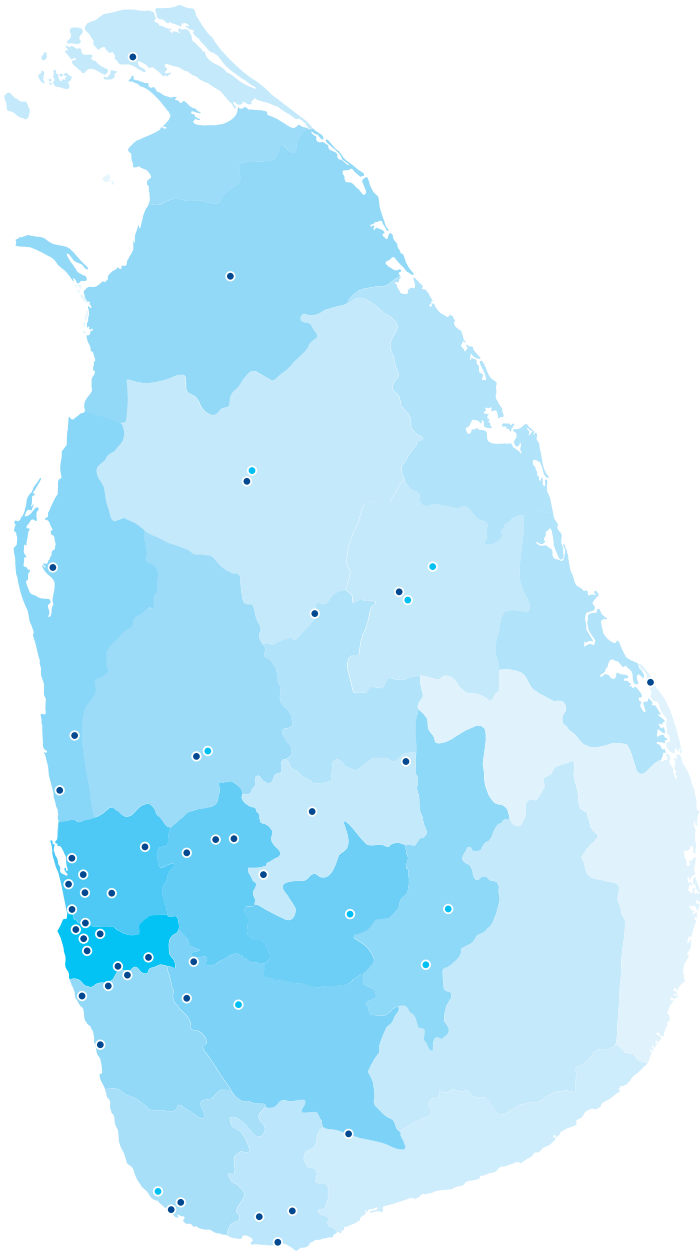
Further, AAI took steps to enhance customer convenience by linking the company through Web based sales and broker channels. We have deployed multiple channels so that customers can access our services with ease.

The distribution strategy of Life segments is unique and designed to succeed in bridging the gap between product and customer. Since the company has a risk based sales platform, we offer a unique one-to-one sales experience for customers which involves educating them, identifying their needs and then designing a customized policy.

We have structured a focused customer engagement system to build strong relationships. Once 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.



Distribution Network



No.	Branch	No.	Branch
1	Anuradhapura	2014 Branch List	
2	Battaramulla	47	Thalawathugoda
3	Batticaloa	48	Trincomalee Metro
4	Chilaw	49	Galle East
5	Colombo	50	Badulla
6	Dambulla	51	Malabe
7	Galle	52	Monaragala
8	Gampaha	53	Makola
9	Gampola	54	Seeduwa
10	Head Office	55	Kadawatha
11	Horana	56	Jaffna Metro
12	Ja-Ela	57	Bandarawela
13	Jaffna	58	Negombo
14	Kaduwela	59	Ja Ela
15	Kaluthara	60	Ward Place
16	Kandy	61	Wennappuwa
17	Kegalle	AAI Operations in Soft Logic Branch	
18	Kiribathgoda	No.	Branch
19	Kottawa	1	Anuradhapura
20	Kurunegala	2	Badulla
21	Kurunegala City	3	Dambulla
22	Mahiyanganaya	4	Kurunegala
23	Matara - 1	5	Polonnaruwa
24	Matara - 11	6	Rathnapura
25	Matara - 111	7	Nuwara Eliya
26	Minuwangoda		
27	Moratuwa		
28	Negombo		
29	Nugegoda		
30	Panadura		
31	Piliyandala		
32	Puttalam		
33	Rathnapura		
34	Colombo Metro		
35	Warakapola		
36	Wattala		
37	Wennappuwa		
38	Trincomalee		
39	Awissawella		
40	Ragama		
41	Polonnaruwa		
42	Vavuniya		
43	Mawanella		
44	Ambalangoda		
45	Hingurakgoda		
46	Embilipitiya		

Embedding customer-centricity

Management Discussion and Analysis



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 offer support to ARMs and customers

What's more, we believe that our mere presence itself is not adequate to connect to our customers. Therefore, AAI continues to invest in training our people to give our customers access to specialist advice, whether it's personal insurance, corporate insurance or financial advice. During the year 2014, our frontline staff received various levels of training to sharpen their knowledge on the business, technical expertise and business etiquettes which we believe to be a worthy and feasible investment.

Better Service through Training

Key highlights on training conducted to improve customer connectivity

Customer Service Training



Good, continuous training is important in any and every environment and done well, will add value to both individuals and the Company. The Contact Centre and Customer Services industry is a sector which has an extensive amount of training and development available, as the industry strives to achieve customer advocacy, customer satisfaction, employee engagement and business efficiencies.

Telephone Etiquette Training



The education of front line employees on appropriate telephone etiquette is imperative for all center trainers and managers.

Presenting a professional image over the telephone is the first step to words building a great rapport with new customers, and keeps them coming back for your services.

The training statistics on Life Advisor training

Life Advisor training FY 2014		
Name of Training program	No of Advisors participated	Training Hours
Pre Contact Training Programme	887	288
Technical Competency Test - Training Programme	443	192
Service Staff Training Programme	216	48
New Product Training Programme - Retirement Plan	1,002	192
Pre Contract Training Program - PCT	128	16
Sales Skill Development Programme - SSDP 3	115	16
Sales Skill Development Programme - SSDP 4	117	16

Accountability

Being accountable is what differentiates us from rest of the industry. We, as a responsible corporate citizen, take up responsibility and to help our customers whenever things go wrong.

Complaint procedure

Part of being accountable is to have a formally operating complaint resolution process. Successful complaint resolution is a key part of delivering our brand promise. We have a customer complaint commitment to resolve complaints promptly and fairly. This means offering first point complaint resolution wherever possible, and resolving the majority of complaints within five business days. While complaints can be made over the phone, online or in person, many of our customers are now choosing to raise their complaints via social media channels. In 2014, we received 145 complaints and we successfully resolved 137 within a maximum of 5 working days.

94%
resolved
complaints

A majority of the complaints received by AAI is related to poor service, clerical errors, etc. However, during year 2014, we did not receive any complaints from customers on misappropriation of customer funds by AAI employees or complaints regarding breaches of customer privacy and losses of customer data by outside parties including regulatory bodies.

Compared to last year, the number of complaints received in the year 2014 has reduced significantly. This is primarily due to the Complaint Reduction Programme, which uses insights derived from root cause analysis of complaints to improve customer experience. Where a customer is not satisfied with the way in which their complaint is handled by us, they may choose to escalate their complaint to the Financial Ombudsman Service.

Customer data privacy

With the dawn of the digital age, it is an absolute prerequisite to protect and secure our customers' information. In the line of business, we collect large sums of sensitive information from our customers and AAI has taken the following initiatives to ensure that it is in safe hands:

AAI has a comprehensive data privacy policy designed to protect the customers' information that we collect. The policy is subject to review and revision annually and the most recent revision was carried out in July 2014.

The IT department continuously monitors and evaluates the risks affecting customer data privacy. According to the IT threat assessment review, AAI had no instances reported on breach of data integrity.

Internally, we hold mandatory privacy training for employees and additional specialized training for our front line teams such as sales teams, underwriting teams, claim handlers etc, given their access to sensitive customer records. We also regularly communicate with employees about privacy through a variety of internal channels, including company-wide communications.

In order to verify adherence to our high standards in this area, we are working with the internal audit team on reviewing the operating effectiveness of the procedures implemented to adhere with the data privacy policy. The audit is conducted once every year and the results are reported to the management and the audit committee for decision-making purposes and rectification procedures when required.

Future Outlook

The Company's strong performance in both life and general insurance segments reflects not only strong operational systems, but also deep relationships with its customers. As a Company that scouts for long-term business, we go the fullest extent possible to ensure that the interaction that the customer has with us is so delightful that he or she will become a loyal customer, reflected in our above industry retention rate. From listening to our customers, customizing insurance solutions to meet customer needs, to ensuring our service enhances their convenience and feeling of being valued – we leave no stone unturned to remain closely engaged with our customers. Going ahead, we will continue to pursue customer service excellence as a key differentiator between AAI and the rest of the industry.

Improving environmental awareness

Management Discussion and Analysis



This year, through 'Protect Your Beautiful World' projects, we hope to facilitate and provide support to all types of nature reserves and related establishments island-wide. Our main objective of conducting this CSR project is to minimize the threats to Mother Nature and to join forces to contribute towards 'living green', as the entire world has now embraced this concept. We hope to conduct more such humanitarian projects in the near future by allocating funds through CSR.

Why it matters

The simplest explanation is - "Earth-is our home". It is where we and all the other beings live, breathe, eat, raise our children, etc. Our entire life support system is dependent on the well-being of all of the species living on earth and as a corporate citizen, it is our moral responsibility to address the environmental impacts generated through our business whilst operating in an environmentally sound manner, upholding ethical and social standards in our supply chain to make a positive difference where we live and work.

What we are doing

AAI follows a set of comprehensive environmental and social management principles which assess and review potential environment and social risks associated with all transactions. AAI integrates the assessment of environmental risks into its existing business-decision making and risk management procedures based on those principals. AAI's environment and social management system procedures are comprised of five main activities for the management of Environment & Social Risk Assessment.

Our environment and social principles are not just a set of words on a piece of paper but a concept in practice integrated to core business activities. It allows the top management down to the ground level staff to define key metrics, identify and implement projects to reduce our environmental footprint. Our programme extends beyond the boundaries of the company, as we are incorporating our environmental standards into supplier engagements.

We understand that due to the nature of our business activities, we may be limited in some cases in our ability to influence our environmental performance or behaviour of our clients. We will nonetheless engage with our clients where possible and actively seek to work with those whose business practices are in alignment with our Environmental and Social Management System standards. Where clients do not meet our standards and expectations, we will initially address the identified issues with the hope of improving their performance and where client practices fail to improve or do not demonstrate commitment to improvement, we always consider exiting the business relationship.



Environmental Priority Action Areas

Living green	Protect wild life
	
<ul style="list-style-type: none"> Waste management Energy use and efficiency Improving the carbon footprint 	<ul style="list-style-type: none"> Horton Plains Bags Project Project 01 - Manampitiya Project 02- Habarana and Mineriya

Protect wild life

Wildlife of Sri Lanka includes its flora and fauna and their natural habitats. Sri Lanka has one of the highest rates of biological endemism (16% of the fauna and 23% of flowering plants are endemic) in the world even though it is relatively small. Despite being one of the smallest countries in the world, it is blessed with a natural beauty and diversity that's simply awe-inspiring. The main reason

for this incredible diversity is the widely differing altitudes within the country, ranging from sea level to 2500m above sea level. Traveling from Sri Lanka's coastal belt to Nuwara Eliya in the highlands, within the space of a couple of hours anyone will experience a refreshing change of scenery, from miles and miles of palm-lined golden coast to misty mountains and velvety tea plantations, and a total difference in climate from warm and sunny to the cool and temperate climate in the central highlands. For a small island our species diversity is certainly impressive, and has been made possible because of our ideal geographical position, mild yet variable climate, very interesting topography and soil, thus creating many habitats for such a diverse array of flora and fauna.

Recognizing the value of these natural heritages, Asian Alliance takes pride in proactively contributing towards preserving this gorgeous motherland, the pearl of the Indian Ocean and launched two large scale projects, living up to its promise.

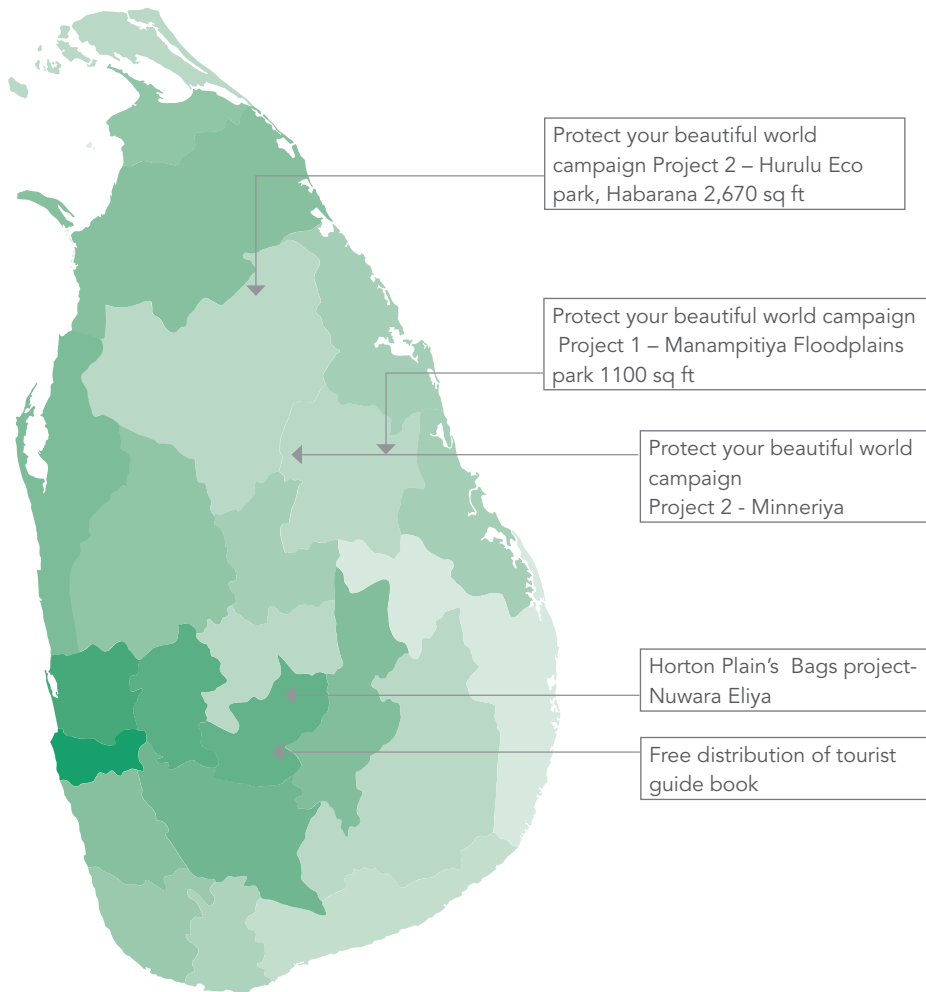
Did you know that Sri Lanka's is home to a staggering?

<ul style="list-style-type: none"> 92 species of mammals!
<ul style="list-style-type: none"> Over 440 bird species!
<ul style="list-style-type: none"> 242 butterfly & 117 dragonfly species!
<ul style="list-style-type: none"> 190 reptiles of which 98 species are of snakes, while the remaining are of mainly lizards, crocodiles and turtles!
<ul style="list-style-type: none"> 102 amphibian species!
<ul style="list-style-type: none"> 107 species of fish!
<ul style="list-style-type: none"> 3210 species of flowering plants

Improving environmental awareness

Management Discussion and Analysis

Our Wildlife protection programs



In the above geographical regions, AAI has 67 branches in operation with a work force of 730. AAI does not own any of the locations and there are 3 branches operating on lease which are 3370 sq ft. Like all other branches of AAI, these branches are dedicated to improve the reach to our customers where we can deliver the superlative customer service that we promise all our customers. However, none of branches operate within any area with high biodiversity value or in a protected area, Nevertheless, we use our presence in those geographical areas with biodiversity significance to make a difference in the fight to protect the environment we love.

Horton Plains Bags Project

AAI launched this pioneering humanitarian nature-preserving project of providing an eco-friendly paper bag to tourists visiting World's End, free of charge. This special project was launched with the co-operation of the Sri Lanka Department of Wildlife Conservation with the motive and mission of ensuring the long existence of a world heritage site. The project was launched in the year 2013 and was continued through 2014.

This CSR project by AAI launched under the theme of 'Protect Your Beautiful World', and the unique design of the bags differentiate them from the average eco-friendly bags, because the user will hesitate to dispose or damage



them as these bags can be easily preserved as a valuable souvenir from their journey to the World's End.

As always, AAI has dedicated its time and commitment towards the benefit of the community and towards sustainability of our natural resources. In the times we live in, the focus on nature preservation has declined unlike before. So, CSR projects of this capacity hold immense value and engender a glimmer of hope towards future 'Green Projects'.

Earlier, the Department of Wildlife Conservation, which maintain World's End, provided domestically handmade paper bags for tourists and visitors, as they do not allow polythene or plastic inside the wildlife reserve. So, it has been a long nagging issue for the department, because with the increase in tourists arrivals, a majority of whom carry many items into the reserve, the expenses for providing a proper facility to all tourists were proving to be a burden. So, this project of providing eco-friendly bags initiated by AAI has taken off a massive burden from the department.

Through the 'Protect Your Beautiful World' project, we hope to facilitate and provide support to all types of nature reserves and related establishments island-wide. Our main objective of conducting this CSR project is to minimize the threats to Mother Nature and to join forces to contribute towards 'living green' as now the whole world has embraced this concept. We hope to conduct more such humanitarian projects in the near future by allocating funds through CSR.

"Protect Your Beautiful World" campaign

The company's CSR journey continues with the introduction of awareness boards in the outskirts of the Yala National Park, Habarana and Mineriya to create awareness on preserving wildlife, which forms an integral part of nature's equilibrium, under the theme 'Protect Your Beautiful World'.

Project 01 - Manampitiya

AAI extends its contribution towards this worthy cause during the year by sustaining this project at Manampitiya in collaboration with the Department of Wild Life. The Manampitiya project was centered on the Floodplains Park, Manampitiya, which is spread across an area of 17,350 hectares.

Objective

The main objective of rendering this humanitarian service towards preserving the natural heritage of Sri Lanka is to enhance the awareness of this cause. Advances in technology and busy lifestyles have significantly reduced awareness of more pressing issues, so as an insurance company, Asian Alliance Insurance provides not only security for its customers, but also to Mother Nature, who provides for us all.



Improving environmental awareness

Management Discussion and Analysis

The project came to life during the first quarter of 2014 and through the commitment of the Marketing Team of Asian Alliance insurance, supported by guidance from the Wildlife Department and the General insurance arm, the company erected 19 boards in the stretch between Batticaloa and Polonnaruwa, along the main road. The banners are in all three languages and carry slogans instructing "drive slow" and "be watchful", while the luminous surface allows the banners to glow in the dark.

The main objective of extending this project to Manampitiya is to address the key issues which were prevailing, where a number of wild animals faced danger due to accidents while crossing the main road which is being developed across the forest.

The other reason for Asian Alliance to embark on this project in Manampitiya is to avoid the critical issue of people living in the area dumping garbage and causing severe pollution by destroying the natural environment. AAI, under the guidance of the Department of Wild Life, identified these critical issues and stepped forward in educating and creating awareness to allay these threats to nature.

Areas we protect

AAI has erected 19 boards in this area. Wildlife faces a direct threat from man. The destruction of forests and the pollution of the environment has tempted wild animals to stray from their natural habitats and wander into densely populated areas, which causes them to get run over by vehicles and invading near-by villages.

The Wildlife Department was extremely pleased by the project undertaken by Asian Alliance Insurance and have offered support throughout the period. They have been encouraged to allocate their time and resources to promote these types of green and humanitarian projects within the private sector.

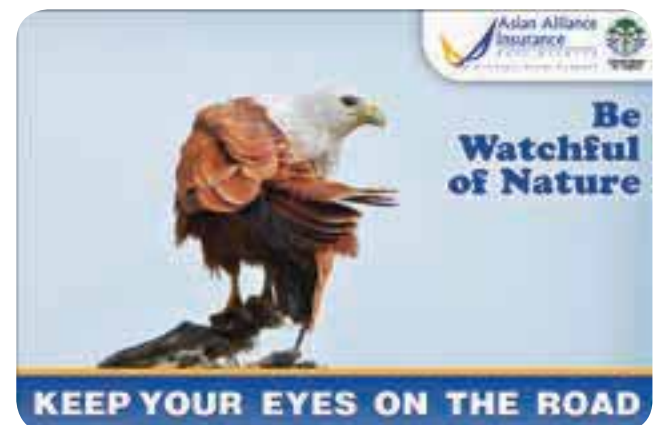
Project 02- Habarana and Mineriya

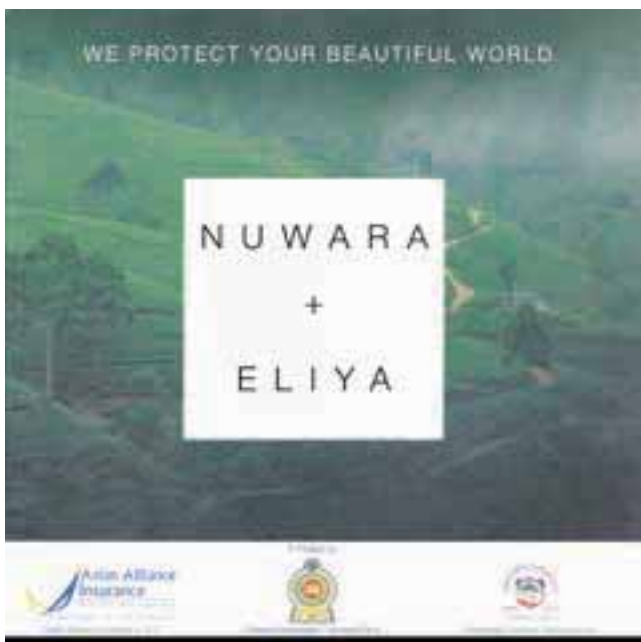
AAI also worked closely with the Department of Forests to spread awareness about the importance of protecting the resources that our country is bestowed with, as an extension of the project themed "Protect Your Beautiful World".

Accordingly, AAI covered the Hurulu Eco Park on the Habarana-Trincomalee road with 13 boards. These boards carried the message of Keep Nature Clean, Drive Slowly, Love Animals, Love Nature, etc. Be Watchful of Nature, Keep your eyes on the road, Slow Down – Elephant Crossing, Give Life to Wild Life and Slow Down – Peacock Crossing are some of the messages carried on the 13 awareness boards implemented in Minneriya.

Nuwara-Eliya Visitors' Guide Book

As an extension of a wider array of CSR projects under the theme "Protect Your Beautiful World" we designed and printed a guide book for local & foreign visitors who visit Nuwara Eliya, containing eye-catching photographs of tourist attractions & descriptive information about the location. This provides valuable information to visitors who visit Nuwara Eliya.





This project was launched in partnership with the Mayor of Nuwara Eliya & the District Secretary of Nuwara Eliya. Asian Alliance has stepped forward to fulfill its duty as a responsible corporate citizen by spreading the word about the importance of protecting nature and natural gifts in Nuwara Eliya. The booklet is distributed to all visitors who visit Nuwara Eliya.

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.

Calendar Concept

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.

Living green

Waste management

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









Our paper waste managing partner is NEPTUNE RECYCLES (Pvt) Ltd that shreds our waste papers in an environmentally friendly manner, which not only saves Natural Resources, but also assists our company in securely disposing our company's confidential documents.

Improving environmental awareness

Management Discussion and Analysis

Highlights of waste management FY14

Summary of paper recycle		2014
	No used for recycling	5,564 kg's
	No of fully grown trees saved	95
	Oil saved	9,765 litres
	Electricity saved	22,256 kwh
	Water saved	176,824 litres
	Landfills saved	17 cubic meter

Energy use and Efficiency

The Energy Indicators cover the five most important areas of organizational 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.

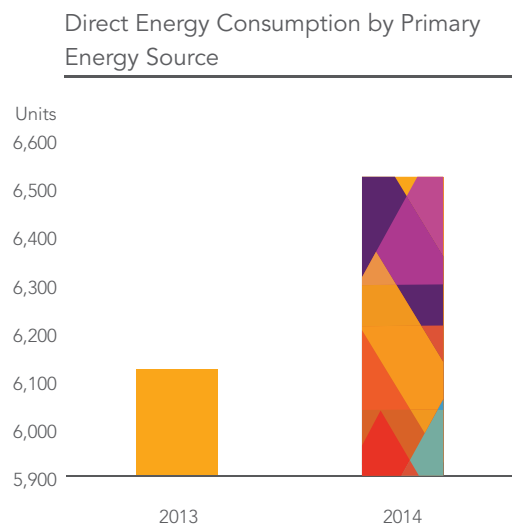
Our facilities management teams are continuously working to monitor efficiency in water and electricity consumption. Valuable energy saving initiatives are leveraged on by the company. Listed below are a few such initiatives:

- Sending an SMS instead of written reminders to pay premiums
- Energy efficient lighting systems
- Provision of laptops for all members in the senior management
- 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
- We are intensifying 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 laptops and LCD monitors at work stations)

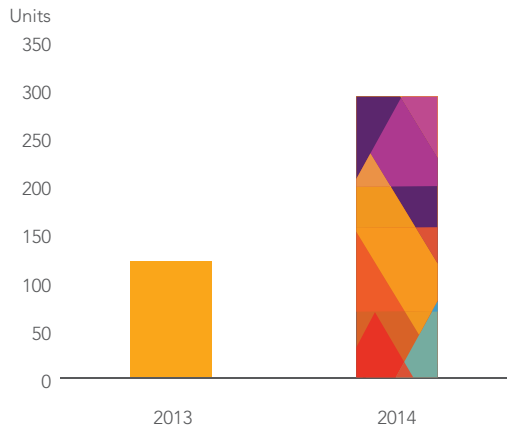
Highlights of Energy use and efficiency FY14

Following data is based on the significant branches.



Direct energy consumption by primary energy source by vehicle type	Fuel Type	2013	2014
Company Van	Diesel	1,659	1,283.89
Company Jeep	Petrol	4,463	3,268.1
Motor Bikes	Petrol	-	1,969.59

Electricity Consumption Units kwz



Carbon footprint

In 2014, we updated our environmental management tool to increase the reliability and accuracy of publicly reported data on various aspects of our sustainability performance.

The Sri Lanka Carbon Fund (SLCF) undertook the carbon footprint analysis and audit for AAI 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.

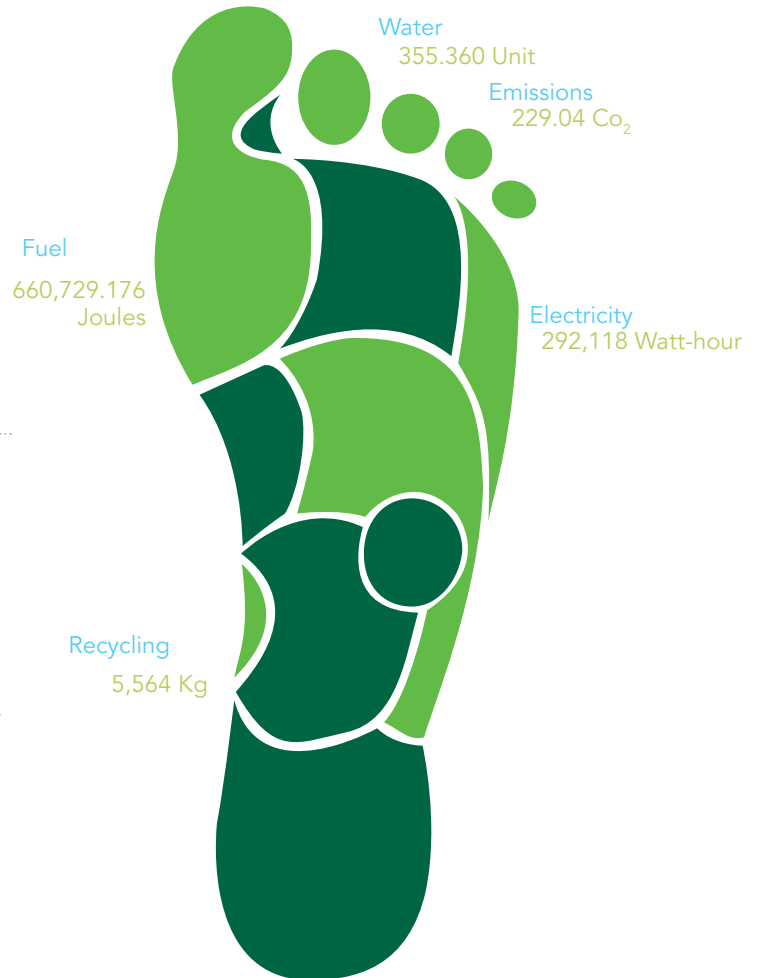
To gain greater understanding about those emissions, major emission categories reported under scope 3 were reported.

Scope 1	Emissions due to Business Transportation
Scope 2	Emissions due to Purchased Electricity
Scope 3	Emissions due to Purchased water

Tons of CO2 equivalent	2014	2013
Scope 01	15.64	14.93
Scope 02	207.70	140.6
Scope 03	229.04	179.386

Asian Alliance Insurance

The Carbon footprint



Future Outlook

The objective of our Life insurance business is to provide long-term protection and security for the future of our customers. The nurturing and mentoring role we have adopted ensures the well-being, health and financial security of our stakeholders. Our commitment to the environment is born out of this desire - to extend the platform of protection to include our natural resources. Our greening initiatives so far coupled with efforts to raise awareness on the need to be sensitive and supportive of natural resources have engaged stakeholders closely and added value to conservation of the environment. We intend to sustain and indeed strengthen this commitment to have a greater impact on preserving the rich biodiversity that Sri Lanka has been blessed with.

An excellent corporate citizen

Management Discussion and Analysis

Why it matters

As a responsible insurer, we want to do our part to increase the safety of our communities across the 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.

On the other hand, corruption is not a peripheral social concern that corporations can ignore or passively address; it is a bottom-line business issue that directly affects the company's ability to compete. Widespread in emerging markets, corruption is becoming an increasingly important issue for businesses to address. With the ever-increasing number of bribery and corruption probes and prosecutions, business around the world is no longer 'business as usual'. Therefore, AAI is concerned about establishing an anti-corruption framework in the organization.

What we are doing

Like every other business, we aim to be profitable, but at the same time, we have a responsibility to be a good corporate citizen. This role gives our company a broader sense of purpose. Where formal social support services are unable to fully reach out to disadvantaged communities and the underserved in otherwise prosperous societies, businesses such as AAI can help bridge the gap. By sharing this sense of purpose with stakeholders, we motivate and connect with our employees, business partners and customers. By simply aligning our business and community investment objectives we can help support people find their way towards a financially strong and secure future.

Being a responsible business

Anti-Corruption safe guards

The wave of enforcement actions and investigations emphasizes the importance of effective compliance programmes. While the goal of any anti-corruption compliance programme is to prevent and detect misconduct, there are more immediate benefits in the event that a potential violation arises. Effective compliance programmes can also have an impact on the scope of potential penalties that companies may face. Ultimately, an effective compliance programme can positively impact a company's bottom line by reducing the amount of a government or court-imposed penalty.

Our disciplinary officer handles all internal anti-corruption activities, whereas our compliance officer handles all external anti-corruption activities and compliance. The Human resource team reviews and discusses internal discrimination and corruption further. Anti-corruption policies and procedures have been communicated to all members of governance body and all employees. But since we do not have business partners with material relationships, anti-corruption policies and procedures have not been communicated to them.

Our Public Policy

According to the ESMS policy of AAI we do not make contributions directly or indirectly to any kinds of political activities for any reason.

Compliance

With regard to complying with regulations, our compliance officer monitors all the statutory payments and other

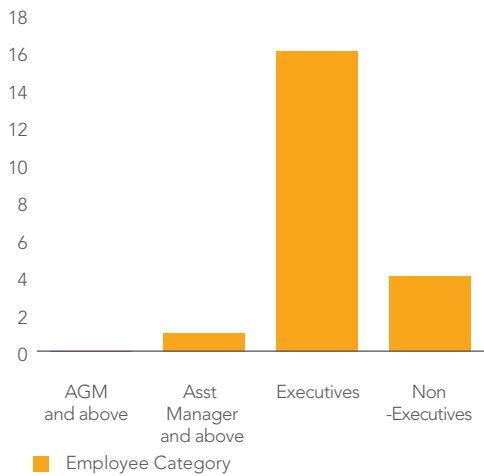
Community Priority Action Areas

Being a responsible business	Community impacts	Sustainable Return
 <ul style="list-style-type: none"> • Anti-Corruption • Compliance • Public policy 	 <ul style="list-style-type: none"> • Local Communities • Sharing Knowledge • Hand in Hand • Marketing Ethics 	 <ul style="list-style-type: none"> • Market Presence • Indirect Economic impacts

regulatory requirements and reports monthly to the board members. Therefore, there are no instances of significant fines on compliance matters since it is monitored accordingly.

Highlights of Community Impacts in FY14

Total Number and Percentage of Employees that have Received Training on Anti-Corruption - 2014



Sharing Knowledge

A knowledge society generates, processes, shares and makes available to all members of society, knowledge that may be used to improve the human condition. A knowledge society differs from an information society in that the former serves to transform information into resources that allow society to take effective action, while the latter only creates and disseminates the raw

data. The capacity to gather and analyse information has existed throughout human history. However, the idea of the present-day knowledge society is based on the vast increase in data creation and information dissemination that results from the innovation of information technologies.

Highlights of Knowledge base CSR programs in FY14 Youth "WIN" programs



A Unique Internship Programme was conducted for 25 school leavers from rural areas to upgrade personality development on How to write a resume, Winning at interviews, Grooming, Business Etiquettes, IT, e-mail Internet and the operating systems and Social Media was held at Matara with contribution from Asian Alliance Insurance and Softlogic Finance staff.

In future, we are hope to conduct these programs at Polonnaruwa, Jaffna, Embilipitiya, Mahiyanganaya and Monaragala as well.



An excellent corporate citizen

Management Discussion and Analysis

Digital academy

AAI, as a part of its Corporate Responsibility contribution towards the insurance industry and all those who have an interest in the field, recently launched an information platform for industry professionals, a portal linked to the company website titled 'Asian Alliance Digital Academy'.

The new portal, 'Asian Alliance Digital Academy' is a start and moving forward will contain articles relating to insurance case studies from various industry professionals with a view towards providing those studying the subject with detailed insights. Related aspects such as career guidance and essentials to succeed as an insurance professional will be subsequently incorporated, including a 'blog' that will take questions and provide a forum for topical insurance matters.

This portal, which is designed for self-learning, will contain articles, interviews, case studies and lectures from well-experienced professionals who have been in the insurance field for decades. Considering the fast-paced life-style many of us have, it is difficult for many to attend an institute or an academy to pursue their studies. With the evolving trend of digitalizing education, today we commend Asian Alliance for adding value to the insurance industry and working towards sustaining a well informed and skilled set of professionals to service the growing insurance customer base of Sri Lanka.

Link : <http://www.asianalliance.lk/home-0.html>

School Certificates Project

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

programme, entitled 'Contributing towards Moulding Future Professionals'. Enjoying the status of a preferred employer in the insurance industry, AAI has always taken the initiative to develop and nurture future professionals. The company also extends this concern to maximizing potential at an earlier stage. AAI engages closely with schools to inject professionalism in students and schools by being an active participant in school events such as sports meets, inter-school competitions, prefect days, prize giving ceremonies, talent shows and other annual events.

The company identified that the cost of designing, printing and production of certificates proved too costly for schools, which resulted in demoralizing children who should rightfully be recipients of some formal recognition from these economically underprivileged schools. We stepped in to bear the entire cost of these school certificates of excellence, putting smiles back on the faces of children who are high achievers despite all odds. Over time, we have strengthened our collaboration with the schools and on realizing the positive impact our initiative is having on motivating students, we have sustained our commitment to this project.

	2014	2013
No of certificates	66,870	53,465
Schools	80	48

Hand in Hand

Asian Alliance Buhuman partners National Pensioners Day Celebration with the Department of Pensions

AAI partnered with the Pensioners Department recently to host retired government employees for their contribution towards the government sector in view of the Pensioner's Day, which fell on 9th October 2014. At the event, former President Mahinda Rajapaksa presented the Asian Alliance Buhuman Health Insurance Policy to retired Air Force Officer Sunil Ranasinghe as a token of appreciation for his invaluable contribution towards the country.

Buhuman Pensioners Health Insurance launched by Asian Alliance Insurance with the intermediation of Colombo Re Insurance brokers, is tailor-made for retired government employees as it provides the best of services for a relaxed and comfortable lifestyle during retirement. The Health Insurance Plan, designed to suit a customer's financial strengths would be available under three insurance plans for many needs such as personal accident cover, hospitalisation cover, funeral expenses cover and critical



illnesses cover. The grand Pensioners Day event saw many well-known artists such as Amarasiri Peiris, Thyaga N. Edward and T. M. Jayarathne entertain the crowd at the 'Buhuman Gee Miyesiya'.

Ethical Marketing

Marketing and marketers play an important part in AAI's Corporate Social Responsibility (CSR) agenda. Indeed from a sustainability perspective, the boundaries between what was traditionally considered to be "corporate" strategy and "marketing" strategy become blurred.

Sustainability concerns have demonstrated that the customer can also be influenced by the company behind the products and brands they buy. The social and environmental impacts of production processes, and the degree of social responsibility with which companies treat their workers, invest their money and conduct their affairs are now all potentially significant on both the marketing and corporate agenda.

Ethics refer to the study of moral principles, or "right and wrong", therefore marketing ethics are all about marketers doing the "right thing". Exactly what the right thing is, is not always completely clear-cut since what is "right" may vary depending on whether you are looking at it from the perspective of the company, its customers or the society in which they both exist. There are however several basic principles involved in ethical marketing:

- Taking responsibility: Marketers need to take responsibility for their products and their decisions. In the past marketers have often responded to social concern about particular products by defending them on the basis of "It was what the customer wanted";
- Dealing fairly: Marketers need to be honest and fair in their dealings with all stakeholders. This means that products must be fit for use and accurately described, and contracts (both formal and implicit) should be drawn up in good faith and honoured.

Ladies college vs Musaeus College Regatta 2014



Sponsorship provides a great means of broadening your competitive edge by improving your company's image, prestige and credibility by supporting events that your target market finds attractive. It can be especially effective as a marketing tool because it can be a means of accessing a wide range of audiences such as decision makers in business, government entities, and of course customers. It can be particularly beneficial for companies that take part in international trade, because sponsorship transcends cultural and language barriers.

AAI Sponsored the Annual Ladies College vs Musaeus College Regatta held at the Colombo Rowing Club on the 11th of October 2014.

An excellent corporate citizen

Management Discussion and Analysis

Buhuman Product Press conference



PR events and product launches are usually designed for the purpose of awareness, through product distribution, media coverage and brand recognition by consumers, sales increases, reaching influencers and more. A conference is a good way to get honest feedback about your product. Attendees probably don't know us or our business. This gives us unfiltered responses to how our product is really perceived.

- Respecting consumer rights : including the right of redress, the right to information and the right to privacy which is discussed in the "Customer section" in this report

At AAI, None of the Life Insurance products are advertised by the Company. Also we are against 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.

Our product forum evaluates each and every product before it is exposed to the general public. At the point of launching a new product, a press conference is held which is chaired by the product forum.

Sustainable Return

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 67 locations across the country, we provide job opportunities from coast to coast.

A significant portion of our operating expense 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 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 a broad range of customers as much 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 the company's 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.

Direct Economic Value Creation

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 allocated to our Customer

The Company fulfills its promise of ensuring diversity by catering to all socio-economic and geographic segments from the outset. We take pride in helping to upgrade and improve quality of lives of customers in this segment. This is further discussed in the 'Customer Section' in this report.

Value allocated to our Investors

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 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 continued to climb up the company objectives list. This is further discussed in the 'Investor Relation' section of this report.

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 Bandarawela and Monaragala, whilst reaching out to under-developed regions that lack adequate access to financial and insurance services. This is further discussed in the "Engaging our people" section.

Value allocated to our intermediaries/ Field Staff

Our field staff members are an integral part of the Asian Alliance family. Unarguably, advisors make a substantial contribution to our company. They are our brand ambassadors as they are the ones interacting one-on-one with customers. Therefore, we equip them with the brand, products and service training and motivate them by offering a clear path of progress, extending a high profit

Highlights of our Field staff programs in FY14

Life Sales Convention 2014	
	<p>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 2014 awards night on a high note at The Eagles' Lakeside Banquet & Convention Hall in Attidiya.</p>



share from the business they garner, which gives rise to job satisfaction and seals their loyalty to the company. Many of these advisors are highly educated professionals who are able to use their social and professional network to bring business for the company. They are important partners for our in the sustainability journey. Their achievements never go unnoticed and they are invited to take centre stage at the annual Sales Congress held by AAI, where they are felicitated and their achievements recognized in front of their peers and the senior management of the company.

Future outlook

As a company aspiring to position itself at the forefront of the insurance sector, we take our community very seriously. Community well-being is of prime importance to AAI and we are putting our commitment into practice by supporting community initiatives that have a far reaching impact. We encourage employee volunteerism in community engagement and this further helps our people to become trusted partners as they uphold the faith placed in them by the communities they reach out to. In order to ensure the sustainability of our community initiatives, we ensure that they are aligned with our business goals and relate strongly to our environmental and economic objectives. We have seen the positive impact of our community projects and we are inspired to enhance our efforts in forging unbreakable bonds with local communities.

Intellectual Capital

Review

Management Discussion and Analysis

Intellectual capital of AAI helps to drive success and create value. Although physical and financial assets remain important, intellectual capital elements such as the right skills and knowledge, a respected brand and a good corporate reputation, strong relationships with reinsurers, the possession of customer and market data and a culture of innovation which sets AAI apart.

The Company is aware that persisting the GWP growth above the industry average and sustainable competitive advantages are no longer driven only by investing in physical assets such as offices, but instead by investing in and managing intellectual capital.

Intellectual capital of the Company is a combination of human capital, structural capital and relational capital that are blended to create value.

Measuring intellectual property is important, so the Company knows what it owns but it does not capture the processes required to reach that stage. Intellectual capital can be both the end result of a knowledge transformation process or the knowledge that is transformed into intellectual property.

Why measure intellectual capital?

The Company may want to measure intellectual capital for a variety of reasons:

•	Measuring intellectual capital can help the Company formulate business strategies. By identifying and developing its intellectual capital, the Company may gain a competitive advantage.
•	Measuring intellectual capital may lead to the development of key performance indicators that will help evaluate the execution of strategy. Intellectual capital, even if measured properly, has little value unless it can be linked to the firm's strategy.
•	Using non-financial measures of intellectual capital can be linked to the Company's incentive and compensation plan.
•	To communicate to external stakeholders what intellectual property the firm owns.

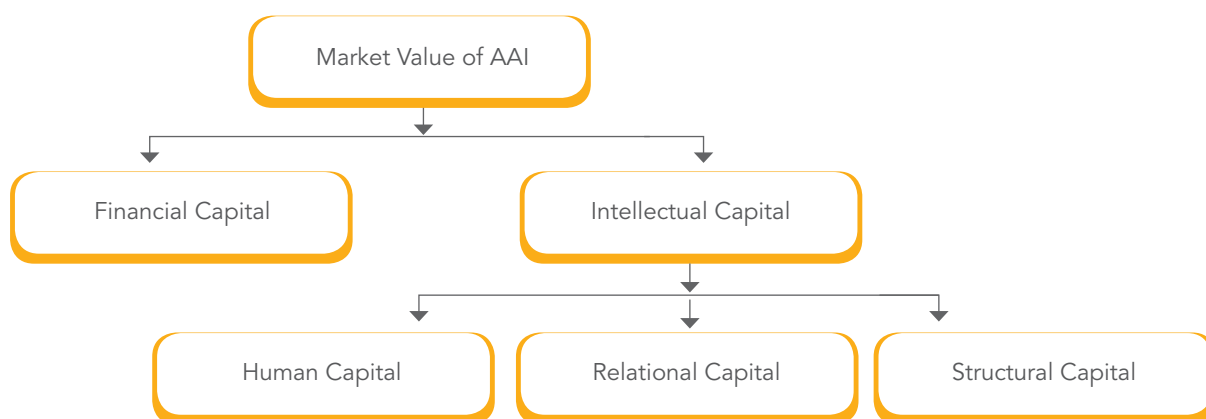
Human Capital

The principal sub-components of the Company's human capital are its workforce's set of skills, depth of expertise, and breadth of experience. Human resources can be thought of as the living and thinking part of intellectual capital resources.

Human capital includes (a) skills and competencies of employees, (b) their know-how in certain fields that are important to the success of the enterprise, and (c) their aptitudes and attitudes. Employee loyalty, motivation, and flexibility will often be significant factors too, because a firm's expertise and experience pool is developed over time. A high level of staff turnover would mean that a firm is losing these important elements of intellectual capital therefore AAI takes all these factors into consideration when managing intellectual capital.

Intellectual capital structure

Figure 1.2: Hierarchy of intellectual capital



Learning and development

Learning and development is a part and parcel of our company because we believe a positive environment for learning is always critical for success and for the effective outcome of the company. The company provides financial support and encourage to the personnel who take enroll for professional and career related exams.

Employee welfare

In AAI we have developed several events for the well-being of employees as well as their families such as the annual get-together, sports day and religious activities.

Employee know-how

Our board of directors comprises a commercial lawyer, chartered accountant, charter marketer to directors counting experience of over 30 years in life, general insurance industry and financial industry. The senior management are well-qualified experts who have been working in the corporate industry for years.

Relational Capital

The Company takes into account all the relationships that exist between the Company and any person or organization under the relational capital. These can include customers, intermediaries, employees, suppliers, regulatory bodies (IBSL) and investors.

Value allocated to our Customers

The company fulfills its promises made to customers and caters to all socio-economic and geographic segments from the outset. We take pride in helping to upgrade and improve the quality of lives of our customers. This part is further discussed in the 'customer Section' of this report.

Value allocated to our Investors

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

Structural Capital

In the Company, structural capital covers a broad range of vital elements. This includes;

•	The company's essential operating processes
•	The structure of the Company
•	Company Policies
•	Leadership and management style
•	Culture

More weight is placed towards the culture of the Company which facilitates a more common way of perceiving things, setting the decision-making pattern and establishing the value system.

AAI sees knowledge sharing as an important organizational resource where e-training manuals have been placed on the intranet coupled with the Digital Academy concept and procedure manuals.

Organizational capital

Internet Based Communication

We believe in communicating with our customer base through new technology interns of the corporate website (www.asianalliance.lk/) and integration with social media through the facebook page (www.facebook.com/asianalliance).

Business Partnering

The strength of Asian Alliance Insurance PLC is Softlogic Holdings PLC, our parent, who is the unwavering giant in the corporate industry. 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 ntwicklungsgsellschaft 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.

Distribution Channels

Our branch network numbers 67 and we are still expanding with Softlogic branches. Customer convenience and accessibility remain top priorities at Asian Alliance.

Structural capital

Organizational framework

The corporate governance framework ensures the highest standards of business integrity, ethical values, and professionalism.

Financial relations

AAI is upheld by Softlogic Capital by providing the necessary supervision to withstand the challenges facing the financial services industry. The risk is distributed to the wide range of re-insurers with high ratings. The Company

Intellectual Capital

Review

Management Discussion and Analysis

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.

Five components of AAI's Intellectual capital measurement methodology



Figure 1.3: Five components of AAI's Intellectual capital measurement methodology

Element	Indicator	Measurement	Reference
Human capital	Learning & development	Average training hours per employee	Refer page 408
		Programmes for skills development	Refer pages 411-412
	Employee welfare	Number of activities organized for staff welfare	Refer pages 157-160
	Employee know how	Number of management meetings	Refer page 220
Relational capital	Market share	Life	Refer page 110
		General	
	Focus on customer satisfaction	Motor insurance claimants satisfaction	Refer pages 162-163
Distribution Channels	Field staff	Refer page 183	
Structural capital	Organizational framework	Strong corporate governance structure	Refer page 208
		Board Committees <ul style="list-style-type: none"> • Board Audit and Compliance • Committee • Board Remuneration Committee • Board Nominations Committee • Board Investment Committee 	Refer page 215
	Financial relations	Branch network	Refer page 167
		Reinsurer ratings	Refer page 368
		Risk management initiatives	Refer page 256

Brand Valuation and Brand Building Process

Management Discussion and Analysis

Asian Alliance Insurance was launched in 1999 as a Sri Lankan brand providing 'tailor-made insurance' solutions. By the year 2003, the scope of the brand was widened by positioning it as the 'true professional' in the industry, where it persevered to forge long term partnerships with customers. In the year 2011, the brand was positioned as being in the business of protection. Today, 15 years on, although the brand may have altered its platform, it still remains an insurance company engaged in providing genuine protection to its customers, widely respected by stakeholders and peers alike.

Asian Alliance Insurance brand is currently positioned on the basis of 'Innovation' with the ultimate objective of providing greater convenience to all our customers, as we truly understand their lifestyles & their priorities in life. The Asian Alliance brand is built on the values of Speed, Trust, Innovation & Care.

Following are the brand building initiatives of Asian Alliance:

Brand Value	Activities Summary
Innovation	Introduction of Drive Thru insurance for the concept for the first time in Sri Lanka with a view to provide convenience to customers
	Introduction of 365-day insurance concept for the first time in Sri Lanka once again with a view to provide customer convenience
	Introduction of 'Field Underwriters' for Life insurance providing convenience & best of care to customers
Speed	Introduction of Drive Thru insurance – Motor insurance in 10 minutes
	Implementing auto underwriting system in Life insurance to cut short the time taken to underwrite new policies, claim settlements etc.
Trust	Process of identifying the individual customer needs first & designing tailor-made insurance solutions that best suit their requirement
	Customers' money is invested in a manner which ensures that the agreed benefits to customers are delivered and sound risk management practices are in place.
	Ensure transparency in all business documentation Well-trained sales/support staff to act with responsibility & in a professional manner
Care	24-hour call centers are in place to attend to all customer inquires for both Life & General
	Customer centric business model adopted in Life – separate unit is allocated to take care of the customer requirements after the first year
	Separate unit (Corporate Client Services Unit) is set up to take care of the customers with regards to medical insurance benefits
	A number of social responsibility initiatives took place under the following themes (details stated in pages 165). <ul style="list-style-type: none"> • Protect your beautiful world • Contributing towards moulding future professionals

Awards

Management Discussion and Analysis

The National Chamber of Commerce



Twice the Excellence! Double the Achievement!

- Silver Award – Insurance Category
- Silver Award – Overall Excellence Large Companies



Institute of Chartered Accountants of Sri Lanka



Annual report Awards - Institute of Chartered Accountants of Sri Lanka

- Bronze Award - Insurance Sector –



3 Awards – LACP - Vision Awards 2013

- Ranked among top 80 annual reports in the Asia Pacific Region
- Award for most improved annual report in the Asia Pacific Region
- Silver Award for Excellence in reporting in Insurance Sector



2 Awards - ARC international Awards 28 th Annual celebration of the world's best annual report

- Honors- for the theme 'Future Evolution'- Financial Data Insurance
- Honors-Traditional annual report Insurance Financial Services

Future Outlook

Management Discussion and Analysis

Asian Alliance Insurance is poised at the optimum cutting-edge position in its history – boasting a robust balance sheet, strong operational efficiencies, prudent risk and governance framework, a growing customer base, facility to leverage on group synergies with parent, Softlogic Holdings, and a professional team of employees who are equally dedicated to sustaining the company's reputation as the most rapidly growing insurance company in Sri Lanka. All the key performance indicators are glowing green and the company holds strong credentials in pioneering innovations, customer comfort and building long-term relationships as the most trusted insurer in the country. Our systems and processes are primed for rapid growth and the segregations of operations we believe will further help us to differentiate on a strong customer oriented products and service platform. We have the right people positioned in the right functions and they will steer our business to profitability and ensure that we deliver our brand promise with consistency. We are optimistic about the prospects for the insurance industry in the future and believe that the macro economic situation too will be supportive of industry growth. Considering that all of the above factors are perfectly aligned, Asian Alliance is poised for flight on an extraordinary journey, further imbued with a strong sustainability commitment which gives the company a focus and a common goal - insuring our beautiful world...

Sustainability

Integration

Management Discussion and Analysis

Iftikar Ahamed
Managing Director

We have fashioned and are executing our CSR activities under the pillars of Sustainable Environment Protection and development of a knowledge platform that will uplift both our industry and our rural youth, whom we consider to be the future life-blood of our country. Our contribution to the socio economic development of our country is consistent with the nature and size of our operations.



Our corporate sustainability approach

Corporate responsibility (CR) is integrated within our strategy. It is about sustainable value creation, where we aim to create sustainable value for each of our main stakeholder groups by focusing on what we do best and on the enablers of business success – actions we need to take to achieve our strategic objectives.

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.

Sustainable Governance

We believe that sustainability is the responsibility of everybody, from the boardroom, to its sub committees, to our customers and suppliers. We look at sustainability holistically, and recognize that sustainability expertise and hotspots are to be found across the whole organization and also in the nature of the products and services we provide.

Thus, our Corporate Governance and risk framework have become our core strength in guiding the operations of the business to achieve the set corporate objectives. The Board of Directors sets an excellent tone at the top being accountable to the stakeholders of the company whilst overseeing all significant business issues of the company such as strategy and long-term business plans, product issues, corporate responsibility, legal and ethical compliance, executive selection and compensation and board conduct.

In keeping with the standards of a democratically operated and transparent organization, the Board of Asian Alliance placed many mechanisms as given below, for the company's stakeholders to submit ideas or provide feedback to the Board of Directors.

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

The composition of the Board and its sub committees with their key functions are detailed in 215 and 217 respectively.

Ethical conduct and conflict of interest

We hold ourselves accountable for operating with integrity. We view Asian Alliance's reputation as a valuable business asset-one that requires sustained attention from all levels of our business. Our Compliance Practices and Standards ensure ethical conduct and avoid conflicts of interest, detailing on anti-corruption, non-discrimination, human rights and non-retaliation policies. The Code is more than words on paper-it is the guide that helps every Asian Alliance employee adhere to the highest standards of ethical conduct. Every year, we require all employees to affirm their commitment to and compliance with the Code, and we communicate to employees how they can report activities and behaviors that may be in violation of the Code.

We have built our success as a company that exemplifies fair dealing, integrity and trustworthiness. Asian Alliance's excellent reputation is reinforced by our pledge to deliver value and world-class service to all who do business with us.

We help employees understand that even the appearance of collusion with a competitor may be enough to put us at risk and bring serious penalties

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".

Committing to the cause

In 2014, we ignited an ambitious project to fully integrate corporate responsibility into our everyday business operations. Building upon existing commitments and activities, we set out to:

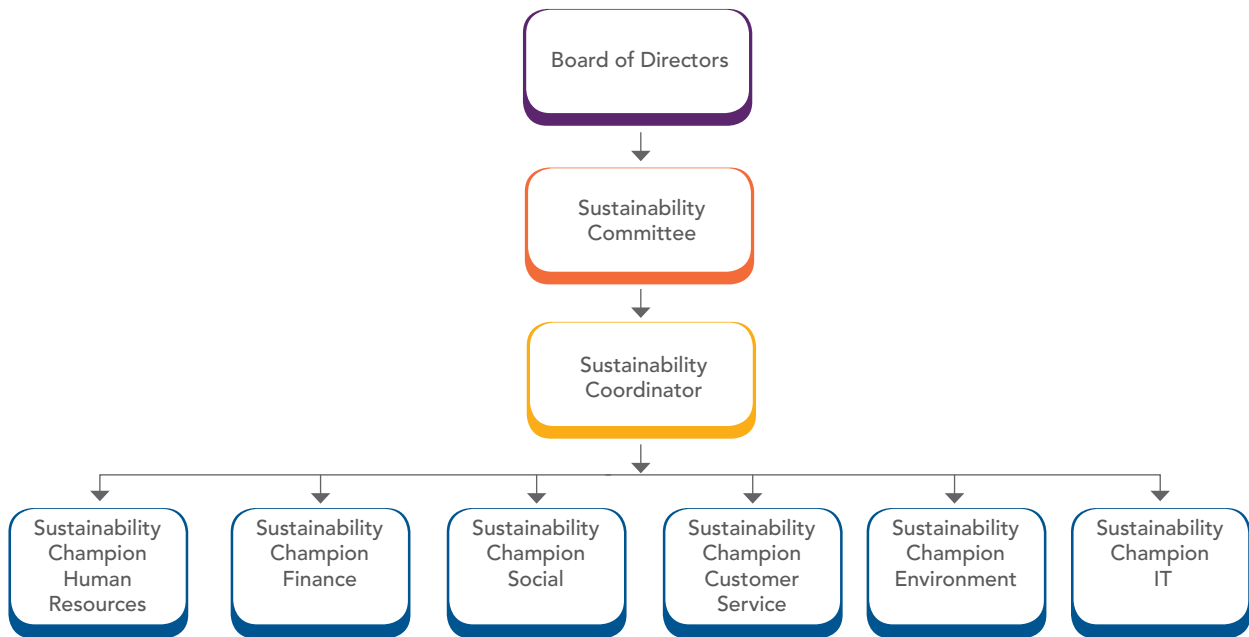
1. Establish an appropriate governance structure for managing corporate responsibility priorities.
2. Guiding and educating the employees to be held accountable for performance on Asian Alliance's corporate responsibility priorities.
3. Integration with key business objectives with the Asian Alliance's corporate responsibility priorities.

As a result of these initiatives the sustainability committee was born, creating a platform bridging the efforts on the ground level with the levels of oversight of the company, assisting the continuation of integration of corporate responsibility objectives into everything we do.

Sustainability Integration

Management Discussion and Analysis

Asian Alliance Insurance CSR and Sustainability Committee



AAI Sustainability Champions



Young people care deeply about the fate of the planet, its people, and their future. Given the opportunity, youth have great power to influence positive change in their communities. The ultimate goal of having a network is for the champions to build relationships with each other. Therefore, AAI has appointed sustainability champions representing each department in 2014. These members monitor the social, environmental and economic performance of each area and report quarterly to the sustainability coordinator.

Our sustainability activities are led and coordinated by the sustainability coordinator and there are four sustainability champions to assist her in the matters of reporting and coordination. The sustainability committee consists of

the executive committee of the Asian Alliance and being a direct extension of the Board of Directors, assists the committee to carry out its duties with more diligence.

The charter of the committee contains the following;



In the year 2014 the sustainability committee introduced a sustainability framework defining the sustainability vision, policies and strategies or management approach towards priority issues. The framework assisted the committee to develop a methodology to focus on the issues that matter most to us and to our stakeholders. The pillars of sustainability were based on the key priorities of AAI which was identified through the stakeholder engagement framework.

Sustainability

Integration

G4-32 (c)

Management Discussion and Analysis



KPMG
 (Chartered Accountants)
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INDEPENDENT ASSURANCE REPORT TO ASIAN ALLIANCE INSURANCE PLC

On the elements of Sustainability Reporting in the Annual Report for the year ended 31 December 2014

Introduction

We were engaged by the Board of Directors of Asian Alliance Insurance PLC ("Company") to provide assurance on the following elements of the Sustainability Reporting in the Annual Report for the year ended 31 December 2014 of Asian Alliance Insurance PLC ("Report").

- Reasonable assurance on the data on Financial Highlights, as reported on page 25 of this Report.
- Limited assurance on the Performance Summary specified on pages 403 to 413 and the information provided on the following stakeholder groups as detailed below.

Stakeholder Disclosures	Annual Report Page
Shareholder	144 to 145
People	147 to 160
Customer	161 to 169
Environment	170 to 177
Community	178 to 183

Our conclusions

a) Data on financial performance:

In our opinion, the data on Financial Highlights, as reported on page 25 of this Annual Report 2014 are properly derived from the financial statements of the Company for the year ended December 31, 2014.

b) Performance Summary and stakeholder disclosures:

Based on the limited assurance procedures performed, as described below, nothing has come to our attention that causes us to believe that the Performance Summary specified on pages 403 to 413 and the information provided on the stakeholder groups as described in the pages set out above, have not in all material respects, been prepared and presented in accordance with the Sustainability Reporting Guidelines as described on page 80 of this Report.

Managements' responsibility

Management is responsible for the preparation and presentation of the Report in accordance with the Global Reporting Initiative (GRI) G4 Principles for Defining Report Content and Quality.

These responsibilities includes the identification of stakeholders and material aspects and for establishing such internal controls as management determines are necessary to enable the preparation of the reported performance information and other information in the report that are free from material misstatement whether due to fraud or error.

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

M.R. Mihular FCA
 T.J.S. Rajakarier FCA
 Ms. S.M.B. Jayasekara ACA
 G.A.U. Karunaratne ACA
 P.Y.S. Perera FCA
 W.W.J.C. Perera FCA
 W.K.D.C. Abeyrathne ACA
 R.M.D.B. Rajapakse ACA
 C.P. Jayatilake FCA
 Ms. S. Joseph FCA
 S.T.D.L. Perera FCA
 Ms. B.K.D.T.N Rodrigo ACA
Principals - S.R.I. Perera ACMA, LLB, Attorney-at-Law, H.S. Goonewardene ACA



Our responsibilities and compliance with SLSAE 3000

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

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

Summary of work performed

Financial data

A reasonable assurance engagement on Financial Highlights, as reported on page 25 of this Report involves verification that they were properly derived from Audited Financial Statements of the Company for the year ended December 31, 2014.

Key Performance Indicators

Our limited assurance engagement on the Performance Summary included in the Report consisted of making enquiries, primarily of persons responsible for the management, monitoring and preparation of the Key Performance Indicators presented in the Report, and applying analytical and other evidence gathering procedures, as appropriate. These procedures included:

- Interviews with senior management and relevant staff at corporate and selected site level concerning sustainability strategy and policies for material issues, and the implementation of these across the business;
- Enquiries of management to gain an understanding of Company's processes for determining material issues for Company's key stakeholder groups;
- Enquiries of relevant staff at corporate level responsible for the preparation of the Report
- Enquiries about the design and implementation of the systems and methods used to collect and report the information, including the aggregation of the reported information;
- Comparing the information presented in the Report to relevant underlying sources on a sample basis to determine whether all the relevant information has been appropriately included in the Report;
- Reading the Performance Summary presented within the Report to determine whether they are in line with our overall knowledge of, and experience with, the sustainability performance of Company;
- Reading the remainder of the sections relation to sustainability included in the Report to determine whether there are any material misstatements of fact or material inconsistencies based on our understanding obtained as part of our assurance engagement.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement or an audit conducted in accordance with Sri Lanka Standards on Auditing and Assurance Engagements, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit or a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance conclusion on the Performance Summary.

Use of this 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 Asian Alliance Insurance PLC 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

13 February 2015





extraordinary *governance*

Governance that guarantees the interests of every stakeholder.

A robust corporate governance framework facilitated our extraordinary performance during the year 2014, ensuring that suitable oversight and accountability provided the necessary safeguards to protect the interests of the Company and its shareholders.

Our corporate governance framework process encompasses the interests of all our stakeholders and is strongly supported by a comprehensive risk management, compliance and audit process.

Board of Directors

Corporate Stewardship



Ashok Pathirage – Chairman • Paul Ratnayeke - Deputy Chairman • IftikarAhamed - Managing Director • Ramal Jasinghe – Director • Sujeewa Rajapakse – Director • Mohan Ray Abeywardena – Director • Jatinder Mukhi – Director • Johannes W. H. Richters - Director



Board of Directors

Corporate Stewardship

Ashok Pathirage

Chairman

Mr. Pathirage is one of the co-founders of Softlogic and was appointed as Chairman of Softlogic in 2000. He is also Chairman/Managing Director of Asiri Hospital chain, Softlogic Capital PLC, Softlogic Finance PLC, Asian Alliance Insurance PLC, Odel PLC which are listed in addition to the private companies of the Group operating in Leisure & Restaurants, Retail, Automobile and ICT industries. He is also Deputy Chairman of the National Development Bank PLC and Chairman of NDB Capital Holdings PLC. Due to his business acumen and corporate leadership he is one of the top business leaders in the country.

Mr. Paul Ratnayake

Deputy Chairman

Mr. Paul Ratnayake is a leading commercial lawyer and a Senior Partner and Founder of Paul Ratnayake Associates, an established law firm in Sri Lanka. Mr. Ratnayake 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. Ratnayake specializes in corporate and commercial areas of law including in the fields of mergers and acquisitions, aviation, insurance and shipping. Currently, Mr. Ratnayake holds directorships in several companies in some of which he has been appointed as the Deputy Chairman or Chairman.

Mr. IftikarAhamed

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 holding company of the Financial Services Company of the Group. He also Executive Director of Softlogic finance PLC, Softlogic stockbrokers (PVT) Ltd. 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 as Deputy Chief Executive Officer at Nations Trust Bank PLC and Senior Associate at Deutsche Bank AG. He holds an MBA from University of Wales, UK.

Ramal Jasinghe

Director

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 Honor 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 (IIM), Ahamedabhad.

Mr. Ramal Jasinghe is the Immediate Past President of the Insurance Association of Sri Lanka (IASL). He also served on 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 (NCE) and the National Chamber of Commerce of Sri Lanka (NCCSL). 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 and serves on the technical committee of the National Business Excellence Awards (NBEA) 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. He presently serves as the Vice President of the National Chamber of Exporters (NCE), member of the Board of Study at the National Institute of Exports (NIOE) as well as on the Committee of the National Cleaner Production Center (NCPC).

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 Jaywardenepura.

Mr. Rajapakse is the Immediate Past President of the Institute of Chartered Accountants of Sri Lanka. He was the Technical Advisor of the South Asian Federation of Accountants (SAFA). He was also a Technical Advisor to the Confederation of Asia Pacific Accountants (CAPA). Mr. Sujeewa Rajapakse represents the Monetary Policy Consultative Committee of Central Bank of 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.

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 28 years of work experience in the Capital markets in Sri Lanka of which 22 years was spent in stockbroking & 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 & Acuity Securities Ltd, and he also holds Directorship's in Guardian Acuity Asset Management Ltd & Lanka Ventures PLC.

Mr. 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 15 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 a premium income of \$US 80m to \$US 500m and to the 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

Corporate Stewardship



Iftikar Ahamed - Managing Director • Ramal Jasinghe - Director • Chula Hettiarachchi
- Chief Operating Officer - Life • Saliya Wickramasinghe - General Manager - Finance •
Thilanka Kiriporuwa - Head of Human Resources

Ramal Jasinghe

Director

Profile appears on page 200

Mr. Iftikar Ahamed

Managing Director

Profile appears on page 200

Mr. Chula Hettiarachchi

Chief Operating Officer - Life

He holds B.Com. and M.Com degrees from the University of Kelaniya and also holds a Postgraduate Diploma in Finance and Business Management from the Institute of Chartered Accountants of Sri Lanka. He has received extensive overseas training with Allied Dunbar UK, FALIA Japan, and OLIS Japan, as well as the Indian Insurance Institute, Pune, and Munich Re in Germany. His career spans a period of 34 years, 20 of which is in the life insurance field. He spearheads the Life distribution operations in an astute and professional manner.

Mr. Saliya Wickramasinghe

General Manager - Finance

Mr. Saliya Wickramasinghe is a Fellow of the Chartered Institute of Management Accountants (FCMA) and a member of the Certified Practicing Accountants (CPA), and has a BSc degree from the University of Colombo. His career spans over 32 years including exposure in local blue chip companies as well as 5 years in a multi-national company in Australia. His varied experience brings a wider perspective to the finance operations of the Company. He has participated in the Top Management Programme conducted by FALIA (Japan) and AOTS (Japan). Mr. Wickramasinghe also serves as an Executive Director of Softlogic Finance PLC.

Mr. Thilanka Kiriporuwa

Head of Human Resources

He holds a Masters in Business Studies (UOC), CIM (UK), Diploma in Human Resources, Diploma in Information Technology. He is a multi-talented personality, counting over 14 years' experience in Human Resources, Customer Service, Logistics, Administration, Facilities Management, Retail & General Operations. He overlooks the HR aspect for Asian Alliance Insurance and Financial & Retail Sector of the Softlogic Group.

The Senior Management

Corporate Stewardship





-  1 Amal Dharmapriya
Assistant General Manager – ICT
-  2 Kapila Suriyaarachchi
Deputy General Manager - Life (Sales)
-  3 Lasitha Wimalaratne
Assistant General Manager - Life Operations
-  4 Mihilal Nishantha
Assistant General Manager - Negombo SBU
-  5 Pranama Perera
Deputy General Manager
-  6 Soma Hettiarachchi
Assistant General Manager
-  7 Suranga Waduge
Assistant General Manager - Life



-  8 Dilan Christostom
Assistant General Manager – Finance
-  9 Annesly Arsakulasuriya
DGM - General Insurance Sales and Distribution – CBU
-  10 Lal Hettige
AGM - Customer Relationship Development
-  11 Nandana Premachandra
Head of GI - Retail Sales
-  12 Sandamal Hettiarachchi
Deputy General Manager - Colombo SBU
-  13 H. Hiran Earl Gunawardena
Assistant General Manager - Training and Knowledge Development

Corporate Governance

Corporate Stewardship

“Good corporate governance remains integral to the way the group operates. We are committed to operating in a correct, principled and commercially astute manner and staying accountable to our stakeholders. We hold the view that transparency and accountability are essential for our group to thrive and succeed in the short, medium and long term.”



STATEMENT OF COMPLIANCE

Asian Alliance Insurance PLC is fully compliant with the Statement of Corporate Governance issued jointly by Institute of Chartered Accountants of Sri Lanka (ICASL) and Securities and Exchange Commission (SEC). In addition, we have achieved the status of ‘fully compliant’ with the applicable sections of the Listing Rules issued on Corporate Governance by the CSE.

The status of compliance with each section of the Code of Best Practice on Corporate Governance issued jointly by ICASL and SEC appears on pages 229-238. The Company has also included a table which summarises the status of compliance with Rule No. 7.10 of the Listing Rules of the CSE, on pages 238-240.

Key Highlights 2014

Asset Liability Management (ALM)

The Asset Liability Committee has been formed to manage the asset-liability mismatch between long term assets in the investment portfolio and long term liabilities of insurance products

Business Continuity Plan (BCP)

The Business Continuity Plan (BCP) of AAI is governed and modelled based on ISO 22301 - 2012, the business continuity management Standard. Business Continuity (BC) is defined as the capability of the organization to continue delivery of products or services at acceptable predefined levels following a disruptive incident (Source: ISO 22301:2012)

Sustainability Sub-Committee

This forum ensures the Company conforms and engages in sustainable business practices, which is a part of AAI's obligation to the stakeholders as a responsible corporate citizen

Related Party Transactions Review Committee

During the year the Company established the Related Party Transactions Review Committee as a Board Sub-Committee and proposes the full implementation of the CSE Rule ahead of its mandatory enforcement in 2016, there by demonstrating the Company's commitment in promoting good governance

Whistle Blowing

An assurance that enables stakeholders to raise serious concerns within the Company without any reprisal.

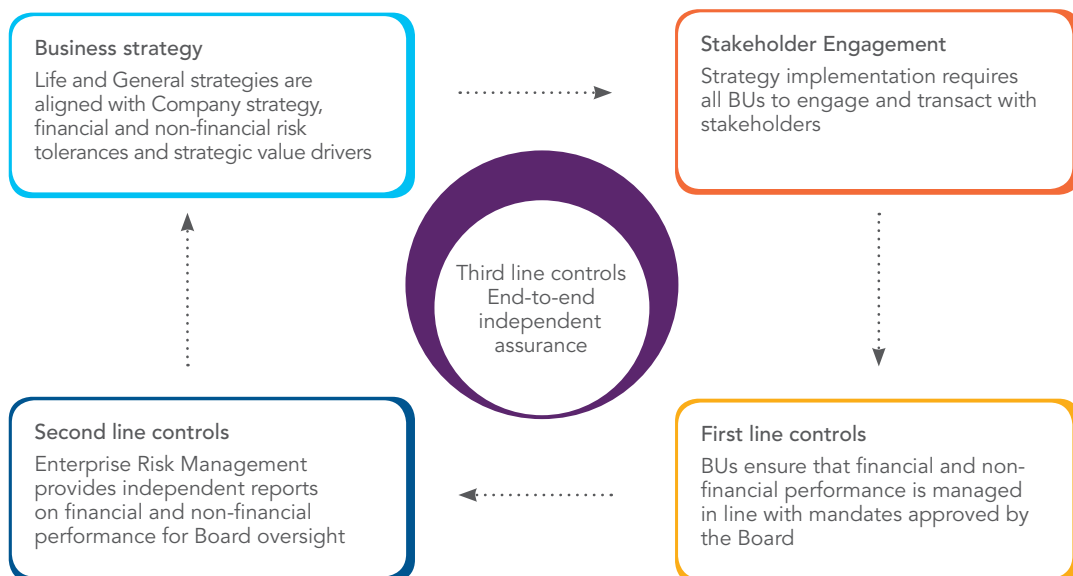
IT Security Officer

Separate independent personnel appointed in order to ensure the integrity and security of IT Systems within the Company. This precautionary measure will minimize the threat of IT security risks

In-House Internal Audit Team

During 2014 AAI established an In-House Internal Audit Department with a focus on establishing a risk based internal audit approach with a view of further strengthening the control environment of the company

Figure 12: AAI's Integrated Governance Model



Corporate Governance

Corporate Stewardship

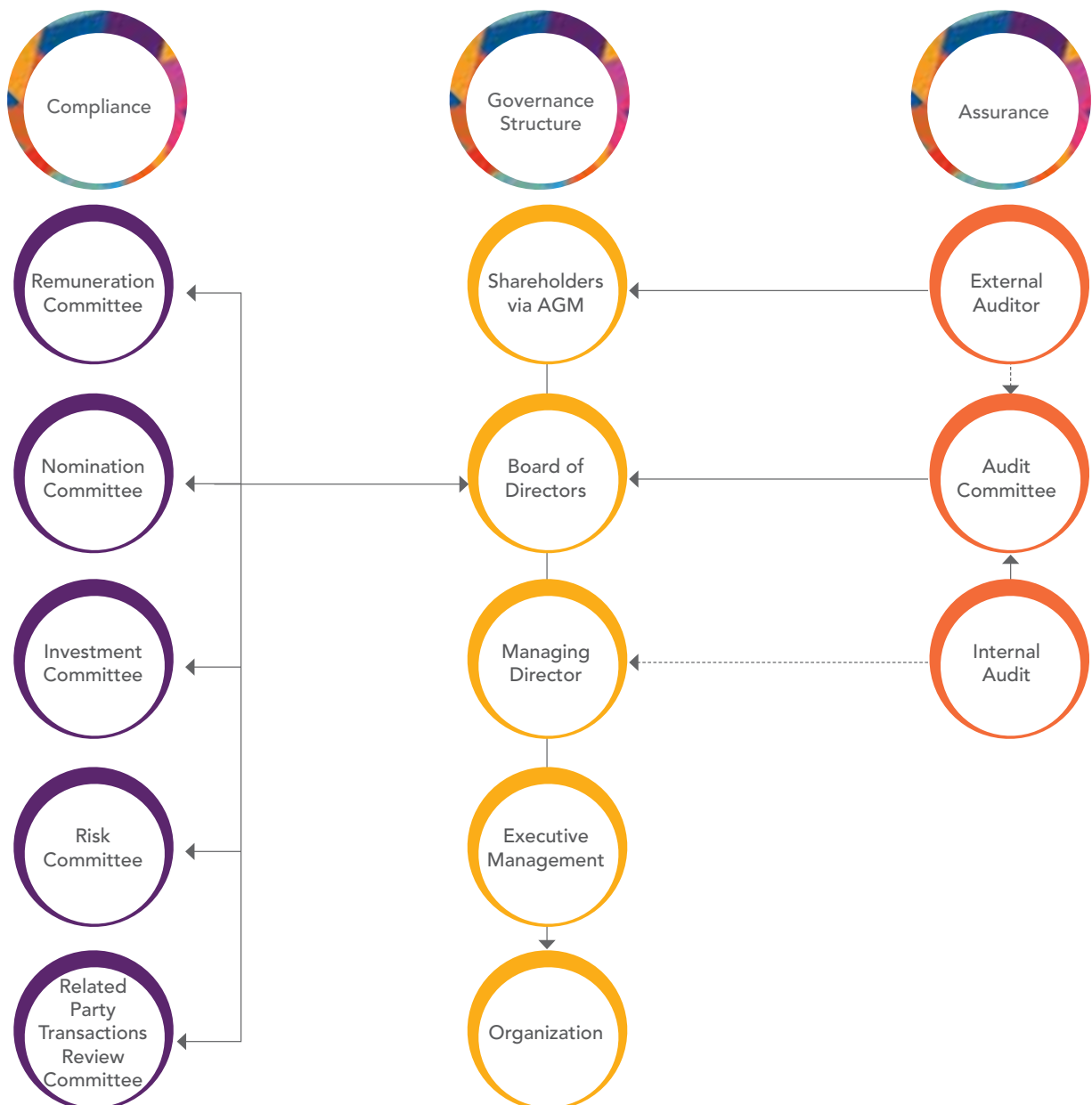
Our Integrated Governance Framework

Corporate Governance is the system by which a company governs itself to reinforce public confidence and ensure sustainability of its operations. A robust corporate governance framework has become a necessity for

sustainable business performance of a company. In conserving the interest of stakeholders and serving to attain the company objectives, Asian Alliance Insurance PLC encompasses a corporate governance framework inclusive of all aspects and functions.

The diagram below depicts the company's governance structure.

Figure 13: Company's Governance Structure



The company places 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.

AAI's integrated approach to managing financial and non-financial issues ensures the alignment of Company objectives with the long-term interests of its stakeholders. This creates an environment where every transaction with every stakeholder can be seen as an opportunity to support the sustainable development of the economy in which the Company operates.

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.

Shareholders

The Board and the Senior Management acknowledge their responsibility to represent the interests of all shareholders and to maximize shareholder value. Therefore, one of the main objectives of the Board is to represent, formulate and realize the interests and expectations of shareholders, who are the owners of the Company. In fulfilling the expectations of the shareholders, primary objectives were listed in the Stakeholder Engagement (refer page ..).

Return to Shareholders

Please refer pages 144 of this Annual Report under 'Management Discussion and Analysis' (page 49), Investor Relations (page 258) for details of our policies and action taken in this regard.

Communication with Shareholders

The techniques which Asian Alliance Insurance PLC uses to be in touch with its shareholders are discussed in the Stakeholder Engagement (Refer page 75).

Annual Report

The Annual Report is the main document the Company uses to inform its shareholders on the affairs of the company. Moreover, efforts are also made to include a

significant amount of important non-financial information that extends beyond regulatory requirements in the Annual Report.

Our efforts in providing a comprehensive report have been recognised at numerous awards ceremonies, both local and international.

Equitable Treatment to All Shareholders

The Company has consistently ensured that all shareholders are treated equitably. Accordingly, both Sinhala and Tamil language translations of the Chairman's Message, the Managing Director's review, Statement of Financial Position, Statement of Comprehensive Income, Cash Flow Statement and Statement of Changes in Equity are provided upon request.

Timely Communication of Financial Statements

In addition to enhancing the quality of the information provided in the annual report, the Company also believes in the efficient and timely communication of the annual report to the shareholders. Therefore, all possible measures are taken to present the annual report before the statutory deadline.

Interim Financial Statements

As per the Listing Rules of the CSE, the obligation of the Company extends only to the submission of interim financial statements to the CSE which, in turn, will release it to the public. However, as a self-imposed best practice, the Company also communicates the interim financial statements to the public through the following methods;

•	Circulating printed copies of interim financial statements amongst all shareholders
•	Publishing interim financial statements in the print media
•	Publishing interim financial statements on the Company's website

All efforts are taken to ensure the accuracy of information published, and accordingly, a voluntary interim audit was performed during the year 2014. This enabled the receipt of an independent opinion from the External Auditors and hence, the interim financial statements published and circulated amongst the shareholders for the period.

Website

Our corporate website provides an additional channel for shareholders, customers and other stakeholders to access information about the Company. Financial statements, details of the Company, information on new products, news

Corporate Governance

Corporate Stewardship

and announcements are available on this website, which could be accessed at www.asianalliance.lk.

Communication with Institutional Shareholders

We are committed to maintaining a constant dialogue with institutional investors, brokers and financial analysts in order to improve their understanding of our operations, strategy and plans, thereby enabling them to raise any concerns which may linger in their minds, and which may in turn affect their perceived value of the Company. However, the Board and the management strictly adhere to the statutory and ethical guidelines regarding their responsibility of maintaining confidentiality of price sensitive information.

Submission of Information to the Colombo Stock Exchange/Shareholders

The Company acknowledges the importance of publishing essential information with the CSE as required by the Listing Rules and ensures that all such requirements are met in a timely manner. Further, we ensure that all relevant information is provided to shareholders, even beyond regulatory requirements.

Meetings with Shareholders

Annual General Meeting (AGM)

This is considered as a sturdy mode of communication as an AGM allows the shareholders to directly communicate with the Board of the Company.

Notice of the AGM is circulated to all shareholders 15 working days ahead, in accordance with the requirements of the Companies Act.

The most recent shareholders' AGM was the 15th Annual General Meeting (AGM) of the Company held on 27th of March 2014, at 4th Floor, Central Hospital (Private) Limited, No. 114, Norris Canal Road, Colombo 10.

Matters Discussed

<ul style="list-style-type: none"> 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.
<ul style="list-style-type: none"> 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.

<ul style="list-style-type: none"> 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.
<ul style="list-style-type: none"> To transact any other business of which due notice had been given.

Extraordinary General Meetings (EGM)

The most recent shareholders' meeting of the Company was held on 9th of December 2014, at the 4th Floor, Central Hospital (Private) Limited, No. 114, Norris Canal Road, Colombo 10.

Matters Discussed

<ul style="list-style-type: none"> To approve as a major transaction, the transfer of the general insurance business of the Company to its wholly owned subsidiary, Asian Alliance General Insurance Ltd, which was necessitated by Regulation of Insurance Industry (Amendment) Act No. 3 of 2011
<ul style="list-style-type: none"> To approve the Scheme of Arrangement of the Company to accommodate the above segregation of its general business from the life business

Minimum Public Float

As per the directive of Securities and Exchange Commission of Sri Lanka (SEC) for the companies listed on the Diri Savi Board of Colombo Stock Exchange (CSE), the public holding of the Company is to be increased to 10% of shares carrying ordinary voting rights, which should be in the hands of a minimum of 200 public shareholders. The current public holding of AAI quantifies to 2.77% and the Company seeks to elevate to the requirement of 10% by the end of year 2015. Refer Regulatory review pages 69-70.

Feedback from Shareholders

The Company is committed to healthy communication with the shareholders which is depicted via the introduction of the Investor Feedback Form. This is a practical mode of communication between shareholders and Directors. This was introduced from the first Integrated Annual Report in 2013 and provides the opportunity for the shareholders to comment on their prospects and initiatives for the Company. For the feedback form refer page 430.

Enquires by Shareholders

Shareholders are encouraged to maintain direct communication with the Company. They may raise inquiries

and concerns with the Board by contacting the Company Secretary, P. R. Secretarial Services (Pvt) Ltd, through the following channels;

Telephone : +94 11 2671439/+94 11 3040542/
 +94 11 2697893/+94 11 2671441
 E-mail : info@prsslk.com / prsecs@gmail.com
 Address : P. R. Secretarial Services (Pvt) Ltd
 59, Gregory's Road,
 Colombo 7, Sri Lanka.

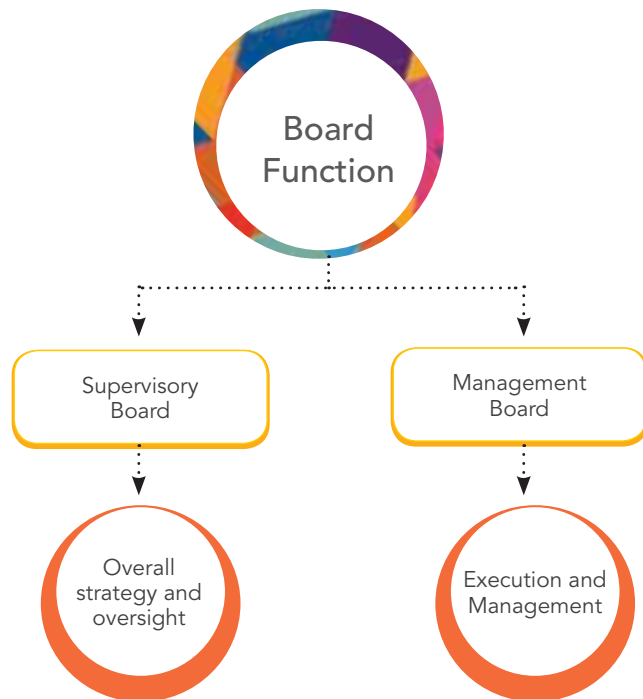
Internal Governance Structure

Board of Directors

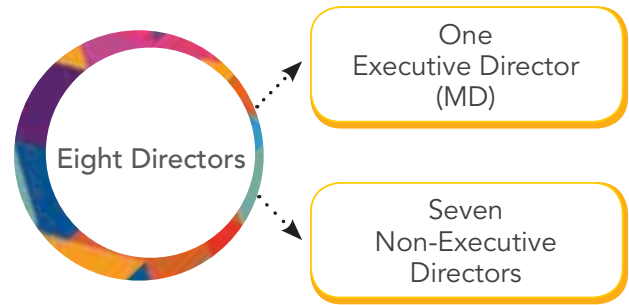
Structure of the Board

The primary function of the Board of Directors who acts as representatives of the shareholders is to oversee the performance of the organization and ensure that it continues to operate in the best interests of all stakeholders.

Figure 14: The formal bodies and their duty



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 Managing Director (MD).



The board consists of 08 Directors. The MD is an Executive Director whilst the other directors hold office in a Non-Executive capacity. The board meets at least once every calendar quarter to determine the Company's operating and financial performance and to provide oversight on whether the Company is optimizing the use of 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 issues that are specifically reserved for a decision by board members.

The significant instances which require board approval is given on figure 15 on page 212.

Corporate Governance

Corporate Stewardship

Figure 15: Board of Directors



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 policy holders, 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.

Responsibilities of Board

The entire Board of Directors is collectively responsible for the formulation, implementation and monitoring of business strategies of the 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 Activities in 2014

The Board's key priority this year was to provide an oversight of the challenges to the progress of its strategy. Key activities for the Board during the year included:

Responsibilities	Initiative
Corporate Strategies	<ul style="list-style-type: none"> • Suggestion to bring in a "Comprehensive Strategy" to achieve short and long term objectives of General Insurance business • Exploit the Group synergies of the Health and life insurance • "Hub & Spoke" concept (refer operational review Page 137)
Guidance to MD & Senior Management	<ul style="list-style-type: none"> • Review current pricing and underwriting strategies • Smartphone applications (Review digital market strategies Page 136) • Review of product propositions

Corporate Governance

Corporate Stewardship

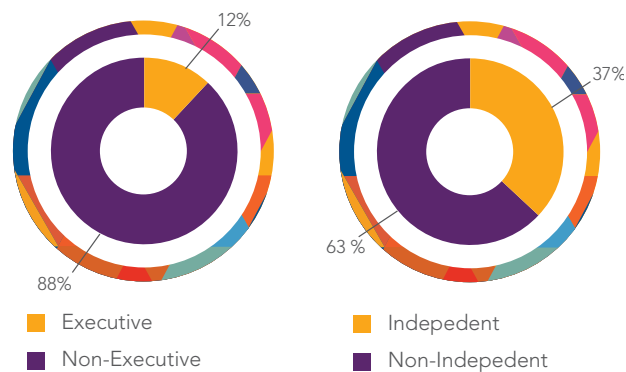
Responsibilities	Initiative
Internal Controls & Risk Management	<ul style="list-style-type: none"> Introduce a Whistle Blower policy
Sub-Committees	<ul style="list-style-type: none"> Review of Board committee reports
Monitoring Performance	<ul style="list-style-type: none"> Business Performance Review Investment Performance Review Analyse the product mix Review investment policy Credit policy review Review on operational and administration expenses
Compliance	<ul style="list-style-type: none"> Review progress and advice on segregation of the business Corporate governance updates Compliance with Risk Based Capital
Reviewing	<ul style="list-style-type: none"> Review mechanisms used in estimating provisions
Sustainability	<ul style="list-style-type: none"> Review sustainability integration of the Company

Board composition

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

New Board appointments are governed by company policy that is reviewed annually. 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.

Figure 16 Board Composition



Composition of Board and Board Committees is depicted in the following table:

Director	Status	Board	COMMITTEE MEMBERSHIP				
			Audit Committee	Nomination Committee	Remuneration Committee	Risk Committee	Investment Committee
Mr. Ashok Pathirage	Chairman (NED)	✓	×	✓	✓	×	✓
Mr. Paul Ratnayake	Director (INED)	✓	×	✓	✓	×	×
Mr. Iftikar Ahamed	MD (ED)	✓	By invitation	×	×	✓	✓
Mr. Ramal Jasinghe*	Director(NED)	✓	By invitation	×	×	✓	✓
Mr. Sujeewa Rajapakse	INED	✓	✓	×	✓	×	✓
Mr. Ray Abeywardena	INED	✓	✓	✓	✓	×	×
Mr. Jatinder Mukhi	INED	✓	✓	×	×	✓	✓
Mr. Johannes Richters	INED	✓	✓	×	×	✓	✓

* resigned from his position as the Chief Executive Officer of the Company to take up appointment as the Chief Executive Officer at Asian Alliance General Insurance Limited with effect from 1st January 2015 and remain as a Non-Executive Director of the Company

Qualifications of the Board Members

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

•	Values and the culture of the Organisation
•	Operations of the company and its strategies
•	Policies, governance framework and processes
•	Responsibilities as a Director in terms of prevailing legislation
•	The Code of Conduct demanded by the company

Appointment and re-election of Board Members

The appointment of Non Executive Directors as well as MD to the board is governed by the Articles of Association and such appointments are reviewed by the Nomination Committee. 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.

On access to information and professional development; it is essential that the Directors are up to date with key business developments to maintain and enhance their effectiveness.

The Directors have access to;

•	Information necessary to carry out duties and responsibilities effectively and efficiently
•	External and internal auditors
•	Updates on regulations, best practices as relevant to the business and other matters which are considered to warrant Board attention
•	Financial plans, including budgets and forecasts and Periodic performance reports
•	Experts and other external professional services as required
•	Company secretaries whose appointment and / or removal is the responsibility of the Board
•	Senior management

Board Induction

The Company Secretary is responsible for ensuring that each Director receives an induction on joining the Board. When new Directors are appointed to the Board, they are apprised of the:

Corporate Governance

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Maintaining Independence of Directors

Each Board member has a responsibility to determine whether he / she has a potential or actual conflict of interest arising from external associations, interest in material matters and personal relationships which may influence his / her judgment. Such potential conflicts are reviewed by the Board from time to time.

Details of companies in which Board members hold Board positions or Board committee positions are available with the company for inspection by shareholders on request. To avoid potential conflicts or bias, Directors adhere to a process where review takes place prior to appointment, once appointed, and during Board meetings.

Submission of Independence Declaration

Declaration of independence has been submitted.

The independence of the Non-Executive Directors was reviewed on the basis of criteria summarized below.

	Shareholding	Director/ Employee of another institute	Material Business relationship	Family member a Director/CEO	Employment by the Company	Consecutive service of nine or more years
	(1)	(2)	(3)	(4)	(5)	(6)
Mr. Ashok Pathirage	✓	x	✓	✓	✓	✓
Mr. Paul Ratnayake	✓	x	✓	✓	✓	x
Mr. Iftikar Ahamed	✓	x	✓	✓	x	✓
Mr. Ramal Jasinghe	✓	✓	✓	✓	x*	✓
Mr. Sujeewa Rajapakse	✓	✓	✓	✓	✓	✓
Mr. Ray Abeywardena	✓	✓	✓	✓	✓	✓
Mr. Jatinder Mukhi	✓	✓	✓	✓	✓	✓
Mr. Johannes Richters	✓	✓	✓	✓	✓	✓

- (1) Carrying not less than 10% of voting rights of a company
- (2) Self or close family member is a Director or employee of another company or a Trustee
- (3) Any relationship resulting in income / non cash benefits equivalent to 10% of the director's annual income
- (4) Close family member who is a Director or CEO
- (5) Has been employed by the company during the period of two years immediately preceding appointment as a Director
- (6) Has served on the Board continuously for a period exceeding nine years

* ceased to be an employee after 31st December 2014

x do not meet independence criteria

✓ compliant

Chairman and Board of Directors

AAI maintains dual panel structure namely the Board of Directors and the MD / CEO and Executive Committee. It thus distinguishes clearly between the members of the Board of Directors as the supervisory body and those of management including the division of responsibilities between the Chairman and CEO. Therefore the Chairman is independent from CEO.

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 it 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	Related Party Transactions Review Committee*
Chairman	Mr. Sujeewa Rajapakse	Mr. Ashok Pathirage	Mr. Ashok Pathirage	Mr. Jatinder K. Mukhi	Mr. Ashok Pathirage,	Mr.Sujeewa Rajapakse
Members	Mr. Ray Abeywardena Mr. Jatinder Mukhi Mr. Johannes Richters	Mr. J.H.P. Rathnayake Mr. Ray Abeywardena Mr. Sujeewa Rajapakse	Mr. J.H.P. Rathnayake Mr. Ray Abeywardena	Mr. Ramal Jasinghe Mr. Iftikar Ahamed Mr. Johannes Richters	Mr. Johannes Richters Mr. Ramal Jasinghe Mr. Iftikar Ahamed Mr. Sujeewa Rajapakse	Mr. Jatinder Mukhi Mr. Johannes Richters
Agenda	Available	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	One week in advance
Secretary	Board Secretary	Board Secretary	Board Secretary	Board Secretary	Board Secretary	Board Secretary
Invitees	MD, COO Life, GM Finance, AGM Finance, Group Head Audit and Risk, Compliance Officer, Senior Manager Finance, Senior Manager Internal Audit	MD, Head of HR	-	MD, COO Life, GM Finance, AGM Finance, Risk Officer, Group Head Audit and Risk	Head of Treasury, GM Finance, AGM Finance,	GM Finance, AGM Finance
Meeting Frequency	Bi Monthly	Yearly	When Required	Quarterly	Quarterly	Quarterly
Availability of Terms of Reference	Available	Available	Available	Available	Available	Available

* was formed on the 13th of February 2014 as an early adoption, and will function from 2015.

Corporate Governance

Corporate Stewardship

Description	Audit Committee	Remuneration Committee	Nomination Committee	Risk Committee	Investment Committee	Related Party Transactions Review Committee*
Objectives	Refer Audit Committee report page no. 246	Refer Remuneration Committee report page no. 248	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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 processes 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 	<ul style="list-style-type: none"> Maximize net rate of return Maximize safety of investments Meet liabilities Meet regulatory requirements Meet working capital requirements Asset and Liability Management 	<ul style="list-style-type: none"> Development and adoption by the Board of Directors of the Company, a related party transaction policy which is consistent with the operation model and the Delegated Decision rights of the Group Update the Board of Directors on the related party transactions of the Company on a quarterly basis

* was formed on the 13th of February 2014 as an early adoption, and will function from 2015.

Access to independent professional advice

Each Director has the right of reasonable access to all relevant Company information and to the Company's senior management and may seek independent professional advice from a suitably qualified advisor at the Company's expense. The Director must consult with an advisor suitably qualified in the relevant field, and inform the Chairman of the nature of the advice, the likely fees payable for the advice and the identity of the advisor before proceeding with the consultation. A copy of the advice received by the Director may be made available to all other members of the Board (unless that will cause legal privilege to be waived).

Assessment of the Board Compensation

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

Remuneration procedure: The Company has established a formal and transparent procedure on remuneration for individual Directors. No Director is involved in deciding his own remuneration. Accordingly, the Remuneration Committee consisting exclusively of Non-Executive Directors has been set up to make recommendations to the Board within agreed terms of reference.

Level and make up of remuneration: Due care is taken to ensure that remuneration paid to Board members are commensurate with their skills, knowledge and involvement in Board activities and in reference to remuneration paid to other Non-Executive Directors of comparable companies.

Disclosure of remuneration: The break-up of remuneration paid to Non-Executive Directors is disclosed among the other disclosures regarding remuneration on page 247 in the annual report.

A Brief on the Code of Conduct and Ethics for Directors of the Company's Strategy

Conflict of Interest - A conflict situation can arise when one's private interests interfere, or appear to interfere, in any way, with the interests of the Company.

Corporate Opportunities - Directors are prohibited from taking for themselves or their own companies or other companies with which they have a fiduciary relationship, any opportunities arising as a result of the director holding a directorship in the Company, unless such opportunities are fully disclosed by the interested director and approved by the disinterested directors.

Compliance with Laws and Regulations and Fair Dealing - Directors are expected to carry out their responsibilities in compliance with all laws, rules and regulations applicable to the Company and with the highest standards of business ethics.

Confidentiality - Directors must maintain the confidentiality of non public proprietary information entrusted to them by the Company or its customers or other parties with whom the Company does business, except when such disclosure is authorised or legally required. This principle applies to all communications, whether oral, written or electronic.

Encouraging the Reporting of Any Illegal or Unethical Behaviour - Directors are expected to promote ethical behaviour and create a culture of compliance with all applicable laws, rules and regulations.

Dealings with Third Parties – Only the persons named in the Code are authorised to deal with third parties on behalf of the Company.

Protection and Proper Use of Company Assets - All Directors must protect the Company's assets and ensure their efficient use.

Enforcement - The Board (or the disinterested members of the Board) will review and investigate any allegation of a breach of this policy by a Director, with or without the participation of any Director who may be the subject of such report.

Corporate Governance

Corporate Stewardship

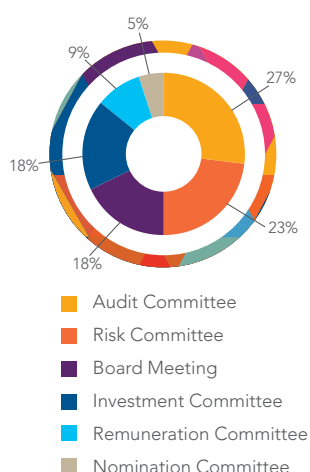
Identification of Business Objectives and Focus

The Board of Directors are responsible for identification of business objectives and provide strategic focus. The Company's sustainable strategy and its strategic priorities together with the business objectives are provided in page 84

Meetings and attendance

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

Figure 6 Number of Meetings held during the year



Roles of Chairman and Chief Executive Officer / Managing Director

The roles of the Chairman and Chief Executive Officer / Managing Director 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. The Board has delegated responsibility for the delivery of the strategy and the day-to-day running of the business to the Managing Director who in turn has delegated authority to the Executive Committee (Exco).

Role of the Chief Executive Officer

As the only Executive Director represented on the Board, the MD / CEO, is responsible to the Board or managing the business of the Company. He is responsible for effective implementation of the strategies and policies agreed by the Board, and for leading the management to fulfil the objectives set by the Board. The Board has given the Managing Director / Chief Executive Officer broad authority to conduct the business and he is accountable to and reports to the Board on the performance of the business. A summary of the responsibilities of the MD / CEO is given below;

Attendance Register 2014

Director	Board Meeting	Audit Committee	Nomination Committee	Remuneration Committee	Risk Committee	Investment Committee
Number of Meetings Held	4	6	1	2	5	4
Attendance						
Mr. Ashok Pathirage	4	N/A	1	2	N/A	4
Mr. Paul Ratnayake	2	N/A	1	2	N/A	N/A
Mr. Iftikar Ahamed	4	N/A	N/A	N/A	5	4
Mr. Ramal Jasinghe*	4	N/A	N/A	N/A	5	4
Mr. Sujeewa Rajapakse	4	5	N/A	2	N/A	3
Mr. Ray Abeywardena	4	6	1	2	N/A	N/A
Mr. Jatinder Mukhi	4	3	N/A	N/A	4	2
Mr. Johannes Richters	4	5	N/A	N/A	4	4

•	Developing, recommending and implementing the Company's policies and strategies so that they reflect the long-term objectives and priorities approved by the Board
•	Assuming full accountability to the Board for all aspects of the Company's operations and performance
•	Maintaining a continuous dialogue with the Chairman and other directors
•	Representing the Company and managing the Company's day-to-day business
•	Monitoring closely operational and financial results in accordance with plans and budgets
•	Establishing adequate operational, planning and financial control systems

The Chief Executive Officer is supported by the Executive Committee, which provides the Board with high quality information and recommendations, to help yield informed decisions on all areas regarding the strategies of the Company.

Roles of Independent Non-Executive Director

In addition to Non-Executive Directors expertise and fresh perspectives, these directors also bring independent judgment to the Board and take an unbiased stance in situations where conflicts of interest may arise. Further information on the determination of independence of directors and declarations of independence are given on page 216.

Management Committees

Description	Salvage Committee	Capital Expenditure Committee	IT Steering Committee	Supplies Committee	Actuarial Committee	Advertising Review Committee	Product Development Committee	Sustainability Committee
Objective	Ensure the salvage from claims are sold at the best possible price	Purchasing asset of the right quality, at the right time & at a 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 with the view of making recommendations to the 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.	Focuses on revamping AAI's existing products in order to compete with industry's prominent products. Suggestions made will be taken up for new product development. Thereby acting as a medium to convey information from sales	Conform the responsibility to the stakeholders in respect of the policies and practices that relate to the sustainable growth of the Company on a universal basis

Role of Board Secretary

P. R. Secretarial Services (Pvt) Ltd, serves as the Board Secretary. Their role is to support the Chairman, the Board and the Sub-Committees of the Board by ensuring a proper flow of information and also by ensuring that Board policies and procedures are followed.

Although the Board Secretary reports to the Chairman, all Directors may call upon them at any time for advice and assistance in respect of their duties and the effective operation of the Board and Board Sub-Committees. The Board Secretary also plays a critical role in maintaining the relationship between the Company and its shareholders and regulators, including assisting the Board in discharging its obligations to shareholders.

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.

Management Committees

Summary of key objectives, members and frequency of the meetings

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

Corporate Governance

Corporate Stewardship

Description	Salvage Committee	Capital Expenditure Committee	IT Steering Committee	Supplies Committee	Actuarial Committee	Advertising Review Committee	Product Development Committee	Sustainability Committee
Members	AGM General, GM Finance, DGM General and AGM Finance	MD, COO Life, DGM General, GM Finance	MD, Director, COO Life, DGM General, GM Finance and AGM Finance	GM Finance, COO Life and Head of HR	MD, Consultant Actuary, AGM Life, GM Finance, AGM Finance, COO Life, AGM Life Actuary	COO Life, DGM General, GM Finance	AGM Life Actuarial, AGM Life Operations, DGM SBU (Panadura & Kelaniya), ZM (Kiribathgoda, Gampaha), Sales Manager SBU (Negombo, Kottawa)	Director/CEO, Managing Director, COO Life, GM Finance, Head of HR, Senior Manager Finance
Frequency of meetings planned and held	As and when need arises	As and when need arises	Quarterly	Bi Annually	Monthly	Quarterly	Quarterly	Quarterly

Governance Activities

Evaluation of the Board

During the year, the Board conducted a self-evaluation of its performance, using a checklist which covered a range of areas including, but not limited to, the composition of the Board, skills and experience of the members, adequacy of sub-committees, proceedings of meetings and quality of reports and materials submitted. Each director filled the checklist and submitted to the Board Secretary, who in turn compiled and tabled a summary with the Board for discussion. The objective of this evaluation was to improve the performance of the Board to support the achievement of the Company's objectives.

Evaluation of the Audit Committee

The Audit Committee also continued its self-assessment process from the previous years to ensure it functions effectively and efficiently and discharges all its responsibilities as outlined in the Charter of the Audit Committee.

In addition, the management also assessed the performance of the Audit Committee using a checklist, which was prepared so as to cover the responsibilities of the Committee, derived from its Charter.

The results of both the self-assessment and the Management's assessment of the Audit Committee were tabled at the Board and are expected to be used to further enhance the effectiveness of the Audit Committee. Moreover, the Company envisages expanding this process

of evaluating the Audit Committee to a 360 degree appraisal in 2014, involving both Internal and External Auditors as well.

Appraisal of MD/CEO

Setting Annual Targets for the MD/CEO

The Board, in consultation with the MD/CEO, sets reasonable financial and non-financial targets in line with the short, medium and long term objectives of the Company, which are to be achieved by the MD/CEO every year.

These corporate objectives are included in the Corporate Plan for the year, which is in turn, reviewed and approved by the Board. The main focus areas of the Corporate Plan 2014 were;

•	Market Share
•	Gross Written Premium for Life and General Insurance
•	Underwriting Results
•	Profitability
•	Premium Persistency
•	Dividend Payout
•	Remuneration of Employees

The Board monitored the achievement of these targets throughout the year and provided guidance to the MD/CEO where necessary.

Performance Evaluation of the MD/CEO

The performance of the MD/CEO is evaluated by the Board at the end of each year, based on the agreed objectives described above. Remuneration for the MD/CEO is determined based on the achievement of these set targets.

Training of New and Executive Directors

The Board acknowledges the need for continuous development and expansion of knowledge and skills of new and existing directors.

Accordingly, new directors are inducted to the Board by providing them with a comprehensive understanding of their duties and responsibilities. Moreover, adequate knowledge sharing opportunities are provided to both new and existing directors on a continuous basis at the Company's cost in respect of matters relating to the general aspects of directorship as well as matters specific to the industry and the Company.

The directors are also constantly updated on the latest trends and issues facing the Company and the insurance industry

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 AAI, 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 organization 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.

Human Resources Governance

Our company competes with the best for skills and strives to attract, motivate and retain people of the right caliber. At AAI we believe our ability to achieve success depends on deeply engaged and high performing employees. Employees at AAI deemed to be our most valuable resource and therefore we believe in recognizing 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 AAI, we intend to achieve following objectives:

Figure 7 Objectives intended to achieve via the HR Governance System



Corporate Governance

Corporate Stewardship

•	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
•	Minimize duplication of activities.
•	Training & Education
•	Clear recruitment process
•	Fair treatment to every employee regardless of sex, race, age and beliefs.
•	Transparency in carrying out all HR related activities according to processes / policies and procedures.

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

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

•	Act professionally and with courtesy when contacting/contacted in the course of their duties
•	Maintain the highest standards of competence, business ethics and dignity as advocated by the company

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

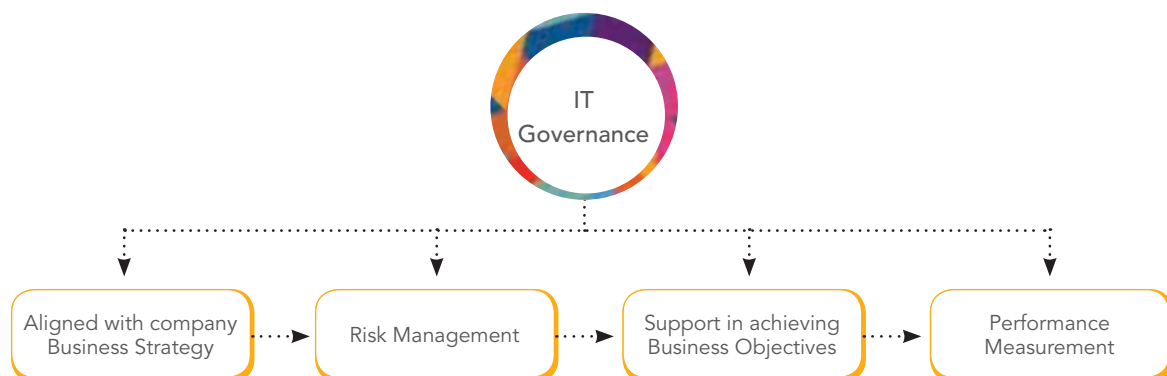
Information Technology Governance

The board is responsible for ensuring that prudent and reasonable steps have been taken with respect to IT governance, including aligning the IT strategy to the Company's strategic objectives. This enables it to measure the performance of IT as a support role received towards driving the company forward and facilitating an integrated approach in order to meet regulatory requirements.

The key objective of driving the IT governance process is to align with the company's business strategy, risk management, support in achieving business objectives and measuring overall performance.

IT standards within AAI are continuously improved with regular reviews by both the Executive Committee and IT Steering Committee. Independent evaluation by Internal/ External audits ensures the adherence to key governance objectives at operational and service level, periodic performance measurements and reviews guaranteed operational performance, ensuring continuous monitoring and the mitigation of current and emerging threats and exploiting opportunities in both the external and internal environment. These periodic and continuous reviews facilitate continuous improvement of the IT governance process within AAI.

Figure 16: Relation of IT Governance to the Company



IT controls in Financial Reporting

The accuracy of financial reporting is heavily dependent on a well controlled IT platform. Therefore, at AAI, the following IT controls have been implemented in the course of financial reporting in order to ensure the accuracy and quality of information used.

•	Exercise security controls in order to prevent unauthorized use of the system.
•	Based on the MOFA limits all the transactions are carried out with dual authentication.
•	An integrated IT system is in place, Oracle (E Business Suite), which is capable of providing customized reports on time for decision making.
•	Periodic backup facility is provided for confidential data and stored both on-site at AAI as well as off-site.
•	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 software and utility software.
•	All in house system developments and modifications are made according to well defined change management procedure.

Actuarial Valuation of Insurance Liabilities

AAI has actuarially validated the general insurance incurred but not reported claims reserve (IBNR / IBNER) appearing on the Statement of Financial position. Since claims reserves are based on judgment and estimates, an actuarial valuation provides a greater degree of comfort as to the accuracy of the reserves.

The report also certifies that the unearned premium reserve (UPR) is adequate in relation to the future liabilities arising from unexpired risks as at 31 December 2014.

Life insurance liabilities have also been validated by an independent external actuary in accordance with the RII Act.

The actuarial certification of IBNR is provided on page 282.

The Actuary's Report - life is available on page 281.

Investment Governance

At AAI it is believe that corporate governance is an important factor in enhancing the risk/return performance of investments. AAI has a proactive approach to investment

governance that emphasizes the reduction of risk in making investment decisions. The Investment governance policy of our company provides a framework for governance decisions that are in the best interest of both the policy holders and shareholders.

Investment Governance structure at AAI.

•	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.
•	Review of the Investment strategy and procedure by the Investment Committee at least quarterly and more frequently if required.

Assurance Mechanism

Board Sub-Committees

Many Boards delegate work to the Board Committees to deal more effectively with complex or specialized issues.

The benefits of using Sub-Committees include:

•	More through research consideration of information
•	More time at the regular board meeting for regular business
•	Better dialogue between Committee members and staff and community members on the specific topic

Employee Participation

Whistle Blowing

Whistle Blowing Policy at Asian Alliance Insurance PLC encourages and enables stakeholders to raise serious concerns within the organization rather than overlooking a problem or "Blowing the Whistle" outside.

The aim of the policy is to encourage stakeholders to feel confident and comfortable to voice their concerns, question and act upon the same regarding practices, reassuring them that they will be protected from possible reprisals or victimization, if they have reasonable belief that they have made any disclosures which are in the public

Corporate Governance

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Figure 9 Images used for the internal e-mail campaign on whistle blowing

interest. Breach of law, Breach of company policy, Frauds, Misuse of data, unfair discrimination & harassment, abuse of power are some of the concerns which this policy aims to address.

The whistle blower could bring up their concern to any officer indicated below;

- Chairman of the Board Audit Committee
- Member of the Executive Committee
- Senior Manager Internal Audit
- Compliance Officer

All the complaints received by those assigned in this policy, apart from complaints received by the Board Audit Committee Chairman, will be examined, evaluated and investigated by the Head of Internal Audit and the final report on such investigation will be submitted to the Executive Committee to decide the actions which needs to be taken. If an investigation leads to conclude that an improper or unethical act has been committed, the Executive Committee may take such disciplinary or corrective action as it deems fit. The Senior Manager Internal Audit will submit a report of all the complaints dealt by him on a quarterly basis to the Board Audit Committee.

The Chairman of the Board Audit Committee shall proceed with the due process and submit any complaints received by him to the Senior Manager Internal Audit unless the complaint is against any member of the Senior Management or against the Senior Manager Internal Audit where the Chairman of the Board Audit Committee will decide how to proceed with the complaint as he deems appropriate. Findings of each investigation whether it has been carried out by the Senior Manager Internal Audit or any other manner as the Chairman of the Board Audit

Committee deemed appropriate, will be presented to the Board Audit Committee or the Board of Asian Alliance Insurance PLC depending on the circumstances.

Internal Control Process and Internal Audit

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

Internal audit is an independent and objective function 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 primary responsibility for providing assurance on the adequacy of internal controls and risk management lies with the management. However, the internal audit function provides the Audit Committee with independent and objective assurance over the appropriateness, effectiveness and sustainability of the AAI's system of internal controls to mitigate significant risks. The Audit Committee reviews the financial, operational and compliance controls, and risk management systems of AAI.

Internal audit contributes to the effectiveness of internal controls by ensuring that internal controls take into account the risks facing AAI and that the risks are reduced to a minimum level (risk appetite). 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.

Internal Compliance

Asian Alliance Insurance PLC engages the services of an in-house Compliance Officer. The Compliance Officer reports to the Managing Director (MD) and the Board of Directors. The responsibilities of the Compliance Officer include the following:

- Ensure that the Company comply with the provisions of the Regulation of Insurance Industry Act No. 43 of 2000 (as amended) and any Regulations/Rules and Determinations made thereunder by the Insurance Board of Sri Lanka (IBSL)
- Develop and implement the Anti-Money Laundering (AML) programme of the Company in keeping with the requirements of the Financial Transactions Reporting Act No. 06 of 2006
- As a listed entity, ensure that the Company comply with the Rules issued by the Securities & Exchange Commission of Sri Lanka and the Colombo Stock Exchange
- To co-operate with the Company Secretaries and monitor compliance with the Companies Act No. 07 of 2007 and any Regulations made thereunder
- To co-operate with other Departments of the Company and ensure that statutory and regulatory compliance requirements are met, including the Finance Department to ensure all taxes and statutory payments are duly paid, the Human Resources Department to ensure that employee related dues and other statutory entitlements are granted
- Regulatory reporting on behalf of the Company, including regular reporting requirements of the IBSL and the Financial Intelligence Unit (FIU) of the Central Bank regarding cash and suspicious transactions
- To maintain a communication link with all agencies regulating the operations of the Company
- Provide guidance to the Board and senior management on compliance related matters
- Regular reporting to the MD and Board Audit Committee on the compliance status of the Company with recommendations to satisfy compliance requirements
- Monitor compliance with certain Internal Policies and Procedures, such as the AML programme of the Company and the Whistle Blower Policy
- Educate and train employees of the Company on compliance matters and play an active role in creating a compliance culture within the Company

External Audit Function

Corporate governance aims to resolve problems which arise from the principal-agent relationship, whereby owners have an interest in maximizing 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 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.

Sustainability Reporting

Sustainability reporting is a scheme of corporate or organizational reporting, that conveys sustainability-related information in a way that is comparable with financial reporting, and provides reporting on a fresh platform where the ultimate motive of a business is solely not profits, but also safeguarding the environment which it operates in. Asian Alliance Insurance PLC considers GRI Guidelines in reporting for sustainability.. Refer Sustainability section for more details (page 190)

Regulatory Governance

Asian Alliance Insurance PLC is primarily governed by the Regulation of Insurance Industry Act No. 43 of 2000 (as amended) and any Regulations/Rules made there under by the IBSL. As a listed entity it is also governed by the Rules of the CSE and SEC, and provisions of the Companies Act.. The Company’s transactions are under the oversight of the FIU, which is mandated by the Financial Transactions Reporting Act to monitor money laundering attempts at Financial Institutions.

In addition, the operations of the Company are regulated by several statutory authorities, including the Central Bank, Registrar of Companies, Inland Revenue Department and the Department of Labour.

The Company’s compliance with the submission of statutory returns, annual accounts and statutory payments are tabled below, which is monitored by the Compliance Officer.

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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	Compliant
Submission of cover notes confirming the Reinsurance Arrangements	Annually	Compliant
Submission of Risk Assessment Summary	Annually	Compliant
Submission of Audited Financial Statements for the year ended 31st December 2013	Annually	Compliant
Submission of Annual Statutory Returns for the year ended 31st December 2013	Annually	Compliant
Submission of circular 29	Annually	Compliant
CESS payment	Quarterly	Compliant
CESS return	Quarterly	Compliant
Inland Revenue		
Income Tax Payment and Return	Annually	Compliant
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	Compliant
VAT return	Quarterly	Compliant
Stamp duty payment and return	Quarterly	Compliant
PAYE tax payment	Monthly	Compliant
PAYE tax return	Annually	Compliant
NBT payment	Monthly	Compliant
NBT return	Quarterly	Compliant
National Insurance Trust Fund		
SRCC & TC payments	Monthly	Compliant
Corp Levy payment & return	Quarterly	Compliant
Inland Revenue		
Ministry of Transport		
Road Safety Fund	Monthly	Compliant
Motor Traffic Department		
Luxury Tax payment	Monthly	Compliant
Central Bank		
EPF payment and return	Monthly	Compliant
ETF payment	Monthly	Compliant
ETF return	Half yearly	Compliant
FIU reporting	Monthly	Compliant
Registrar General of Companies		
Annual Accounts	Annually	Compliant
Annual Returns	Annually	Compliant
Change of Directors and Company Secretary (Form 20)	As required	Compliant

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

Code of Best Practice on Corporate Governance

Principle	Requirement	Status of Compliance	Comments
A	Directors		
A.1	The Board		
	Every public company should be headed by an effective Board		
A.1.1	The Board should meet regularly - at least once in every quarter	Compliant	For details of the frequency of Board and Board Sub-Committee meetings please refer page 220
A.1.2	Responsibilities of the Board	Compliant	For details of responsibilities and duties of the Board please refer page 212
A.1.3	The Board must act in accordance with the law and obtain independent professional advice where necessary	Compliant	The Board places utmost priority in complying with all applicable laws. In addition to the in-house compliance function and legal department, the services of high calibre external legal consultants are sought, where necessary.
A.1.4	All directors should have access to the advice and services of the Company Secretary	Compliant	The secretarial function has been outsourced to a professional secretarial service firm, PR Secretarial Services (Pvt) Ltd, and all directors have access to the counsel of the secretaries.
A.1.5	Independent judgment of directors	Compliant	All directors exercise independent judgment and no director who has an interest in any matter will sit at the discussion of the same.
A. 1.6	Every director should dedicate adequate time and effort to matters of the Board	Compliant	The members of the Board and its Sub Committees dedicate time and effort by participating in meetings, evaluating all material submitted related to such meetings and making further enquiries on such material and matters arising at these meetings. Furthermore the directors on a regular basis are involved in evaluating Board memorandums and circular resolutions.
A. 1.7	Training and continuous development of directors	Compliant	All directors have adequate knowledge, skill and experience in the insurance industry, and are continuously updated with the latest developments in the industry. In addition, directors engage in continuous professional development in relation to their respective fields of expertise (please refer directors qualifications on page 200-201)
A.2	Chairman and Chief Executive Officer (CEO)		
	There should be a clear division of responsibilities at the head of the Company such that no one individual has unfettered powers of decision		
A.2.1	Chairman and CEO in one person should be justified	Not applicable	Role of Chairman and CEO are segregated.
A.3	Chairman's Role		
	The Chairman should preserve order and facilitate the effective discharge of Board functions		

Corporate Governance

Corporate Stewardship

Principle	Requirement	Status of Compliance	Comments
A. 3.1	The Chairman's role in the conduct of Board meetings	Compliant	The Chairman ensures that the environment at Board meetings foster effective participation of all members and the views of all members are heard on matters of discussion.
A.4	Financial Acumen		
A.4	The Board should have sufficient financial acumen	Compliant	Members have sufficient financial knowledge. Please refer to directors qualification on page 200-201
A.5	Board Balance		
	Balance of executive and non-executive directors		
A.5.1	Number of Non-executive directors.	Compliant	Seven out of the eight directors consisting of the Board are non-executive directors. ¹
A.5.2	Number of independent non-executive directors	Compliant	Five out of the seven non-executive directors are deemed as independent directors (please refer Annual Report of the Board of Directors on page 271-272).
A.5.3	Determination of independence	Compliant	Please refer Annual Report of the Board of Directors on page 271-272
A.5.4	Declaration of independence of non-executive directors	Compliant	Each non-executive director has submitted to the Board a declaration in the required form.
A.5.5	Determination of independence and disclosure in the Annual Report	Compliant	Mr. Paul Ratnayake despite his relationship to the Company is deemed independent. Please refer Annual Report of the Board of Directors on page 272.
A.5.6	Alternate directors for non- executive directors and independent non-executive directors should satisfy the same criteria	Not applicable	There were no appointments of alternate directors in the current period.
A.5.7	In the event the Chairman and CEO is the same person, the Board should appoint a senior independent director	Not applicable	Role of Chairman and CEO is segregated.
A.5.8	Senior independent director should make himself available for confidential discussions with other directors who may have concerns	Not applicable	
A.5.9	The Chairman should hold meetings with the non-executive directors as necessary and at least once each year	Compliant	The Chairman holds meeting with non-executive directors as and when necessary.
A.5.10	Matters which cannot be unanimously resolved should be recorded in the Board Minutes	Compliant	In the current year all decisions were taken by unanimous resolutions. All proceedings at meetings are recorded by the Company Secretaries.
A.6	Supply of Information		
	The Board should be provided with timely information		

Principle	Requirement	Status of Compliance	Comments
A.6.1	Management has an obligation to provide the Board with appropriate and timely information	Compliant	The management provides the Board with monthly information and all information related to the meeting of the Board and its Sub Committees. In addition, information is provided whenever requested by the Board.
A.6.2	The minutes, agenda and papers required for Board meeting should be provided at least seven (7) days before the meeting	Compliant	The minutes, agenda and all other information required for Board and Sub Committee meetings are submitted (7) days before the meetings.
A.7	Appointments to the Board		
	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 on all new Board Appointments. The Chairman and members of the Nomination Committee should be identified in the Annual Report.	Compliant	The Nomination Committee comprises of three non-executive directors. Please refer Nomination Committee Report on page 251 for composition of the committee.
A.7.2	Board composition should be assessed annually	Compliant	The combined knowledge and experience of the present composition of the Board matches with the strategic demands of the Company. However, if there is a change in the directorate, the composition of the Board will be reviewed accordingly.
A.7.3	Appointment of a new director to the Board should be forthwith disclosed to shareholders	Not applicable	There were no appointments to the Board in the current year.
A.8	Re-election		
	All directors should be required to submit themselves for re-election at regular intervals		
A.8.1	Non-executive directors should be appointed for specified terms subject to re-election	Compliant	In terms of the Articles of Association other than the office of Chairman and Managing Director, all other directors are subject to retirement by rotation. At every AGM the longest standing director will retire and retiring director shall be eligible for re-election.
A.8.2	All directors including the Chairman should be subject to election by shareholders at the first opportunity after their appointment, and to re-election thereafter at intervals of no more than three years	Compliant	
A.9	Appraisal of Board Performance		
	Boards should periodically appraise their own performance		
A.9.1	The Board should annually appraise itself on its performance	Compliant	The Chairman evaluates the performance of the Board and its Sub Committees. The performance of the Managing Director is evaluated by the Chairman..
A.9.2	The Board should undertake an annual self-evaluation of its own performance and of its Committees.	Compliant	
A.9.3	The Board should state how performance evaluations have been conducted in the Annual Report	Compliant	Please refer pages 221-222

1. Effective from 31st December 2014, Mr. Ramal Jasinghe ceased to be an executive director and functions in the capacity of a non-executive director of the Company.

Corporate Governance

Corporate Stewardship

Principle	Requirement	Status of Compliance	Comments
A.10	Disclosure of Information in respect of Directors		
	Shareholders should be kept advised of relevant details in respect of directors.		
A.10.1	The Annual Report of the Company should set out the information in relation to each director	Compliant	Please refer for information on directors, Profile of Board on pages 200-201 , Director's Interest in Contracts on pages 272-273 and details of Board and its Sub Committee meetings on page 220.
A.11	Appraisal of Chief Executive Officer (CEO)		
	The Board should be required, at least annually, to assess the performance of the CEO		
A.11.1	At the commencement of every fiscal year, the Board in consultation with the CEO, should set financial and non-financial targets that should be met by the CEO	Compliant	The Board in consultation with the CEO (MD) determines both short term and long term targets for the company. ²
A.11.2	The performance of the CEO should be evaluated by the Board at the end of each fiscal year	Compliant	The achievement of these targets is monitored by the Board during the year and an annual appraisal of the performance of the CEO (MD) is carried out by the Chairman.
B	Directors' Remuneration		
B.1	Remuneration Procedure		
	Companies should establish a formal and transparent procedure for developing policy on executive remuneration		
B.1.1	Board should set up a Remuneration Committee to make recommendations on framework of remunerating executive directors	Compliant	For details about the composition of the Remuneration Committee please refer to Remuneration Committee Report on page 248.
B.1.2	Remuneration Committee should consist exclusively of non-executive directors and a Chairman appointed by the Board	Compliant	
B.1.3	The Chairman and members of the Remuneration Committee should be listed in the Annual Report	Compliant	
B.1.4	The Board should determine the remuneration of non-executive directors, including members of the Remuneration Committee	Compliant	Please refer the Remuneration Committee Report on page 248-249 for details of the remuneration policy of the Company.
B.1.5	The Remuneration Committee should consult the Chairman and/or CEO and have access to professional advice	Compliant	
B.2	The Level and Makeup of Remuneration		
	Levels of remuneration of directors should be sufficient to attract and retain the directors needed to run the Company successfully. A proportion of executive directors' remuneration should be linked to corporate and individual performance		

² As of 1st January 2015, the functions of the CEO are carried out by the Managing Director (MD).

Principle	Requirement	Status of Compliance	Comments
B.2.1	The Remuneration Committee should provide the packages needed to attract and retain directors of the quality required	Compliant	Please refer to the Remuneration Committee Report on page 248-249 for details of the remuneration policy of the Company.
B.2.2	The Committee should judge where to position levels of remuneration of the Company, relative to other companies	Compliant	
B.2.3	The Committee should be sensitive to remuneration elsewhere in the Company or Group of which it is a part	Compliant	
B.2.4	The performance-related elements of remuneration of executive directors should be designed to align their interests with the Company	Compliant	
B.2.5	Executive share options should not be offered at a discount	Not applicable	
B.2.6	In designing schemes of performance - related remuneration, the Committee should follow the provisions set out in the Code	Compliant	Please refer to the Remuneration Committee Report on page 248-249 for details of the remuneration policy of the Company.
B.2.7	The Committee should consider what compensation commitments in the directors' contracts of service, if any, entail in the event of early termination	Compliant	
B.2.8	Where the initial contract does not explicitly provide for compensation commitments, the Committee should tailor their approach in early termination cases to the relevant circumstances	Compliant	
B.2.9	Levels of remuneration for non-executive directors should reflect the time commitment and responsibilities of their role	Compliant	
B.3	Disclosure of Remuneration		
	The Annual Report should contain a Statement of Remuneration Policy and details of remuneration of the Board as a whole		
B.3.1	The Annual Report should set out the names of directors comprising the Remuneration Committee, contain a Statement of Remuneration Policy and set out the aggregate remuneration paid to executive and non-executive directors	Compliant	Please refer to the Remuneration Committee Report on page 248-249 for details of the remuneration policy of the Company and Annual Report of Board of Directors - Fees and remunerations on page 274

Corporate Governance

Corporate Stewardship

Principle	Requirement	Status of Compliance	Comments
C	Relations with Shareholders		
C.1	Constructive use of the Annual General Meeting (AGM) and conduct of General Meetings		
	Board should use the AGM to communicate with shareholders and should encourage their participation		
C.1.1	All proxy votes should be counted	Compliant	All proxies lodged before meetings are recorded and all proxy votes cast at meetings are recorded by the Company Secretaries.
C.1.2	Separate resolution should be proposed at the AGM on each substantially separate issue	Compliant	The adoption of annual accounts and all other substantial matters are proposed as separate resolutions.
C.1.3	The Chairmen of the Audit, Remuneration and Nomination Committees should be available to answer questions at the AGM	Compliant	These Sub Committee Chairmen are present at AGMs and available to answer any questions posed by shareholders.
C.1.4	Notice of the AGM and related papers should be sent to shareholders as determined by statute	Compliant	The Company ensures that notice period as required by the Companies Act and the Articles of Association are strictly observed and the shareholders are served with all related documentation to make informed decisions.
C.1.5	A summary of the procedures governing voting at General Meetings should be circulated with every Notice of General Meeting	Compliant	The Notice of Meeting and Proxy Form are accompanied with instructions for shareholders to vote at meetings.
C.2	Communication with Shareholders		
	The Board should implement effective communication with shareholders		
C. 2. 1	There should be a channel to reach all shareholders to disseminate information	Compliant	The Company makes effective use of General Meetings to communicate with all its shareholders. Important announcements are published at the CSE and in newspapers. Further the Company maintains a dedicated section on its website for investor relations.
C. 2. 2	The policy for communication with shareholders should be disclosed	Compliant	For details of the investor relations policy of the Company please refer to the Report on Investor Relations on page 209-211
C. 2.3	How the above policy is implemented should be disclosed	Compliant	
C. 2. 4	The contact person for such communication should be disclosed	Compliant	
C. 2. 5	There should be a process to make all directors aware of major issues and concerns of shareholders, and this process should be disclosed	Compliant	

Principle	Requirement	Status of Compliance	Comments
C.2.6	The person to contact in relation to shareholders' matters should be decided (the relevant person with statutory responsibilities is the Company Secretary or in his/her absence should be a member of the Board)	Compliant	Shareholders are encouraged to bring matters of concern to the attention of the Board through the Company Secretaries, whose contact details are provided on page 211.
C.2.7	The process for responding to shareholder matters should be formulated by the Board and disclosed	Compliant	Refer C.2.2-C.2.5 above
C.3	Major and Material Transactions		
	Directors should disclose to shareholders all proposed material transactions, which if entered into, would materially alter the Company's net assets base		
C.3.1	Prior to engaging in 'Major Related Party Transactions' involving the acquisition, sale or disposition of greater than one third of the value of the Company's assets, directors should disclose to shareholders all material facts of such transaction and obtain shareholders' approval by ordinary resolution at an Extraordinary General Meeting.	Compliant	Section 185 of the Companies Act requires that the Company obtain shareholder approval by way of special resolution for such transactions. In addition, with the coming into effect of the CSE Rule on Related Party Transactions, a Board Sub Committee will be required to review all related party transactions and propose transactions exceeding this threshold for shareholder approval.
D	Accountability and Audit		
D.1	Financial Reporting		
	The Board should present a balanced assessment of the Company's financial position, performance and prospects		
D.1.1	The Board's responsibility to present a balanced assessment extends to interim and other price-sensitive public reports and reports to regulators	Compliant	The Board assumes such responsibility in the presentation of the Company's interim financial statements, public announcements and returns filed with the regulator.
D.1.2	The Directors' Report in the Annual Report should contain declarations by the directors to the effect set out in the Code.	Compliant	Please refer the Annual Report of the Board of Directors on page 270.
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. Further, the Annual Report should contain a Report/Statement on Internal Control	Compliant	Please refer to the Auditors Report, which sets out the responsibility of the Board with regard to the preparation of financial statements.
D.1.4	The Annual Report should contain a "Management Discussion & Analysis"	Compliant	Please refer page 49 for the Management Discussion and Analysis.

Corporate Governance

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Principle	Requirement	Status of Compliance	Comments
D.1.5	The Directors should report that the business is a going concern	Compliant	Please refer the Annual Report of the Board of Directors on page 270.
D.1.6	If the net assets of the Company fall below 50% of the value of the shareholders' funds, the directors shall forthwith summon an Extraordinary General Meeting to notify shareholders	Not applicable	
D.1.7	The Board should adequately disclose related party transactions in the Annual Report	Compliant	Please refer Note 45 on related party transactions at page 384-385
D.2	Internal Control		
	The Board should have a process of risk management and a system of internal control to safeguard shareholders' investments and the Company's assets		
D.2.1	The directors should annually conduct a review of the risks facing the Company and the effectiveness of the system of internal controls	Compliant	The Audit Committee is responsible for review of the Company's risk management and internal controls. For details of the responsibilities and functions of the Committee in this regard please refer to the Audit Committee Report on page 246-247
D.2.2	Company should have an internal audit function	Compliant	In addition to the in-house internal audit function, the Company also engages the services of Ernest & Young Advisory Services (Pvt) Ltd.
D.2.3	Audit Committee should carry out a review of the effectiveness of risk management and internal controls	Compliant	Refer above D.2.1
D.2.4	Guidance for responsibility of directors in maintaining a system of internal controls is set out in the Code	Compliant	
D.3	Audit Committee		
	The Board should establish formal and transparent arrangements for considering how to select and apply accounting policies, financial reporting and internal control principles and maintaining an appropriate relationship with the Auditors		
D.3.1	The Audit Committee should be comprised exclusively of non-executive directors, a majority of whom should be independent	Compliant	The Audit Committee comprises of four independent non-executive directors. For details of the composition of the Committee please refer the Audit Committee Reports on pages 246-247
D.3.2	The duties of the Audit Committee	Compliant	Please refer to the Audit Committee Report on page 246-247 for details of the duties and responsibilities of the Committee.
D.3.3	The Audit Committee should have a written Terms of Reference, dealing with its authority and duties	Compliant	

Principle	Requirement	Status of Compliance	Comments
D.3.4	Disclosures		
	The Annual Report should disclose the names of directors comprising of the Audit Committee, a determination of the independence of the Auditors and a report by the Committee	Compliant	Please refer Audit Committee Report on page 246-247
D.4	Code of Business Conduct & Ethics		
	Companies must adopt a Code of Business Conduct and Ethics for Directors, and Key Management Personnel		
D.4.1	The existence of a Code of Business Conduct & Ethics for directors and key management personnel should be disclosed in the Annual Report with an affirmative declaration of compliance	Compliant	The Company has a Code of Business Conduct, which sets out standards for the Board and Senior Management.
D.4.2	The Chairman must affirm in the Annual Report that he is not aware of any violation of the Code	Compliant	Please refer to the Chairman's Report on pages 30-35
D.5	Corporate Governance Disclosures		
	Directors should be required to disclose the extent to which the Company adheres to established principles of good Corporate Governance		
D.5.1	The Annual Report should include a Corporate Governance Report,	Compliant	This section forms a part of the Corporate Governance Report, which begins at page 197
E	Institutional Investors		
E.1	Shareholder Voting		
	Institutional shareholders have a responsibility to make considered use of their votes		
E.1.1	A regular and structured dialogue should be conducted with shareholders	Compliant	The Board ensures that its institutional shareholders are consulted prior to entering into any major transaction.
E.2	Evaluation of Governance Disclosures		
	When evaluating governance arrangements, institutional investors should be encouraged to give due weight to all relevant factors	Compliant	The institutional shareholders have played a significant role in promoting the governance structures disclosed in the Report.
F	Other Investors		
F.1	Investing/ Divesting Decision		
	Individual shareholders should be encouraged to carry out adequate analysis or seek independent advice in investing or divesting decisions	Compliant	The Company provides adequate financial, as well as non-financial information in the form of its interim financial statements, Annual Report and other publications, so that individual shareholders can undertake an informed analysis of the Company.
F.2	Shareholder Voting		
	Individual shareholders should be encouraged to participate in General Meetings of companies and exercise their voting rights.	Compliant	All shareholders are provided with adequate information to make informed decisions on matters to be resolved at General Meetings.

Corporate Governance

Corporate Stewardship

Principle	Requirement	Status of Compliance	Comments
G	Sustainability Reporting		
G.1	Principles of Sustainability		
G.1.1	Principle 1 – Economic Sustainability How the organization takes responsibility for the impacts of their activities on economic performance	Compliant	For detail coverage of these principles of sustainability please refer to the Sustainability Approach of the Company commencing from page 147.
G.1.2	Principle 2 – The Environment An organization should adopt an integrated approach that takes into consideration the direct and indirect economic, social, health and environmental implications of their activities	Compliant	
G.1.3	Principle 3 – Labour Practice All policies and practices relating to work performed by or on behalf of the organization	Compliant	
G.1.4	Principle 4 – Society Support for and building a relationship with the community, including responsible public policy participation, fair competition and responsible community involvement	Compliant	
G.1.5	Principle 5 – Product Responsibility Manufacturing quality products and ensuring that the products are safe for the consumers and the environment	Compliant	
G.1.6	Principle 6 – Stakeholder Identification, engagement & effective communication with stakeholders	Compliant	
G.1.7	Principle 7 – Sustainable Reporting	Compliant	

AAI's compliance with the Corporate Governance rules as per section 7.10 of the listing rules of the Colombo Stock Exchange

Rule	Requirement	Status of Compliance	Comments
7.10.1	Number of non-executive directors: One third of the total number of directors	Compliant	Seven out of the eight directors consisting of the Board are non-executive directors. ³

³ Effective from 31st December 2014, Mr. Ramal Jasinghe ceased to be an executive director and functions in the capacity of a non-executive director of the Company.

Rule	Requirement	Status of Compliance	Comments
7.10.2(a)	Number of independent directors: One third of the non-executive directors	Compliant	Five out of the seven non-executive directors are deemed as independent directors (please refer to the Annual Report of the Board of Directors on pages 271-272).
7.10.2(b)	Declaration of independence: Each non-executive director is required to submit to the Board annually a declaration of his/her independence or non-independence	Compliant	Each non-executive director has submitted to the Board a declaration in the specimen form provided under the Rule.
7.10.3	Disclosures relating to directors:		
	(a) The names of non-executive directors determined to be 'independent'	Compliant	Please refer to the Annual Report of the Board of Directors on pages 271-272
	(b) In the event a director does not qualify as 'independent' against any criteria set out in the Rules, however the Board is of the opinion that the director is nevertheless 'independent', the Board shall specify the criteria not met and the basis for its determination	Compliant	Please refer to the Annual Report of the Board of Directors on page 271-272
	(c) A brief resume of each director including information on the nature of his/her expertise in relevant functional areas	Compliant	Please refer page 200-201
	(d) In the event of an appointment of a new director, a brief resume of such director shall be submitted immediately to the CSE for dissemination to the public	Not applicable	There were no new appointments to the Board during the year.
7.10.5	Remuneration Committee		
7.10.5(a)	Composition: Non-executive directors, a majority of whom shall be independent; and one of non-executive directors shall be appointed as Chairman by the Board	Compliant	The Remuneration Committee comprises of three independent non-executive directors and one non-executive director, Mr. Asoka K Pathirage, acts as the Chairman of the Committee.
7.10.5(b)	Functions: The Committee shall recommend to the Board the remuneration payable to the executive directors and Chief Executive Officer. The Board will make the final determination upon consideration of such recommendations	Compliant	Please refer to the Remuneration Committee Report on page 248-249
7.10.5(c)	Disclosures in the Annual Report		
	Names of directors comprising the Remuneration Committee	Compliant	Please refer to the Remuneration Committee Report on page 248-249
	Statement of the remuneration policy	Compliant	

4. As of 31st December 2014, the functions of the Chief Executive are carried out by the Managing Director (MD).

Corporate Governance

Corporate Stewardship

Rule	Requirement	Status of Compliance	Comments
	The aggregate remuneration paid to executive and non-executive directors	Compliant	Please refer Annual Report of Board of Directors - Directors fees and remuneration on page 274
7.10.6	Audit Committee		
7.10.6(a)	<p>Composition:</p> <p>Non-executive directors, a majority of whom shall be independent;</p> <p>One non-executive director shall be appointed as Chairman by the Board;</p> <p>Unless otherwise determined by the Audit Committee, the Chief Executive Officer and the Chief Financial Officer shall attend audit committee meetings;</p> <p>The Chairman or one member of the Committee should be a Member of a recognized professional accounting body</p>	Compliant	<p>The Audit Committee comprises of four independent non-executive directors and Mr. Sujeewa Rajapakse acts as the Chairman of the Committee.</p> <p>The CEO (MD)⁴ and CFO attend meetings of the Committee by invitation.</p> <p>Mr. Sujeewa Rajapakse, Chairman of the Committee is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka.</p>
7.10.6(b)	<p>Functions:</p> <p>Oversee the preparation, presentation and adequacy of disclosures in the financial statements in accordance with Sri Lanka Accounting Standards;</p> <p>Oversee compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements;</p> <p>Oversee processes to ensure internal controls and risk management are adequate to meet the requirements of the Sri Lanka Auditing Standards;</p> <p>Assessment of the independence and performance of the external auditors;</p> <p>Make recommendations to the Board on appointment, re-appointment and removal of external auditors and approve remuneration and terms of engagement</p>	Compliant	Please refer to the Audit Committee Report on pages 246-247
7.10.6(c)	Disclosures in the Annual Report		
	The names of the directors comprising the Audit committee	Compliant	Please refer the Audit Committee Report on pages 246-247
	The Committee shall make a determination of the independence of the auditors and shall disclose the basis for such determination	Compliant	
	A report by the Committee setting out the manner of compliance in relation to the above	Compliant	

Performance Governance

Corporate Stewardship

Our integrated approach to performance governance

Our performance governance structure creates the platform to bring energy and credibility to our decision-making and communications processes.

Strategic direction and corporate objectives

A solid performance governance structure along with the corporate governance structure underpins all components of our business and seeks to enhance stakeholder confidence in AAI as an effective tool to monitor performance while managing the risks associated with the business operations.

Performance Governance at AAI is derived from the strategic planning processes that sets out organisational direction and objectives aimed at successfully managing business risk.

Strategic planning is a bottom up process, involving staff at all levels, creating ownership and commitment, as

well as harnessing their creative potential. The process commences with the Board setting the broad objectives for the year from a top line and profitability perspective. Based on these requirements, the Executive Committee reviews the company's vision and mission and analyses the market position, competitive and macro environment, competitor positioning and organizational strengths, weaknesses, opportunities and threats (SWOT analysis). Based on this information, the Executive Committee identifies the issues and challenges in the plan period and formulates broad strategies and objectives.

Financials and key performance indicators

Simultaneously, the company conducts planning meetings at regional / distribution channel level. The strategic plans derived from these workshops are synchronized with the objectives determined by the Executive Committee at a broader planning forum comprising the Executive Committee and key representatives from the functional / distribution channels. Once agreed, financial budgets and objectives are set and presented to the Board.

An outline of the process is provided below.



Performance Governance

Corporate Stewardship

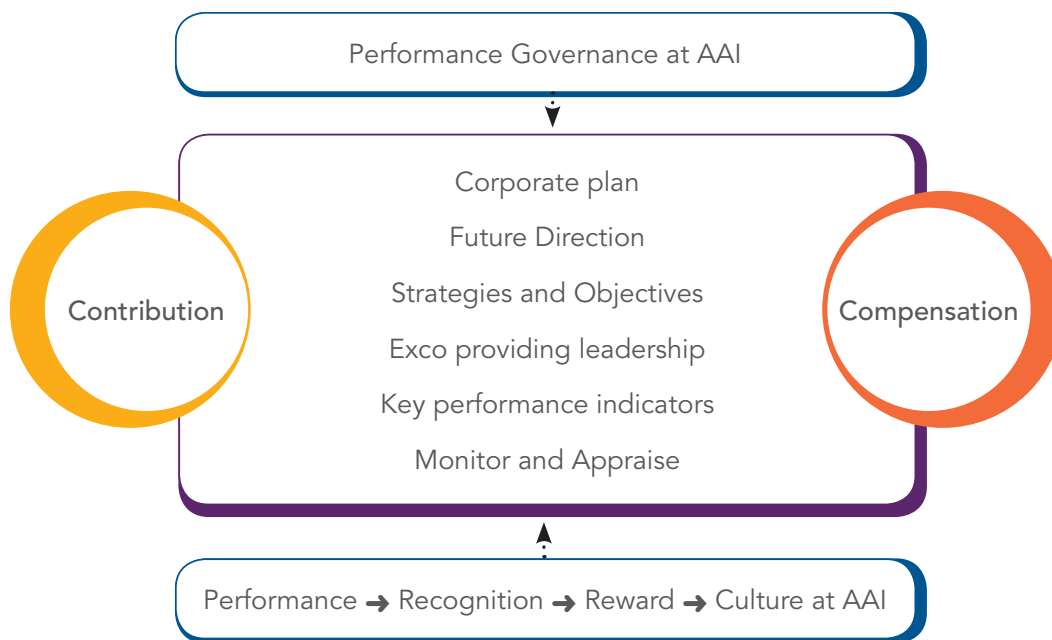
Effective implementation

The CEO and the Executive Committee review the strategic plan actions and budgets on a monthly basis and analyse variances between expected and actual results. The same information is also reviewed by the Board.

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.



Future outlook

The company is equipped with a strong corporate governance framework studded with an intricate network of internal regulation to ensure that every system and process is under the governance scanner. This strong tone for implementation of good governance is set at the top and the company is fortunate to have a well respected director profile on the board to stand as custodians of the company's legacy. Our whistle-blower policy and other internal controls ensure that each and every employee of the company is accountable for their actions. We believe that corporate governance is good management that

is in the interests of the company and the shareholders and this is espoused by our board of directors as well. Our comprehensive risk, governance and compliance system is encompasses strategy, technology, governance and people in the company. Asian Alliance prides itself on its ethical operations and remains committed to strengthening out governance framework in line with shifting business needs.

Both parties use a dashboard with key performance indicators (KPIs) to monitor the progress. The KPIs are linked to the strategic objectives of the company as reflected below.

Life insurance strategic objectives and key performance indicators

Strategic objectives	Key performance indicator	Relevance	2014 Update
Expansion of distribution network with productivity and efficiency	<ul style="list-style-type: none"> GWP generated from regular business Location wise expense ratio 	<ul style="list-style-type: none"> Allocate investments for further expansions To manage expenses 	<ul style="list-style-type: none"> Use Softlogic outlets to locate the life branches Added 10 new life branches to the distribution network Set up policy conservation unit
Continuous improvement in service standards	<ul style="list-style-type: none"> Number of innovative ideas 	<ul style="list-style-type: none"> To reduce lead time 	<ul style="list-style-type: none"> Introduction of operational dashboard
Enhance learning and development	<ul style="list-style-type: none"> Training hours by staff category 	<ul style="list-style-type: none"> Measure the training inputs received 	<ul style="list-style-type: none"> 6.8 hours training hours per life employee
New product development	<ul style="list-style-type: none"> GWP generated from new products 	<ul style="list-style-type: none"> Ultimate measure of success of a new product update 	<ul style="list-style-type: none"> Launch 3 products
Operational excellence	<ul style="list-style-type: none"> Life surplus and embedded value Underwriting profit 	<ul style="list-style-type: none"> Measures current and future profitability of the business Measure profit generated from the core function of the business 	

General insurance strategic objectives and key performance indicators

Strategic objectives	Key performance indicator	Relevance	2014 Update
Expand distribution in cost effective manner	<ul style="list-style-type: none"> GWP generated from regular business Location wise expense ratio 	<ul style="list-style-type: none"> Allocate investments for further expansions To manage expenses 	<ul style="list-style-type: none"> Use Softlogic outlets to locate the general branches Added 4 new general branches to the distribution network
Improve service standards	<ul style="list-style-type: none"> Measure customer feedback The time takes to settle a claim Number of innovative ideas 	<ul style="list-style-type: none"> Identify the gaps in the service To improve the claim settlement time To reduce lead time 	<ul style="list-style-type: none"> Maintain a customer complaint register in every branch Decrease the claim settlement time by one day Introduction of Drive thru Introduction of click2claim system
Enhance learning and development	<ul style="list-style-type: none"> Training hours by staff category 	<ul style="list-style-type: none"> Measure the training inputs received 	<ul style="list-style-type: none"> 3.8 hours training hours per general employee
New product development	<ul style="list-style-type: none"> GWP generated from new products 	<ul style="list-style-type: none"> Ultimate measure of success of a new product update 	<ul style="list-style-type: none"> Launch to products
Achieving operational excellence	<ul style="list-style-type: none"> GWP mix Claim ratio 	<ul style="list-style-type: none"> Measures GWP generated from various classes of business 	

Directors' Statement on Internal Controls

Corporate Stewardship

The following statement fulfils the requirement to publish the Director's statement on internal controls as per the Code of Best Practice on Corporate Governance issued by The ICASL and SEC of Sri Lanka.

The Board is responsible for maintaining a sound system of internal controls to safeguard shareholders' investments and company assets. The Board has structured an enterprise risk management process to identify the principal risks impacting the business and mitigating actions taken by management.

The Company's management implements policies on risk and control set by the Board and are accountable to the Board for monitoring and providing assurance as to their effectiveness. The company has commissioned Messrs. Ernst & Young Advisory Services (Pvt) Ltd, as independent internal auditors to ensure the effectiveness of the internal control systems. In addition the company has established an In - House Internal Audit Department with a focus of establishing a risk based internal audit approach with a view of further strengthening the controls environment of the company.

The Board has implemented the following to obtain reasonable assurance that proper systems of internal controls are in place:

- Instituted an effective Internal Audit Department, independent internal auditors and an in-house audit team to review and report on the internal control environment in the company
- The minutes of the Audit Committee meetings are tabled at the regular Board meetings. The report of the Audit Committee is provided on page 246 of the annual report.
- The Audit Committee reviews and approves the internal audit plan for the year. The audit plan is structured on a matrix based on key risk areas and delivery dates which is regularly monitored and any delays highlighted and rectified.
- During the year under review the audit committee reviewed 12 audit reports covering 24 branches and several head office processes. The reports covered key findings, management comments and action taken to rectify any control weaknesses. Control weaknesses identified in previous reviews were also tracked to ensure that management action has been taken to eliminate or minimise any risks.
- Initiated regular IT system audits to ensure the integrity of financial information, data security and adequate access controls are in place with regard to processing of data.
- In addition to the year end system review, the external auditors also conduct an IT audit of all critical applications / systems.
- The internal auditors also conducted an IT system review during the year. Their findings were presented and a regular update was provided to the Audit Committee who ensured that all identified control weaknesses were corrected.
- Contemplating robust security measures and risk management, the Company has appointed a independent IT security officer
- Implemented a robust bottom up enterprise risk management process
- An on-going, bottom up process is in place for identifying, evaluating and managing the risks faced by the company.
- A summary of the key risks are updated on a risk grid and reported to the Board on a quarterly basis.
- New risks, mitigating actions and changes of risk status of earlier identified risks are highlighted separately.
- The process continued to be effective during the year under review.

- Initiated regular reviews to ensure the effective design and implementation of internal controls
- The effectiveness of the internal controls are measured based on the repetition of the control weaknesses or improvement areas that have been highlighted in the audit reports.
- Improvements in line with industry and / or non-industry best practices are also implemented on an on-going basis.

Conclusion

The Board having implemented the above is aware that such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material statements of loss.

The Board confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and financial statements have been prepared in accordance with applicable accounting standards, requirements of the Company's Act No. 7 of 2007, Regulations of Insurance Industry Act No. 43 of 2000 and the listing rules of the Colombo Stock Exchange.

On behalf of the Board;

(Sgd.)
Asoka .K. Pathirage
Chairman

(Sgd.)
Iftikar Ahamed
Managing Director

(Sgd.)
Sujeewa Rajapakse
Chairman – Audit Committee

Colombo
13th February 2015

Audit Committee

Report

Corporate Stewardship

Composition

The Board Audit Committee comprise Mr. Sujeewa Rajapakse (Chairman), Mr. Ray Abeywardena, Mr. J. K. Mukhi, and Mr. J. 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 Chartered Accountants.

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

Objectives

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

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

Meetings

The Audit Committee conducted six meetings during the year under review. Attendance by the Committee members at each of these meetings is given in the table on page 220 of the Annual Report. The Managing Director, the Director/CEO and the General Manager Finance, attended the meetings by invitation. Members of the Executive Committee, Compliance Officer, the External Auditors, the Head of Internal Audit, other senior management team members 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)
- Established an In-House Internal Audit Department with a focus of establishing a risk based internal audit approach with a view of further strengthening the controls environment of the company.
- 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.

External Audit

The Audit Committee undertook the annual evaluation of the independence and objectivity of the external auditor and the effectiveness of the audit process. The Committee met with the external auditor two (02) times during the year to discuss their audit approach and procedures, including matters relating to the scope of the audit and auditor's independence.

The Committee reviewed the audited financial statements with the external auditor who is responsible for expressing an opinion on its conformity with the Sri Lanka Accounting Standards and also the Management Letters issued by the external auditor together with the management responses thereto.

The Committee met the external auditors without the presence of the corporate management once during the year to ensure that there was no limitation of scope in relation to the audit and to allow for full disclosure of any incidents which could have had a negative impact on the effectiveness of the external audit, and concluded that there was no cause for concern.

Independence of the External Auditors

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

Provision of Non Audit Services

The committee reviewed the non audit services provided by the auditors to ensure that the provision of these services does 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 2015 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 Audit

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.

During the last quarter of 2014, Messers Ernst and Young, the Internal Audit Consultants who carried out the internal audit function from the inception of the company, opted to terminate its services to Asian Alliance Insurance PLC due to conflict of interest of the services provided to the Softlogic Group as a whole.

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
 13th February 2015

Remuneration Committee Report

Corporate Stewardship

Composition and Charter of the Remuneration Committee

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

The Managing Director attend 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 prerequisites and incentives to the Board
- Recommending corporate management appointments to the Board and advising on succession planning

Remuneration Committee Meetings

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

Remuneration Package

Employees

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

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

Fixed Components

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

Variable Components

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

Other Employee Benefits

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

Retirement Benefits

There are no retirement benefits to employees other than gratuity.

Board of Directors

No remuneration is paid to Non-Executive Directors other than the directors fees paid based on their participation at Board meetings and other sub-committee 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 15 page 330

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 216

Personal Loans for Directors

No Director is entitled for Company loans.

(Sgd)

Asoka K. Pathirage

Chairman - Remuneration Committee

Colombo.

13th February 2015

Investment Committee Report

Corporate Stewardship

Investment Committee Members

Chairman

Mr. Ashok Pathirage

Members

Mr. Iftikar Ahamed

Mr. Sujeewa Rajapakse

Mr. Ramal Jasinghe

Mr. Jatinder Mukhi

Mr. Johannes Richters

Secretary to Committee

PR Secretarial Services (Pvt) Ltd

Composition of the Committee

- The Committee consists of a minimum of three directors, one of whom shall be independent

Number of Committee Meetings

The Committee formally met four times during the year under review when all members were present.

Terms of Reference of the Committee

- Recommend policy for approval by the Board, to ensure that investments are undertaken as per the said policy and monitor performance on a quarterly basis.
- Monitor the management of the portfolios by reviewing written reports from Treasury/Fund Manager(s) or by discussions with relevant Treasury/Fund Manager(s) on a quarterly basis.
- Evaluate investment performance. The evaluation will take into account compliance with investment policies, guidelines and risk levels.
- At its discretion decide to appoint a Fund Manager(s) to perform this mandate.

Key functions performed during the year under review

- The Committee shall receive and review data on the current economic conditions, outlook for the economy, industry growth sectors, inflation and interest rates.
- The Committee shall receive and review balance sheet liquidity as well as projections for underwriting, commissions and claims.
- The Committee is mandated with the performance of the Overall Portfolio, and as such is responsible for managing both existing projects and new initiatives of the company.

Methodology of the Committee

The Committee works closely with the Board of Directors in relation to the matters referred to it by making appropriate and suitable recommendations.

The year ahead

The Committee would continue to make decisions and recommendations which meet the risk and other applicable parameters for investments, and ensure acceptable implementation of risk/reward strategies to achieve budgeted returns for the year.

(Sgd.)

Ashok Pathirage

Chairman

Investment Committee

Colombo

13th February 2015

1 Non-Executive Director

2 Independent Non-Executive Director

3 Executive Director

Nomination

Committee Report

Corporate Stewardship

Composition of the Nominations Committee

The committee, as of 31 December 2014, consisted of three Non Executive Directors.

Mr. Ashok Pathirage (Chairman)
Mr. Paul Rathnayake
Mr. Mohan Ray Abeywardena

Terms of Reference of the Board Nominations Committee

The Nomination Committee was established to ensure the Board's oversight and control over the selection of Directors. The committee has the authority to discuss the issues under its purview and report back to the Board of Directors with recommendations, enabling the Board to take a decision on the matter. The Committee focuses on the following objectives in discharging its responsibilities;

- To Implement a procedure to select Directors to the Board,
- Provide advice and recommendations to the Board or the Chairman on any such appointment
- To ensure that the Directors are fit and proper persons to hold office
- To consider and recommend the re-election of current Directors, taking into account the performance and contribution made by them towards the overall discharge of the Board's responsibilities.
- A member of Nominations Committee opts out in decisions relating to his own appointment.

Board Nomination Committee Meetings

The Committee meets as and when required. There was no requirement for the committee to meet during the year under review.

Professional Advice

The committee has the authority to seek external professional advice on matters within its purview whenever required.

Conclusion

The Committee continues to work closely with the Board of Directors in relation to the structure, size and composition of the Board ensuring the diversity and balance of skills, knowledge and experience. The Committee is satisfied that the representation of skills, knowledge and experience on the Board is appropriate for the company's current needs at Board level.

(Sgd.)
Ashok Pathirage
Chairman
Investment Committee

Colombo
13th February 2015

Risk

Committee Report

Corporate Stewardship

MEMBERS

Chairman

Mr. Jatinder Mukhi

Members

Mr. Iftikar Ahamed

Mr. Ramal Jasinghe

Mr. Johann Richters

Secretary to Committee

PR Secretarial Services (Pvt) Ltd

Composition of the Committee

All members of the committee shall be Directors and membership shall be composed of Non- Executive Directors as well as Executive Directors. However, membership of executive directors shall not exceed 50%.

Objective

The Risk Management Committee (the "Committee") of Asian Alliance Insurance PLC ("the Company") is a standing committee of the Board of Directors ("Board"). The purpose of the Committee is to assist the Board in fulfilling its responsibility with respect to oversight of the Company's risk management framework, including the significant policies and practices used in managing risks.

Authority

In order to discharge the duties and responsibilities effectively and efficiently, the Committee has been empowered to have direct access to, and receive regular reports from, management, and be provided with any information it requests relating to its responsibilities. The Committee has the authority to engage independent professional advisors on matters within its purview.

Number of Committee Meetings

The Committee formally met five times during the year under review. Attendances at the meetings were as follows.

Date	6th February 2014	13th May 2014	25th August 2014	13th November 2014	23rd December 2014
Mr. Jatinder Mukhi	✓	✓	✓	Excused	✓
Mr. Iftikar Ahamed	✓	✓	✓	✓	✓
Mr. Ramal Jasinghe	✓	✓	✓	✓	✓
Mr. Johann Richters	✓	✓	✓	✓	Excused

Terms of Reference of the Committee

This Committee shall have supervisory functions over the risk management, the risk profile, the enterprise wide risk management framework, of the Company and any other risk related matters determined by the board. The main functions of the Committee shall be to;

- Assist in the oversight of 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 re-insurance treaties annually and advise the board on their sustainability or otherwise.

Key functions performed during the year under review

- Approval of the companies risk management policy and the Company's risk appetite and risk strategy;
- Approval of the company's Business Continuity Plan and Environmental and Social Responsibility Policy.
- Reviewed the adequacy and effectiveness of existing risk management controls.
- Reviewed and provided feedback on the identified significant risks across the company and the adequacy of prevention, detection and reporting mechanisms.
- Reviewed changes in the economic and business environment, including emerging trends and other factors relevant to the company's risk profile.
- Reviewed and approved reinsurance treaties and disseminated advised on applicable strategies.

Methodology of the Committee

- The Committee Chairman will report formally to the Board on its proceedings whenever there are major decisions taken
- The Committee shall deliver a report with recommendations to the Board upon conclusion of the review of the re-insurance treaties annually
- The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its terms of reference where action or improvement is needed

The year ahead

The Committee would continue to review identified risks, identification processors and mitigation strategies and make recommendations on the mentioned in order to ensure the Company is within its risk appetite.

On behalf of the Risk Management Committee;

(Sgd.)

Mr. Jatinder Mukhi

Chairman - Risk Management Committee

Colombo, Sri Lanka

13th February 2015

Integrated Risk Management

Corporate Stewardship

Introduction and Overview

Risk is the combination of a likelihood of an occurrence of an event and the impact that can be caused by that event. The occurrence of such events could hamper 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.

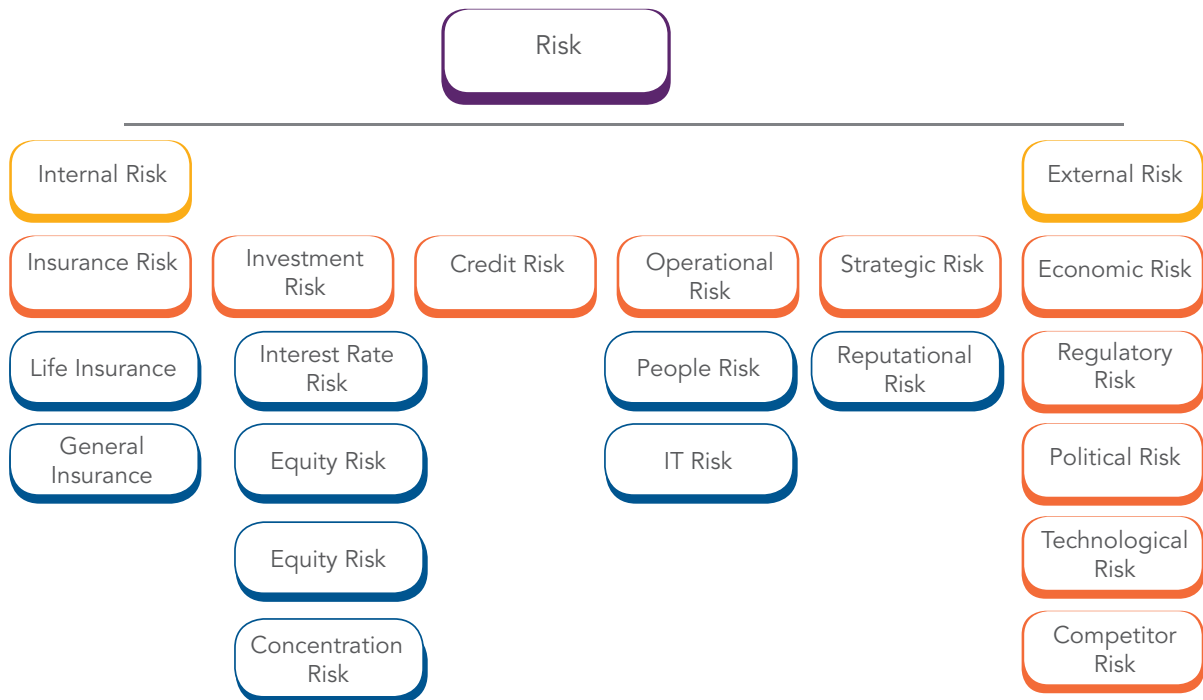
Mission and objectives of Risk Management

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,

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

Risk Landscape of Asian Alliance Insurance PLC

The risk landscape of the company is depicted below.



Integrated

Risk Management

Corporate Stewardship

Risk Management Process

The Company's Internal Risk Management team plays a key role in the risk management process. The identified risks are reviewed by the Internal Risk Committee after which they are submitted to the Board Risk Committee for review.

Initiatives carried out to aid in the Company's Risk management process have been listed out below.

1. Risk Management Policy

A risk management policy was drafted and approved by the Board Risk Management Committee. The policy outlines the risk framework that will be applied at Asian Alliance Insurance PLC. The design of the ERM framework for the Company is based on the ISO 31000:2009 International Standard. The policy also formalises the Risk Management processes, standards, roles and responsibilities and assists in the efficient management and mitigation of risks. The policy is reviewed on an annual basis and revised accordingly.

2. 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 opportunities to gain through identifying new control mechanisms. These risks can be scored and analysed to achieve optimal decision making.

3. Risk Appetite and Tolerance

The Company's risk appetite and tolerance levels are discussed and set by the Internal Risk Committee and approved by the Board Risk Committee. The Board Risk Committee reviews these levels annually while the

Internal Risk Management Committee is responsible for continuous monitoring and reporting of these limits as well as any business responses in times where these limits maybe significantly challenged.

The limits are set considering global best practices, regulatory requirements, industry benchmarks and internal benchmarks as appropriate.

The limits are reviewed annually and linked to the overall strategy of the Company.

4. Risk Register

The risk register of the Company was formulated and agreed upon by the Internal Risk Management Committee as well as the Board Risk 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.

The risk register comprises of identified risks that if materialise, would have a material impact on the company.

It also comprises of a detailed action plan on how these risks will be analysed, mitigated and eliminated.

The register is reviewed and updated on a quarterly basis and presented to the Board risk committee.

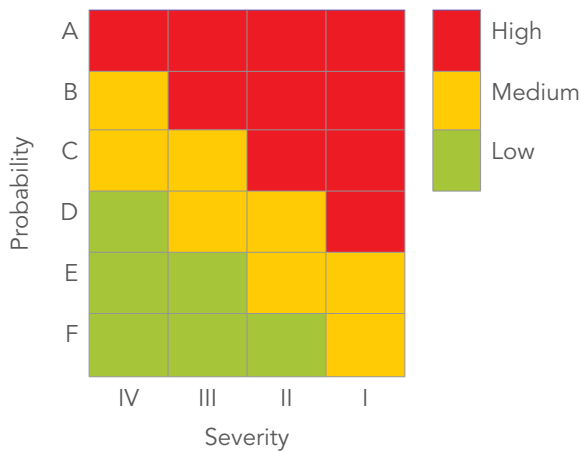
All risks are rated according to its likelihood of occurrence and the potential impact on the Business as defined in a pre-agreed risk Matrix for the Company. The potential impact of a risk is evaluated based on the severity of the impact on business continuity, profit and the loss of business portfolio and accordingly the levels of severity have also been defined as Marginal, Significant, Critical and Catastrophic.

Severity	IV – Marginal	III – Significant	II – Critical	I - Catastrophic
Business Continuity	< 4 Hours	> 4 Hours < 1 Day	> 1 Day < 2 Days	> 2 Days
Profit	< 5 Mn	> 5 Mn < 100 Mn	> 100 Mn < 500 Mn	> 500 Mn
Loss of Business Portfolio	< 2.5%	> 2.5% < 10%	> 10% < 25%	> 25%

Severity	IV – Marginal	III – Significant
A	Very High	< 1 Week
B	High	1 Week < 3 Months
C	Occasional	3 Months < 1 Year
D	Low	1 Year < 15 Years
E	Very Low	15 Years < 100 Years
F	Almost Impossible	> 100 Years

The likelihood of the occurrence of the risk is examined based on the historical experience and probabilities of occurrence under current market and economic conditions. The matrix defines the probability of occurrence has as the likelihood of an event occurring in a particular time period.

These risks once rated according to the above are plotted on the traffic light matrix below.



The ownership of risks lie with the heads of relevant functions and the responsible personnel are required to provide the action plans on how the high rated risks will be improved and the timeliness to achieve these targets. This enhanced process of risk management was developed throughout the year.

Investor Relations

Corporate Stewardship

Dear Investors,

We are delighted to present this 'Investor Relations' supplement, which we have dedicated to you as part of our Annual Report in appreciation of continued support to the Company. Asian Alliance Insurance PLC is committed to forge a high standard of communication with its shareholders and other investors, so that they have all the necessary information to make informed assessments of the company's value and prospects.

This section reveals the extent to which your Company complied with regulatory and voluntary disclosures during the financial year under review.

Your company communicated regularly with investors and other stakeholders mainly through the publication of press releases, publication of interim financials, and communicating of other information etc.

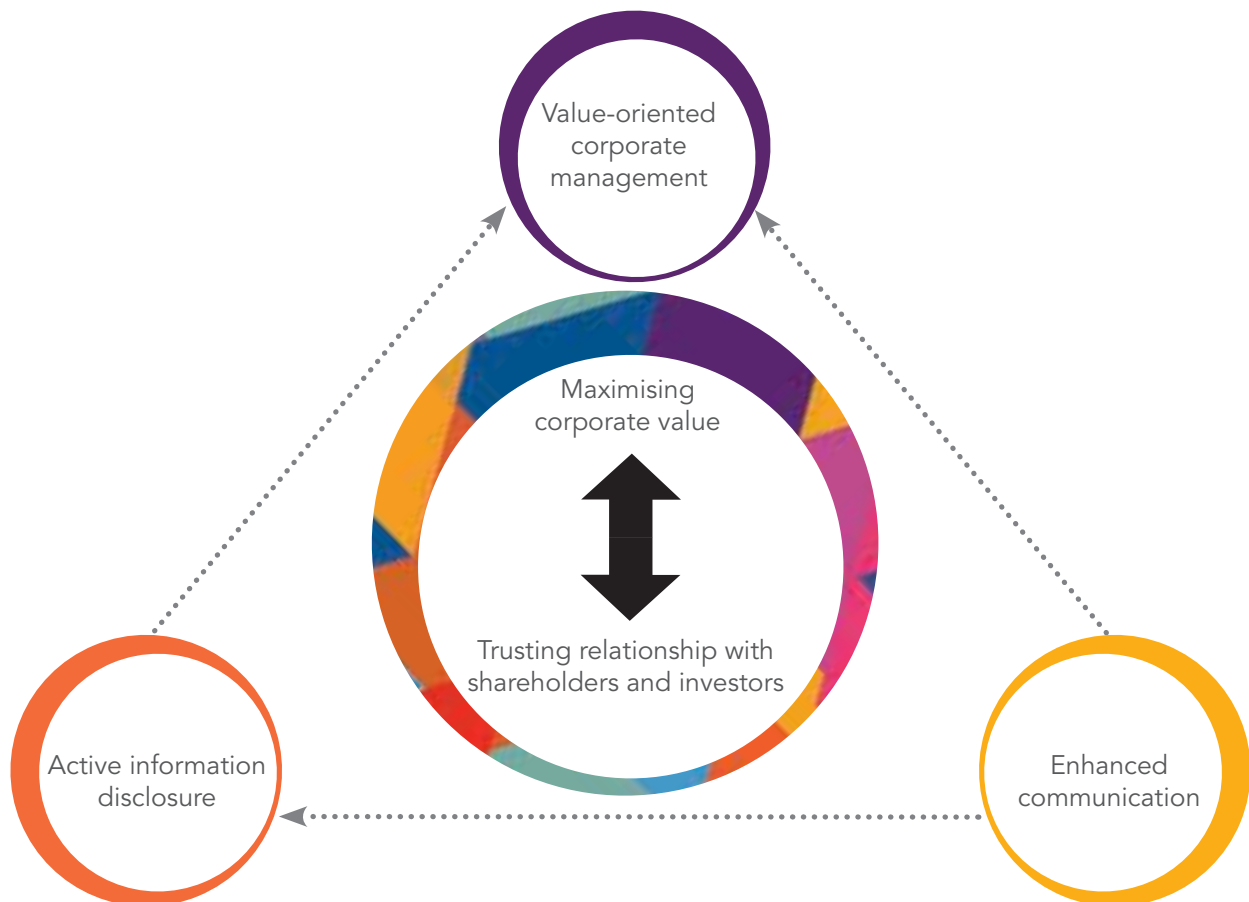
Your company's first Integrated Annual Report together with interim financial results is available in the Colombo Stock Exchange. Alternatively, shareholders are able to elect to receive a mailed copy of the Annual Report on request.

Company Activities and Structure

Asian Alliance Insurance PLC is a Public Limited Liability Company incorporated in the 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 & Non-Life Insurance.



Stock Exchange listing

Asian Alliance Insurance PLC is a public quoted company which has listed ordinary shares in Colombo Stock Exchange (CSE). AAI Ordinary shares effectively trade in Diri Savi Board of the Colombo Stock Exchange under the symbol of AAIC.N0000.

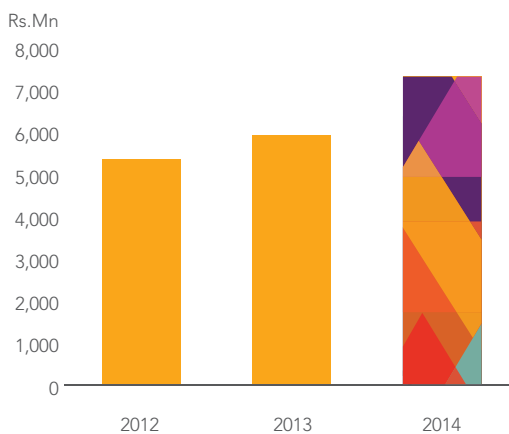
Share Market performance

For the first time in its history, S&P recorded the 4,000 mark in 2014 with the closing market capitalization Rs 3 trillion while the All Share Price Index (ASPI) crossed the 7,500 mark and closed the year on 7,298.95.

The daily average turnover increased by 71% over the previous year from Rs. 828 Mn in 2013 to 1,415 Mn in 2014. Most notably, foreign purchases have been the highest in history, a record Rs. 105,812. 5 Mn as at 31st December.

In sector-wise analysis highest positive change marked by Power and Energy sector, an increase of 55% and Information Technology Sector reduced by 1%.

All Share Price Index



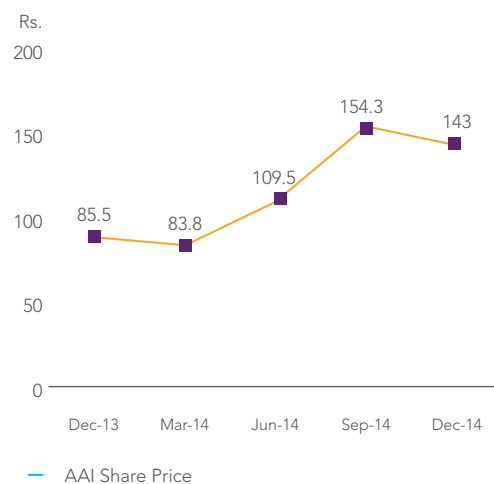
AAI Share

The Asian Alliance share performed well in the stock market compared to the previous year. This was due to the successful implementation of competitive strategies of the company over the year. The Asian Alliance share has shown a drastic increase in share price of 67% over the previous year and has recorded one of the best performances since listing in the CSE in 2005.

Shareholders were able to gain both dividend and massive capital gain by holding Asian Alliance stock in 2014.

AAI stock is one of the best performed stocks among the insurance industry which depicts the unbeaten Gross Written Premium growth of the company.

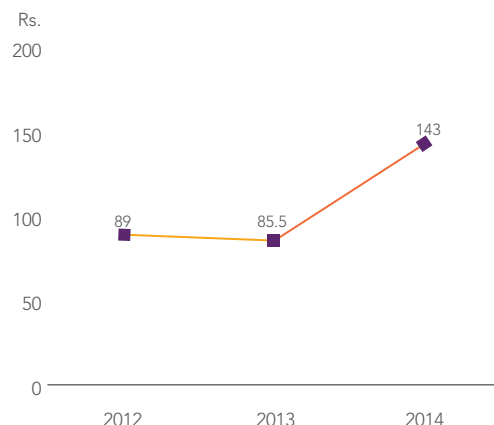
Share Price Movement - 2014



AAI share performance over last 3 years

Asian Alliance Insurance share price has been stable in the last two years, remaining within the price range of Rs 85 to Rs 90. In 2014 it showed remarkable growth with an increase of 67% compared to the previous year. The performance of Asian Alliance for the year 2014 is clearly reflected in market price which was recorded Rs 143 as at 31st December 2014.

AAI Share Price - Last 3 Years



Investor Relations

Corporate Stewardship

Key Performance Ratios

	2013	2014	%
EPS (Rs.)	9.66	20.06	108%
PB (Times)	1.75	2.26	29%
PER (Times)	8.85	7.13	-20%
Net Assets per share (Rs)	48.85	63.20	29%
ROE	21%	39%	86%

- **EPS**

Earnings per share have increased by 108% in 2014 compared to the previous year, as the company recorded notable profit growth. AAI has recorded Rs. 20.06 as EPS in 2014 whereas Rs. 9.66 in 2013.

- **PB ratio**

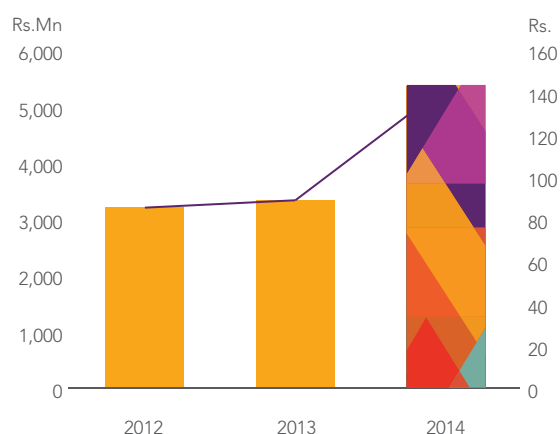
The price to book ratio as at 31st December 2014 was 2.26 times, an increase of 29% from 1.75 times recorded in 2013.

- **PER**

Price earnings ratio was 7.13 times in 2014 compared with 8.85 times recorded in the previous year. There is a 20% decrease in PER due to enormous growth in EPS in 2014.

AAI Market capitalization and Market price

AAI Market Capitalisation and Share Price



Within the last three years, the attractiveness of the

AAI share has been enhanced in the Colombo Stock Exchange.

Recorded share volume of the company was Rs 295 Mn in 2014, an increase of 74% compared to the previous year. Market capitalization of the company also increased by 60% and was purely affected by the increased price.

Market information on ordinary shares of the company

Market value	2013	2014	%
Highest Price (Rs)	105.60	160.00	52
Lowest Price (Rs)	78.40	80.00	2
Year End Price (Rs)	85.50	143	67

Dividend

Asian Alliance has paid an interim dividend of Rs 5 per share in 2014 for its shareholders. Dividend payout ratio of the company is relative high in order to provide maximum benefit to shareholders. The Company manages its dividend payout ratio in line with company's future growth prospects. Asian Alliance has proposed another Rs 5 per share dividend to be paid in March 2015.

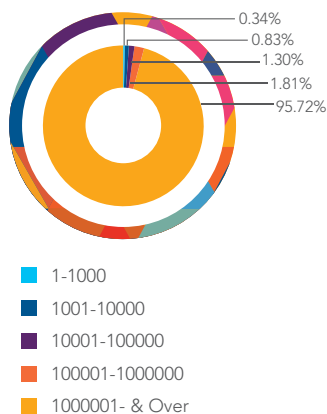
Shareholder base

Distribution of shareholders

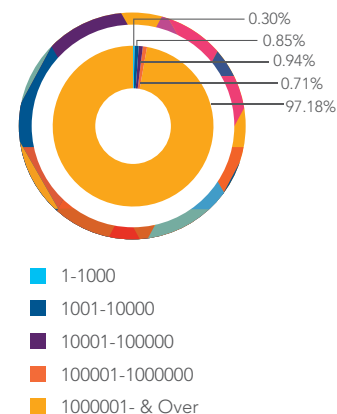
Shareholder's Categorized Summary Report

No of Shares	As at 31st December 2013			As at 31st December 2014		
	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	535	113,461	0.3
1001-10000	97	310,021	0.83	99	319,585	0.85
10001-100000	18	485,650	1.3	17	355,654	0.94
100001-1000000	2	679,579	1.81	2	268,019	0.71
1000001- & Over	4	35,896,123	95.72	4	36,443,281	97.18
Total	701	37,500,000	100	657	37,500,000	100

Distribution of Shareholders - 2013



Distribution of Shareholders - 2014



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

No of Shares	Non Resident			Resident		
	As at 31st December 2014			As at 31st December 2014		
	No. of Share Holders	No. of Shares	% of Total	No. of Share Holders	No. of Shares	% of Total
1 - 1000	3	1,102	.007	532	112,359	0.55
1001 - 10000				99	319,585	1.33
10001 - 100000	1	18,390	.127	16	337,264	2.03
100001 -1000000	1	166,000	1.14	1	102,019	2.92
1000001 - & Over	2	14,250,000	98.71	2	22,193,281	93.15
Total	7	14,435,492	100	650	23,064,508	100

Investor Relations

Corporate Stewardship

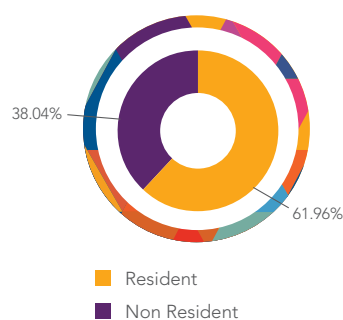
Shareholder base (contd.)

Composition of shareholder

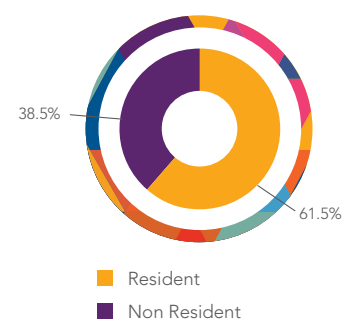
Resident / Non Resident

Number of Shares	As at 31st December 2013			As at 31st December 2014		
	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	650	23,064,508	61.5
Non Resident	7	14,264,233	38.03	7	14,435,492	38.49
Total	701	37,500,000	100	657	37,500,000	100

Resident / Non Resident Share Holding - 2013



Resident / Non Resident Share Holding - 2014



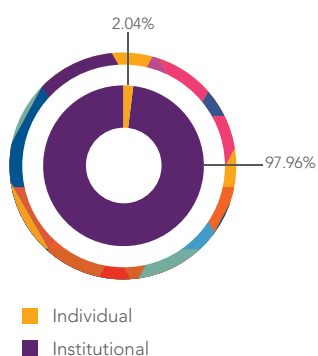
Individual/Institution

Number of Shares	As at 31st December 2013			As at 31st December 2014		
	No. of ShareHolders	No. of Shares	% of Total	No. of Share Holders	No. of Shares	% of Total
Individual	635	764,311	2.03	606	892,862	2.39
Institutional	66	36,735,689	97.96	51	36,607,138	97.61
Total	701	37,500,000	100	657	37,500,000	100

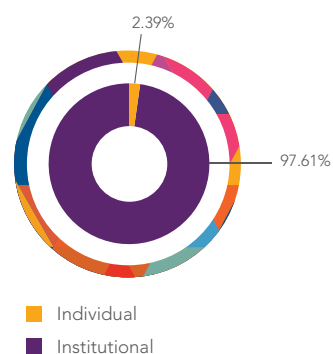
Shareholder base (contd.)

Composition of shareholder

Individual/Institution - 2013



Individual/Institution - 2014



Public Shareholding

Number of Shares	As at 31st December 2013		As at 31st December 2014		
	No. of Shares	% of Total	No. of Shares	No. of Shares	% of Total
Public Shareholding	1,039,164	2.77	1,039,164	8,164,164	2.77

Director / CEO Shareholding

Number of Shares	As at 31st December 2013		As at 31st December 2014		
	No. of Shares	% of Total	No. of Shares	No. of Shares	% of Total
Mr. Ramal Jasinghe*	Nil	0	Nil	Nil	0

* Mr. Ramal Jasinghe, a Director / CEO of Asian Alliance Insurance PLC resigned from his position as the Chief Executive Officer of the Company to take up the appointment as the Chief Executive Officer of Asian Alliance General Insurance Limited as of 1st January 2015. However, he will remain as a Non-Executive Director in the Company.

Investor Relations

Corporate Stewardship

Twenty largest shareholding

The names and the number of shares held by the 20 largest holders as at 31st December 2014 together with their Shareholding as at 31st December 2013 are given below.

As at 31st December 2014

Name of Share Holder	No. of Shares	%
Softlogic Capital PLC	22,193,281	59.18
NederlandseFinancierings - Maatschappij Voor Ontwikkelingslan	7,125,000	19.00
HSBC Intl Nominees Ltd / State Street Munich c/o SSBT - DEG - Deutsche	7,125,000	19.00
Teruaki Ono	166,000	0.44
A.L.F.De Mel	102,019	0.27
G.C.Goonetilleke	76,550	0.20
Murugesu Mahibalan	40,690	0.11
M.F.Farook	28,000	0.07
Asha Financial Services Limited/ C.N.Pakianathan	26,525	0.07
Hotel International Ltd	20,389	0.05
Waldock Mackenzie Ltd / M.Z.M.Wafik	18,935	0.05
Julia Anne De Mel	18,857	0.05
Kazuo Kondo	18,390	0.05
Softlogic Holdings PLC	17,555	0.05
P.D.R.R.Weeraratne	14,000	0.04
Waldock Mackenzie Ltd / G. Soysa	12,500	0.03
Moiz Najmudeen	11,448	0.03
Warnakulasuriya Samira Sethsiri Rajindra Fernando	11,000	0.03
Chokshanada Kumara Sangakkara	10,314	0.03
Ranga Buddhima Jeevanthi Tiranagama	10,288	0.03
	37,046,741	98.75
Others	453,259	1.25
Total	37,500,000	100

As at 31st December 2013

Name of Share Holder	No. of Shares	%
Softlogic Capital PLC	21,646,123	57.72
NederlandseFinancierings - MaatschappijVoorOntwikkelingslan	7,125,000	19.00
HSBC Intl Nominees Ltd / State Street Munich c/o SSBT- DEG-Deutsche	7,125,000	19.00
Softlogic Finance PLC	547,158	1.46
A. L. F. De Mel	132,421	0.35
G. C. Goonetilleke	76,550	0.20
P.D.R.R.Weeraratne	57,400	0.15
Waldock Mackenzie Ltd / C. D. Kohombanwickrama	44,200	0.12
Waldock Mackenzie Ltd / L. P. Hapangama	36,000	0.10
N. W. S. Financial Services (Pvt) Ltd / Divasa Equity (Pvt) Ltd	35,340	0.09
A. S. R.Silva	31,100	0.08
M. F. Farook	28,000	0.07
F. R. Muzammil	24,500	0.07
C. N. Pakianathan	23,387	0.06
Waldock Mackenzie Ltd / Dr.H.S.D. Soysa	19,406	0.05
Waldock Mackenzie Ltd / Mr.M.Z.M.Wafik	17,700	0.05
Softlogic Holdings PLC	17,555	0.05
Pan Asia Banking Corporation PLC / Mr.D.G.Wirasekara	14,739	0.04
C. R. Perera	13,440	0.04
Waldock Mackenzie Ltd / Mrs. G. Soysa	13,100	0.03
Others	471,881	1.26
Total	37,500,000	100

Compliance with contents of Annual Report as per Section 7.6 of the Listing Rules of the Colombo Stock Exchange

Listing rule Number	Compliance Requirement	Detail / Reference	Compliance Status
7.6.i	Names of persons who were Directors of the entity during the financial year	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 200-201)	Complied
7.6.ii	Principal activities of the Company	The principal activities of the Company and its subsidiaries during the year are given in the Annual Report (refer Page No 269)	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 2014 is provided on "Investor relation" Information Section (refer Page No 264)	Complied
7.6.iv	The public holding percentage	The details of the public shareholding are available on (refer Page No 263)	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 273)	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 254-257)	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 2014	Complied
7.6.viii	Extents, locations, valuations and the number of buildings of the entity's land holdings and investment properties	The details of Extents, Locations, valuations and the number of buildings of the Entity's land holdings and the investment properties given in the annual report (Refer Note No 20 in Page 338)	Complied
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 276)	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 Relations' 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 197)	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 disclosure (Refer Page No 384-385)	Complied





extraordinary *results*

Driving an outstandingly successful enterprise

The Company's financials performed extraordinary feats during the period under review, from more than doubling industry growth for the year and recording premiums of Rs 3 Bn and a growth of 21% compared with the industry average of 9% in Life operations, to recording amongst the highest growth rates in the market.

All this, achieved entirely on the 'protection' platform, globally acknowledged as the most challenging platform to operate on.

Financial *Calendar*

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

Financial Calendar	Target date in 2015	Achievement in 2014
Interim Financial Statement		
1st Quarter	May 2015	15th May 2014
2nd Quarter	August 2015	15th August 2014
3rd Quarter	November 2015	15th November 2014
4th Quarter	February 2016	13th February 2015
Annual Report and Financial Statement to Shareholders		
2013		March 2014
2014	March 2015	
Annual General Meeting		
16th Annual General Meeting		31st March 2015
17th Annual General Meeting	March 2016	

Annual Report of the Board of Directors on the Affairs of the Company

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY AND STATEMENT OF COMPLIANCE OF THE CONTENTS OF THE ANNUAL REPORT AS REQUIRED BY SECTION 168 OF THE COMPANIES ACT NO. 07 OF 2007.

Preface

The Directors of Asian Alliance Insurance PLC have pleasure in presenting their Annual report together with the audited Financial Statements of the Company, Consolidated Financial Statements of the Group for the year ended 31st December 2014 and the Auditors' Report thereon.

The Financial Statements were accepted and approved by the Board of Directors on 13th February 2015.

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.

Principal Activities

Life and General Insurance businesses remained the principal activities of the Company and no significant changes occurred in this regard during the financial year under review. We also declare that the Company has not engaged in any activities which contravene laws and regulations of the country.

Changes to the Company Structure and the Nature of the Operation

As per section 53 of the Regulation of Insurance Industry (Amendment) Act No. 3 of 2011, all Insurers were required to segregate their Long term Insurance business and the General Insurance business into two separate companies by 01st January 2015. In order to comply with this requirement, Asian Alliance Insurance PLC incorporated a fully owned subsidiary company during the year 2014, in the name from Asian Alliance General Insurance Limited and obtained the registration of the regulator, the IBSL - to conduct the General Insurance business with effect from 01st January 2015. We also obtained the approval of the District Court to transfer the General Insurance Business of Asian Alliance Insurance PLC to Asian Alliance General Insurance Limited following the due process stipulated by the Insurance Board of Sri Lanka being one of the first companies to do so.

Asian Alliance General Insurance Limited did not conduct commercial operations during the financial year under review except for managing funds received as Stated Capital. Accordingly, Asian Alliance Insurance PLC remained as a composite Insurance Company till 31st December 2014.

After obtaining all due approvals from regulators and a license to operate Asian Alliance General Insurance Limited as a General Insurance Company, Asian Alliance Insurance PLC transferred its General Insurance business to Asian Alliance General Insurance

Limited with effect from 01st January 2015. Accordingly, Asian Alliance Insurance PLC became a Life Insurance Company w.e.f. 01st January 2015 and its fully owned subsidiary, Asian Alliance General Insurance Limited, has taken over the General Insurance Business of the Company.

In addition to running a Life Insurance Business, Asian Alliance Insurance PLC from 01st January 2015 onwards acts as the holding company of Asian Alliance General Insurance Limited and provides shared services to General Insurance Limited based on an agreement signed by the two companies.

The Group structure and names of the Directors are available on pages 13 and 200 to 201 respectively.

Review of Performance

A review of the Company's financial and operational performance during the year as required by section 168 (1) (a) of the Companies Act are contained in the Chairman's Message (pages 30 to 35), the Managing Director's Review (pages 36 to 41) and the Management Discussion and Analysis (pages 50 to 194). These reports, together with the Financial Statements, reflect the state of affairs of the Company and form an integral part of the Annual Report of the Board of Directors.

Since Asian Alliance General Insurance Limited was not commercially operational during the year, the review of Operational Performance covers only AAI PLC's performance except in Investment Performance.

Future Developments

As required under section 168 (1) (a) of the Companies Act, an overview of envisaged development of the Company is given in the Chairman's Message (pages 30 to 35), the Managing Director's Review (pages 36 to 41) and the Management Discussion and Analysis (pages 50 to 194).

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 (Registration: 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 Diri Savi Board of the Colombo Stock Exchange.

Annual Report of the Board of Directors on the Affairs of the Company

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

The major shareholder of the Company is Softlogic Holdings PLC which has a direct holding of 0.05 % and indirect holding of 43.27% which amounts to 43.32% in total as at 31st December 2014.

Financial Statements

The aforementioned Financial Statements of the Group and Company have been prepared in accordance with Sri Lanka Accounting Standards (SLFRS/LKAS) as issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and in compliance with the requirements of the Companies Act, No. 7 of 2007. They also provide the information required under the Regulation of Insurance Industry Act, No. 43 of 2000 and amendments thereto, the listing rules of the Colombo Stock Exchange (CSE) and together other Rules and Regulations of the Insurance Board of Sri Lanka (IBSL) as per section 168 (1) (b) of the Company Act.

The Financial Statements of the Company for the year ended 31st of December 2014, duly signed by two Directors and the Chief Financial Officer of the Company, are given on page 289 and form an integral part of this report.

Significant Accounting Policies

The significant accounting policies adopted in preparation of Financial Statements are given on pages 306 to 320 and comply with section 168 (1) (d) of the Companies Act.

The Company and the Group applied, for the first time, Sri Lanka Accounting Standards - LKAS 13 Fair Value Measurement, which has introduced some changes to the measurement of fair values and related disclosure.

Directors Responsibility for Financial Reporting

The Directors are responsible for the preparation and presentation of these Financial Statements of the Group and the Company in a manner that reflects a true and fair view of its state of affairs. The Directors are of the view that these Financial Statements appearing on pages 287 to 387 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act No. 7 of 2007, Sri Lanka Accounting and Auditing Standards Act No 15 of 1995, the Insurance Industry Act, No. 43 of 2000 and amendments thereto, the Listing Rules of the Colombo Stock Exchange and the Corporate Governance Code for listed Companies issued jointly by Securities and Exchange Commission of Sri Lanka (SEC) and Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

The Statement of Directors' Responsibility for Financial Reporting is given on page 278 and forms an integral part of this report.

Going Concern

The Board has conducted necessary reviews and inquiries to assess the Company's ability to apply the assumption of going concern in the preparation of these Financial Statements. These included, amongst others, a review of the Company's budget and Corporate Plan for ensuing years, future prospects and risks, capital expenditure requirements and cash flows. Following such review, the Board is satisfied that the Company possesses adequate resources to continue its operations into the foreseeable future and hence endorses the continuous adoption of the assumption of going concern.

As discussed above, Asian Alliance Insurance PLC transferred its General Insurance Business to Asian Alliance General Insurance Limited w.e.f. 1st January 2015. Therefore, Asian Alliance Insurance PLC has become a Life Insurance Company and thereby the financial results of the General Insurance Business will not be included under the Company Financial Statement of Asian Alliance Insurance PLC in future. However, the results of both Life and General Insurance Businesses will be included in the Consolidated Financial Statements of Asian Alliance Insurance PLC.

Independence of Auditors

The Financial Statements for the year ended 31st December 2014 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.

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.

Audit Fees and Expenses

The fees paid to the Auditors are disclosed in Note No 15.2 on page 330 to the Financial Statements.

Auditors Report

The Financial Statements for the Year Ended 31st December 2014 have been audited by Messrs KPMG, Chartered Accountants and their Report on Financial Statements given on page 284 of this report.

Risk and Internal Control

The Board understands that strong internal controls are integral to the sound management of the Company and therefore is committed to maintain strict financial, operational and risk management controls.

The Board is ultimately responsible for the Company's system of internal controls and for reviewing its effectiveness. Such a system is sought to be designed to minimise rather than eliminate the risk of failure to achieve business objectives and can provide

only reasonable and not absolute assurance against material misstatement or loss. The Board Statement on internal control is given on pages 244 to 245 and form an integral part of this report.

The Company has an ongoing process for identifying, evaluating and managing risks faced, and during the year the Directors reviewed this process through the Audit Committee and the Risk Management Committee. The Board is satisfied with the effectiveness of the system of internal control for the year under review and up to the date of approval of the Annual Report and Financial Statements.

Reports by the Audit Committee and the Risk Management Committee, highlighting its roles and the responsibilities, appears pages 246 to 247 and pages 252 to 253 respectively.

Corporate Governance

The Board of Directors are committed to maintain an effective corporate governance structure and process and to be in compliance with all relevant rules, regulations and best practices on corporate governance, extending beyond regulatory requirements.

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

A report on the governance endeavours of the Company is given on pages 206 to 243.

Turnover / Gross Written Premium (GWP)

The total turnover of the Company is identified as Gross Written Premium (GWP). The table below shows the GWP for each line of business for the current year, together with the comparative figures for the previous year.

Line of Business	2014 Rs. millions	2013 Rs. millions
Life Insurance	3,048	2,520
General Insurance	1,725	1,556
Total	4,773	4,076

A Detailed Analysis of the total GWP recorded by the Company is given in Note 7 to the Financial Statements on page 323.

Financial Results and Appropriations

The Statement of Profit and Loss and Other Comprehensive Income of the Company and Group is given on page 288. Transfers to/from Reserves of the Company are shown in the Statement of Changes in Equity appearing on pages 290 to 291.

Financial Results	Group	Company	
	2014 Rs' 000	2014 Rs' 000	2013 Rs' 000
Profit Before Taxation (PBT)	768,119	764,948	394,137
Income tax expenses	(12,838)	(12,838)	(31,802)
Profit After Taxation	755,281	752,111	362,335
Un-appropriated profit brought forward	654,531	654,531	294,526
Share issue related Costs - Subsidiary	(500)	-	-
Profits available for appropriation	1,409,312	1,406,641	656,861
Dividends Paid	(367,500)	(367,500)	-
Re-measurement of defined benefit (liability) / asset	1,381	1,381	(2,330)
Un-appropriated profit carried forward	1,043,193	1,040,522	654,531

Dividends

The Directors have declared an interim dividend of Rs. 5.00 per share for the year ended 31st December 2014, On 13th February 2015. The Board of Directors are satisfied with the Solvency Test in terms of the provisions of the Companies Act, No. 7 of 2007, immediately after the distribution of the interim dividends proposed and to be paid on the 09th March 2015. The Statement of Solvency prepared by the Board was audited by Messrs. KPMG.

The dividend will be paid out of profits will be subject to Withholding Tax.

The Board of Directors

The Board of Directors of the Company consists of eight (08) (2013 – 08 Directors) each of whom possesses wide financial and commercial knowledge and experience.

The following Directors held office during the year and their brief profiles are given on pages 198 to 201 of this report

Annual Report of the Board of Directors on the Affairs of the Company

Name of the Director	Executive / Non - Executive	Independent / Non - Independent
Asoka Pathirage - Chairman	Non - Executive	Non - Independent
Paul Ratnayake - Deputy Chairman	Non - Executive	Independent
Iftikar Ahamed - Managing Director	Executive	Non - Independent
Ramal Jasinghe*	Non - Executive	Non - Independent
Sujeewa Rajapakse	Non - Executive	Independent
Mohan Ray Abeywardena	Non - Executive	Independent
Johannes W. H. Richters	Non - Executive	Independent
Jatinder Mukhi	Non - Executive	Independent

*Up to 31st December 2014 Executive Director

Mr. J.H.P. Ratnayake 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. Ratnayake being a professional can continue to use judgment and independence without any impediment, is of the opinion that Mr. Ratnayake is nevertheless independent.

Board Sub-Committees

The Board, while assuming the overall responsibility and accountability for the management of the Company, has also appointed Board sub-committees to ensure more effective control over certain affairs of the Company, conforming to the Corporate Governance Standards of the Listing Rules of the Colombo Stock Exchange (CSE) and adopting best practices. Accordingly, the following Board sub-committees have been constituted by the Board.

- Audit Committee
- Remuneration committee
- Nomination Committee
- Investment Committee
- Risk Management Committee
- Related Party Transaction Review Committee

The Related Party Transaction Review Committee was appointed during the year to review the related party transactions of the Company in line with the Code of Best Practices on Related Party Transactions issued by the Securities and Exchange Commission.

This Code will be a part of CSE Listing Rules from 01st of January 2016 onwards. However, the Company voluntarily adopted this code from 2014 onwards.

The composition of each Board sub-committee is given on page 215 which is a part of the Annual Report of the Board.

Rotation of Directors

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

Directors' Meetings

The number of Directors' meetings together with the attendance of each Director at these meetings during the year for each Board sub-committee is given on page 426 which is a part of the Annual Report of the Board.

Directors Interest Register

In terms of the Companies Act No 07 of 2007 an Interest Register was maintained during the accounting period under review. The All Directors of the Company have disclosed their interest in other Companies to the Board and those interests are recorded in the Directors interest register, confirming to the provision of the Companies ACT No 07 of 2007.

Directors Interest in Contracts

Directors' interest in contracts both direct and indirect is as follows. In further the transactions entered with following Companies during the year are disclosed in Note No 45 on page 386.

Directors Interest in Contracts

Name of Director	Position	Company	Relationship
Asoka K. Pathirage T.M. Iftikar Ahamed	Chairman Director	Softlogic Holdings PLC	Parent Company
T.M. Iftikar Ahamed	Director	Asian Alliance General Insurance Ltd	Subsidiary of Asian Alliance Insurance PLC
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
Asoka K. Pathirage	Chairman	Asian Alliance General Insurance Ltd	Subsidiary of Asian Alliance Insurance PLC
T.M. Iftikar Ahamed Asoka K. Pathirage	Director Deputy Chairman	Softlogic Stock Brokers (Pvt) Ltd National Development Bank PLC	Group Company of Softlogic Holdings PLC Director related entity
Sujeewa Rajapakse	Director		
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
Ramal Jasinghe	Director/ CEO	Asian Alliance General Insurance Ltd	Subsidiary of Asian Alliance Insurance PLC

Directors' Interest in Shares

Name of the Director	As at 31 December 2014	As at 31 December 2013
Asoka. K. Pathirage	Nil	Nil
J. H. P. Ratnayeke	Nil	Nil
T. M. Iftikar Ahamed	Nil	Nil
Ramal G. Jasinghe	Nil	Nil
Sujeewa Rajapakse	Nil	Nil
Mohan Ray Abeywardena	Nil	Nil
J. K. Mukhi	Nil	Nil
J. W. H. Richters	Nil	Nil

Use of Company Information by Directors

Subject Matter of Information	Date of Authorization by the Board	Authorization Granted at a Board Meeting/ by Vircular Resolution
None	None	None

Annual Report of the Board of Directors on the Affairs of the Company

Directors Fees and Remuneration

The amount of the Directors Fees & Remuneration paid during the year is Rs. 41.98 million.

Directors are not entitled to obtain loans of any kind from the Company.

The Managing Director's remuneration is decided by the Board with the recommendation of the Remuneration Committee, in consideration of the individual and Company performance. Due attention is also paid to industry standards, inflationary factors and future plans when deciding the remuneration package of the Managing Director.

No remuneration is paid to Non- Executive Directors other than the fees paid in line with the attendance of each Director at Board and Sub-Committee Meetings.

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 45 on pages 385 to 386 which is adopted in the preparation of these Financial Statements.

Financial Investments

Financial investments mainly comprise the Company's investment portfolios, which have been segregated into different categories as required by Sri Lanka Accounting Standards (SLFRS / LKAS). The amount of financial investments held by the Company as at 31st of December 2014 amounted to Rs. 8,464 million (2013 - Rs. 6,243 million). A detailed description of the financial investments is enclosed in Note 21 to the Financial Statements on pages 338 to 344.

Intangible Assets

The capital expenditure on acquisition of intangible assets during the year amounted to Rs. 15.7 million (2013 - Rs. 12.3 million), which mainly includes the expenditure incurred on the acquisition of computer software. The carrying value of intangible assets as at the reporting date amounted to Rs. 31.5 million (2013 - Rs. 40.6 million).

Movement of intangible assets from the balance as at the 1st of January 2014 to the balance as at the 31st of December 2014, additions and disposals made, together with the amortisation charge for the year, are set out in Note 19 to the Financial Statements on pages 334 to 335.

Following their initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Property, Plant and Equipment

An analysis of the Property, Plant and Equipment of the Company is disclosed in Note No 20 to the Financial Statements on pages 335 to 338.

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

Stated Capital

The Stated Capital of the Company as at 31st December 2014 was Rs. 1,062,500,000 comprising 37,500,000 fully paid Ordinary Shares.

Minimum Capital Requirements

Insurance Board of Sri Lanka (IBSL) by its Gazette dated 07th May 2013 has increased the Minimum Capital requirement for all Insurance Companies to Rs. 500 million. w.e.f. 11th February 2015.

Asian Alliance Insurance PLC has an issued and fully paid stated capital of Rs. 1,062.5 million (2013 - Rs. 1,062.5 million) and therefore has already fulfilled this statutory requirement. As noted above, Asian Alliance Insurance PLC has invested Rs. 800 million in Asian Alliance General Insurance Limited w.e.f. 1st January 2015 and thereby both companies are in compliance with this requirement.

In addition, the minimum Total Available Capital (TAC) under the Risk Based Capital Requirements (RBC) is also Rs. 500 million for each business line. Based on available information and our forecast of RBC requirements, both the Companies are well within this requirement as well.

Donations

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

Capital Commitments

There is no Capital Expenditure Commitments as at 31 December 2014.

Liabilities and Provisions

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

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

The basis adopted for provisioning is disclosed in Accounting Policy No 4.13 and on pages 315 to 317 to the Financial Statements.

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

Reserves

The reserves consist of Available for Sale Reserve and Retained Earnings. The details and movements of reserves are disclosed in Note No 30 to 31 the Financial Statements on page 351 and in the Statement of Changes in Equity on pages 290 to 291 in the Financial Statements.

Taxation

Income taxes are computed based on rates enacted or substantively enacted as at the reporting date. The income tax rate applicable to the Company's operations for the year under review is 28% (2013 - 28%).

The provision for taxation is computed at the rates as disclosed in Note No 16 On page 331 to the Financial Statements.

As further explained in Note 16.3 to the Financial Statements, no deferred tax asset is recognised since it is not probable that future taxable profits will be adequate to utilise the available tax losses fully in the foreseeable future.

The Company has utilised tax losses to recognise a deferred tax asset up to the extent of the deferred tax liability arising from taxable temporary differences in the Life business. The Unrecognised Deferred Tax Asset as at 31st December 2014 amounted to Rs. 1,350 million. (2013 - Rs. 1,061 million.)

Significant management judgment is required to determine the Amount of Deferred Tax Assets that can be recognised, based on the likely timing and the level of future taxable profits.

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 pages 278 to 279.

Compliance with Rules and 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 has submitted all the returns and the details to the relevant parties by the due dates.

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

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

The Audit Committee Report is disclosed in page 246.

Implementation of Risk Based Capital (RBC)

The Insurance Board of Sri Lanka (IBSL) has decided to implement a Risk Based Capital (RBC) module in Sri Lanka to monitor the financial strength of Insurance companies in the country, replacing the existing solvency regime. The deadline given by the IBSL for the implementation of RBC is January 2016.

In order to ensure the smooth transition from the current solvency regime to RBC, the IBSL launched the RBC Road Test from September 2012 to June 2013. Based on the results of the Road Test, the IBSL issued the final draft of the RBC framework in October 2013 and it was decided that a compulsory parallel run would be conducted in 2014 and 2015 to help insurers to shift to the RBC regime whenever they consider themselves to be ready.

Asian Alliance Insurance PLC participated in the RBC Road test from its inception till the end and provided all information required by the IBSL. We also provided required information in a timely manner to Insurance Board of Sri Lanka (IBSL) under the compulsory parallel run which started from the beginning of 2014. Accordingly, the Company is confident that the RBC Framework can be implemented smoothly in the Company by the due date which is 1st January 2016.

Contingent Liabilities

There were no material contingent liabilities outstanding as at 31st December 2014, except as disclosed in Note No 44. to the Financial Statements.

Events after the Reporting Period

- As explained above, the Company transferred its entire General Insurance together with related assets and liabilities to its fully owned subsidiary Company Asian Alliance General Insurance Limited on 1st January 2015 in line with the segregation requirements arising from Regulation of Insurance Industry (Amendment) Act No. 3 of 2011. Further, the Company increased its investment in Asian Alliance General Insurance Limited to Rs. 800 million (Minimum capital requirement is Rs. 500 million) considering the business and regulatory requirements of the General Insurance business. A detailed disclosure on assets and liabilities transferred is given on page 382.
- Mr. Ramal Jasinghe, a Director / CEO of Asian Alliance Insurance PLC resigned from his position as the Chief Executive Officer of the Company to take up the appointment as the Chief Executive Officer of Asian Alliance General Insurance Limited as of 1st January 2015. However he will remain as a Non-Executive Director in the Company.

Except for the above mentioned events after the reporting date, there have been no material events occurring after the reporting date, that require adjustments to or disclosure in the Financial Statements.

Corporate Governance and Internal Controls

The Board of Directors has 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.

Annual Report of the Board of Directors on the Affairs of the Company

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 (CA Sri Lanka).

The Company's compliance with rules on corporate governance are given in Corporate Governance Report on pages 228 to 240.

Equitable treatment to Stakeholders and their Interest

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

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

Shareholders

The number of registered shareholders' of the Company as at 31st December 2014 was 657.

The Distribution and Analysis of Shareholdings were as follows;

Number of Shares	As at 31st December 2014			As at 31st December 2013		
	No of Shareholders	No of Shares	% of Total	No of Shareholders	No of Shares	% of Total
1-1000	535	113,461	0.30	580	128,627	0.34
1001-10000	99	319,585	0.85	97	310,021	0.83
10001-100000	17	355,654	0.95	18	485,650	1.30
100001-1000000	2	268,019	0.71	2	679,579	1.81
1000001- & Over	4	36,443,281	97.18	4	35,896,123	95.72
Total	657	37,500,000	100.00	701	37,500,000	100.00

Resident / Non Resident

	As at 31 December 2014			As at 31 December 2013		
	No of Shareholders	No of Shares	% of Total	No of Shareholders	No of Shares	% of Total
Resident	650	23,064,508	61.51	694	23,235,767	61.96
Non Resident	7	14,435,492	38.49	7	14,264,233	38.04
Total	657	37,500,000	100.00	701	37,500,000	100.00

Individual/Institution

	As at 31 December 2014			As at 31 December 2013		
	No of Shareholders	No of Shares	% of Total	No of Shareholders	No of Shares	% of Total
Individual	606	892,862	2.38	635	764,311	2.04
Institutional	51	36,607,138	97.62	66	36,735,689	97.96
Total	657	37,500,000	100.00	701	37,500,000	100.00

Share Information

Information relating to earnings, dividends, net assets market price per share and information on share trading appears on page 260 of this report.

Environment

The Company's activities can have direct or indirect effects on the environment. It is the policy of the Company to minimise any such adverse effects by recycling resources as much as possible and creating awareness among its staff on current global environmental threats. The Company does its best to comply with the relevant environmental laws and regulations and has not engaged in any activity that is harmful or hazardous to the environment.

Human Resources (HR)

A brief description of the Company's HR Policy and the Remuneration Methodology given in the Remuneration Committee Report on pages 248 to 249.

Employment Policy

The Company Employment 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 2014 was 730. (2013 - 618)

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.

Code of Conduct and Ethics

The Company has adopted a Code of Business Conduct and Ethics for all its employees and has mandated that it should be followed without any exception. The Company has also adopted a Code of Conduct and Ethics for Directors. There were no violations reported of the code during the year.

There was no material violations of the Code during the year except for certain insignificant violations noted at the operational level, for which appropriate action has been taken.

The Directors and the Key Management Personnel had declared compliance with the relevant Code of Conduct and Ethics.

Whistle Blowing

A Whistle Blowing Policy is operative within the Company and the same has been communicated to all members of the staff. In addition to above the Company has conducted training sessions to educate staff with regard to whistle blowing. This enables any member of the Company to raise issues with the management and the Board, in order to identify possible risks faced by the Company at an early stage.

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 2015. 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.

Reports of the Board Sub Committees

Committee	Page Number
Audit Committee	246-247
Remuneration Committee	248-249
Investment Committee	250
Risk Management Committee	252-253

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 31st March 2015 at 10.00 a.m. The notice of Annual General Meeting is given on page 422.

(Sgd)

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

On behalf of the Board;

(Sgd.)

Asoka .K. Pathirage
Chairman

(Sgd.)

Iftikar Ahamed
Managing Director

Colombo

13th February 2015

Statement of Directors' Responsibility to Financial Reporting

The responsibility of the Directors in relation to the Financial Statements of the Company and Consolidated Financial Statement of the company and its subsidiary, 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 284 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 of the Company as at end of each financial year and 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, 2014, the Statement of Profit and Loss and Other 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 and the Consolidated Financial Statements of the Company give a true and fair view of:

- 1 The state of affairs of the Company and its subsidiary as at the date of the Statement of Financial Position; and
- 2 The financial performance of the Company and its subsidiary for the financial year ended 31st December 2014.

In preparing these Financial Statements / Consolidated 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 are provided in full.

The Directors are also required to ensure that the Company has adequate resources to continue in operation to justify applying the going concern basis in preparation of these Financial Statements / Consolidated Financial Statements.

The directors have a responsibility to ensure that the Company maintains sufficient accounting records to disclose, with reasonable records to disclose, with reasonable accuracy the financial position of the Company and of the Group.

The Financial Statements and Consolidated Financial Statements 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 of the Company on 13th February 2015 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 and Consolidated Financial Statements for the year 2014, 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 and Group, prevent and detect frauds and other irregularities, and to secure as far as practicable the accuracy and reliability of records.

The Directors are required to prepare the Consolidated Financial Statements of the Group and the Financial Statements of the Company 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 (page 284).

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 an Interim dividend of Rs. 5.00 per share for this year, to be paid on 09th March 2015.

The Board of Directors also wish 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 and its subsidiary, 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
13th February 2015

CEO's 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 and subsequent amendments thereto. 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 unless otherwise stated in the notes accompanying the Financial Statements.

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 judgments' 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, and the independent 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.

We confirm that the Company has complied with all applicable laws and regulations and guidelines and that there are no material litigations that are pending against the Company other than those arising in the normal course of conducting insurance business.

Also taxes, duties and all statutory payments by the Company and in respect of the employees of the Company as at the Reporting Date have been paid or where relevant accrued.

(Sgd.)

T.M.Iftikar Ahamed
*Managing Director /
Chief Executive Officer*

Colombo
13th February 2015

(Sgd.)

Saliya Wickramasinghe
Chief Financial Officer

Actuary's Report - Life



Actuarial & Management
Consultants (Pvt) Limited

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TO THE SHAREHOLDERS OF ASIAN ALLIANCE INSURANCE PLC

ACTUARIAL VALUATION OF THE LONG TERM INSURANCE BUSINESS AS AT 31 DECEMBER 2014

We have carried out an actuarial valuation of the Long Term Insurance Business as at 31st December, 2014. We hereby certify that, in our opinion,

- 1) Proper records have been kept by the Company which are appropriate for the purpose of the actuarial valuation of the liabilities of the Long Term Insurance Fund;
- 2) Adequate and proper reserves have been provided as at 31st December, 2014, 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 31st December, 2014, exceed the required actuarial reserves as at 31st December 2014 by Rs. 538.115 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. 245.641 million, including the solvency margin for the new reversionary bonus allotted as at 31st December 2014, and is fully provided for.

M POOPALANATHAN
ACTUARY
13th February 2015

Certification of Incurred But Not Reported (IBNR) Claims and Liability Adequacy Test (LAT) - General



TO THE SHAREHOLDERS OF ASIAN ALLIANCE INSURANCE PLC

ASIAN ALLIANCE INSURANCE PLC 31ST DECEMBER 2014 NET IBNR AND LAT CERTIFICATION

I hereby certify that the Central Estimate of the IBNR provision, excluding an allowance for CHE, of LKR 77.3 million is adequate in relation to the Claim Liability of Asian Alliance Insurance PLC as at 31st December 2014, net of reinsurance (undiscounted). 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 incurred claims obligations as at 31st December 2014, 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 provision of LKR 845.3 million set by the Company, net of reinsurance, is adequate in relation to the unexpired risks of Asian Alliance Insurance PLC as at 31st December 2014, 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 reasonableness of the data.

A handwritten signature in black ink, appearing to read 'Matthew Maguire'.

Matthew Maguire

Fellow of the Institute of Actuaries of Australia (FIAA)

For and on behalf of NMG Financial Services Consulting

Dated 23th January 2015

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Report on the LAT - Life



TO THE SHAREHOLDERS OF ASIAN ALLIANCE INSURANCE PLC

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, 2014. 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 future cash flows and the present value of projected future cash flows discounted at risk free yield rates for non participating business and a 10% portfolio yield rate for participating business with future bonuses 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. Sufficiently less than aggregate audited balance sheet life insurance business reserve amounting to LKR 4.830.4 million when compared to the discounted present value of future projected cash flow with a provision for adverse deviation amounting to LKR 2, 260.4 million so as to opine on the adequacy of Asian Alliance Insurance PLC life insurance business reserve.

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.

A handwritten signature in black ink, appearing to read "John C. Vieren".

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

13th February 2015

Independent Auditors' Report



KPMG
(Chartered Accountants)
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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"), and the consolidated financial statements of the Company and its subsidiary ("Group"), which comprise the statement of financial position as at December 31, 2014 and the statement of income, statement of profit or loss and other comprehensive income, statement of changes in equity and, cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information set out on pages 287 to 387.

Board's Responsibility for the Financial Statements

The Board of Directors ("Board") is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2014 and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we state the following:

- (a) The basis of opinion and scope and limitations of the audit are as stated above
- (b) In our opinion:
- we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company,
 - The financial statements of the Company give a true and fair view of its financial position as at 31st December 2014, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.
 - The financial statements of the Company and the Group comply with the requirements of sections 151 and 153 of the Companies Act No. 07 of 2007.

As required by section 47 (2) of the Regulation of Insurance Industry Act, No. 43 of 2000, the accounting records of the Company have been maintained in the manner required by the rules issued by the IBSL give a true and fair view of the financial position.



Chartered Accountants
Colombo

13th February 2015

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

M.R. Mihular FCA
T.J.S. Rajakarier FCA
Ms. S.M.B. Jayasekara ACA
G.A.U. Karunaratne ACA
P.Y.S. Perera FCA
W.W.J.C. Perera FCA
W.K.D.C. Abeyrathne ACA
R.M.D.B. Rajapakse ACA
C.P. Jayatilake FCA
Ms. S. Joseph FCA
S.T.D.L. Perera FCA
Ms. B.K.D.T.N Rodrigo ACA
Principals - S.R.I. Perera ACMA, LLB, Attorney-at-Law, H.S. Goonewardene ACA

Financial Statements

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Financial Statements

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Income Statement

For the year ended 31 December	Note	Page	GROUP		COMPANY		CHANGE	
			2014 Rs. ' 000	2014 Rs. ' 000	2013 Rs. ' 000	Group* %	Company %	
Gross Written Premium	7	323	4,773,295	4,773,295	4,076,669	17%	17%	
Net Change in Reserve for Unearned Premium GWP	7.2		(108,998)	(108,998)	(198,465)	-45%	-45%	
Gross Earned Premium	7.3		4,664,297	4,664,297	3,878,204	20%	20%	
Less Premiums Ceded to Reinsurers	8	324	(552,563)	(552,563)	(635,878)	-13%	-13%	
Net Change in Reserve for Unearned Reinsurance Premium	8.1		28,333	28,333	(1,967)	-1,540%	-1,540%	
Net Earned Premium	8.2		4,140,067	4,140,067	3,240,359	28%	28%	
Other Revenue								
Net Finance Income	9	325	826,090	822,187	598,749	38%	37%	
Net Realized Gains	10	326	765,268	765,268	286,312	167%	167%	
Net Fair value Gains	11	327	359,284	359,284	105,733	240%	240%	
Other Operating Income			15,638	15,638	5,771	171%	171%	
			1,966,280	1,962,377	996,564	97%	97%	
Total Net Income			6,106,347	6,102,444	4,236,923	44%	44%	
Net Benefits, Claims and Expenses								
Net Insurance Benefits and Claims Paid	12	327	(1,403,402)	(1,403,402)	(1,107,921)	27%	27%	
Net Change in Insurance Claims Outstanding	13	328	(145,259)	(145,259)	(16,505)	780%	780%	
Change in Insurance Contract Liabilities- Life Fund	32.1	352	(1,253,098)	(1,253,098)	(842,119)			
Underwriting and Net Acquisition Costs	14	329	(833,325)	(833,325)	(711,700)	17%	17%	
Other Operating and Administrative Expenses	15	330	(1,677,304)	(1,676,572)	(1,151,972)	46%	46%	
Finance Cost			(25,840)	(25,840)	(12,569)	106%	106%	
Total Benefits, Claims and Expenses			(5,338,228)	(5,337,496)	(3,842,786)	39%	39%	
Profit Before Taxation			768,119	764,948	394,137	95%	94%	
Income Tax Expenses	16	331	(12,838)	(12,838)	(31,802)	-60%	-60%	
Profit for the year			755,281	752,110	362,335	108%	108%	
Profit attributable to:								
Owners of the Company			755,281	752,110	362,335			
Non-controlling interests			-	-	-			
Profit for the Year			755,281	752,110	362,335			
Earnings per Share								
Basic Earnings per Share (Rs)	17.1	333	20.14	20.05	9.66			
Diluted Earnings per Share (Rs)	17.2	333	20.14	20.05	9.66			

* Change information in Group column represents a change with 2014 Group results against 2013 Company results.

The Notes on pages 303 to 387 are an integral part of these Consolidated Financial Statements

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December	Note	Page	GROUP	COMPANY	
			2014 Rs. ' 000	2014 Rs. ' 000	2013 Rs. ' 000
Profit for the year			755,281	752,110	362,335
Other Comprehensive Income					
Items that will never be reclassified to Income Statement					
Remeasurement of defined benefit (liability)/asset			1,381	1,381	(2,330)
Related Tax			-	-	-
			1,381	1,381	(2,330)
Items that are or may be reclassified to Income Statement					
Available for sale financial asset -net change in fair value	30	351	15,783	15,783	112,476
Available for sale financial asset-net change in fair value changes - Life	30	351	407,875	407,875	121,854
Available for sale financial assets reclassified to Income Statement	30	351	(82,849)	(82,849)	(224,146)
Related Tax			-	-	-
			340,809	340,809	10,184
Other Comprehensive Income, net of tax			342,190	342,190	7,854
Total comprehensive income for the year			1,097,471	1,094,300	370,189
Total comprehensive income attributable to:					
Owners of the Company			1,097,471	1,094,300	370,189
Non-controlling interests			-	-	-
			1,097,471	1,094,300	370,189

The Notes on pages 303 to 387 are an integral part of these Consolidated Financial Statements

Statement of Financial Position

As at 31 December	Note	Page	GROUP		COMPANY
			2014 Rs. ' 000	2014 Rs. ' 000	2013 Rs. ' 000
Assets					
Intangible Assets	19	334	31,493	31,493	40,574
Property Plant and Equipment	20	335	377,875	377,875	117,467
Investment in Subsidiary	40.2	381	-	100,000	-
Financial Investments	21	338	8,567,946	8,464,071	6,242,871
Loans to Life Policyholders and Others	22	344	133,846	133,846	107,089
Reinsurance Receivables	23	345	159,712	159,712	144,058
Premium Receivables	24	345	460,196	460,196	464,453
Amounts due from Related Companies	25	347	662	2,044	259
Receivables and Other Assets	26	347	341,222	341,022	166,855
Insurance Contract -Deferred Expenses	27	350	100,956	100,956	89,304
Cash and Cash Equivalents	28	350	130,283	130,255	102,228
Total Assets			10,304,191	10,301,470	7,475,158
Equity and Liabilities					
Equity					
Stated Capital	29	351	1,062,500	1,062,500	1,062,500
Available for Sale Reserves	30	351	455,472	455,472	114,663
Retained Earnings	31	351	855,693	853,022	654,531
Total Equity			2,373,665	2,370,994	1,831,694
Liabilities					
Insurance Contract Liabilities - Life	32	352	5,223,695	5,223,695	3,938,030
Insurance Contract Liabilities - General	33	354	1,138,694	1,138,694	921,221
Employee Benefits	34	356	53,028	53,028	46,154
Current Tax Liabilities			11,980	11,980	15,537
Reinsurance Payable	35	357	131,308	131,308	137,583
Insurance Contract-Deferred Revenue	36	357	25,779	25,779	17,820
Other Liabilities	37	358	872,254	872,204	398,056
Short Term Borrowings	38	359	154,483	154,483	50,000
Bank Overdraft	28	350	319,305	319,305	119,063
Total Liabilities			7,930,526	7,930,476	5,643,464
Total Equity and Liabilities			10,304,191	10,301,470	7,475,158
Net Asset per Share (Rs.)			63.30	63.23	48.85

The Notes on pages 303 to 387 are an integral part of these Consolidated Financial Statements

These Consolidated Financial Statements are in compliance with the requirement 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 Consolidated Financial Statements.

Signed for and on behalf of the Board By

(Sgd.)

Asoka K Pathirage
Chairman
Colombo
13th February 2015

(Sgd.)

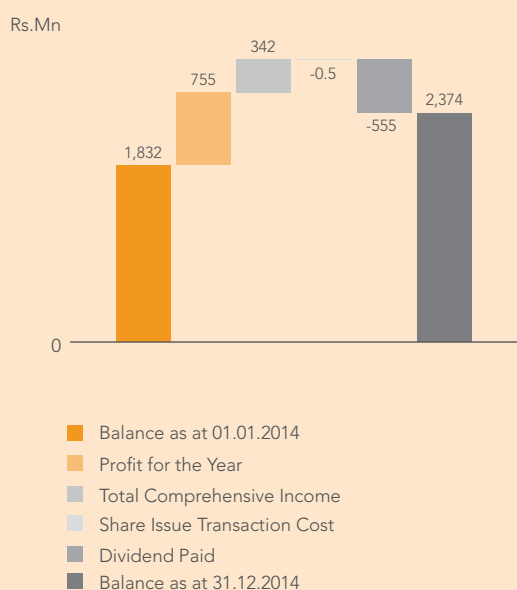
Iftikar Ahamed
Managing Director

Statement of Changes in Equity-Group

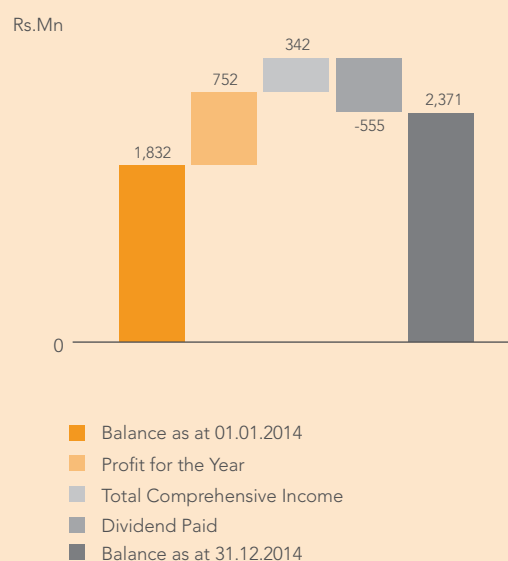
For the year ended 31 December 2014		Stated Capital	Other Reserves	Retained reserves	Total
		Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000
			Available for Sale Reserve		
Note	Page	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000
		1,062,500	114,663	654,531	1,831,694
				755,281	755,281
Other Comprehensive Income for the Year					
Available-for-sale Financial Asset-net Change in Fair Value					
30	351	-	15,783	-	15,783
Available-for-sale Financial Asset-net Change in Fair Value Changes - Life					
30	351	-	407,875	-	407,875
Available-for-sale Financial Assets Reclassified to Income Statement					
30	351	-	(82,849)	-	(82,849)
Remeasurement of Defined Benefit (liability)/asset					
		-	-	1,381	1,381
Total Other Comprehensive Income		-	340,809	1,381	342,190
Total Comprehensive Income for the Year		-	340,809	756,662	1,097,471
Transactions with the Owners of the Company, Recognised Directly in Equity					
Contributions & Distributions					
First and Final Dividend - 2013					
		-	-	(180,000)	(180,000)
Interim Dividend - 2014					
		-	-	(375,000)	(375,000)
Share Issue Transactions Cost - Subsidiary					
		-	-	(500)	(500)
Balance as at 31st December 2014		1,062,500	455,472	855,693	2,373,665

The Notes on pages 303 to 387 are an integral part of these Consolidated Financial Statements

Development of Total Equity - Group



Development of Total Equity - Company



Statement of Changes in Equity-Company

For the year ended 31 December 2014	Stated Capital	Other Reserves	Retained reserves	Total
	Rs. ' 000	Available for Sale Reserve Rs. ' 000	Rs. ' 000	Rs. ' 000
Balance as at 1st January 2013	1,062,500	104,477	294,526	1,461,503
Total Comprehensive Income for the Year				
Profit for the year	-	-	362,335	362,335
Other Comprehensive Income for the Year				
Available-for-sale Financial asset - net Change in Fair Value	-	112,477	-	112,477
Available-for-sale Financial Asset-net change in Fair Value changes - Life	-	121,855	-	121,855
Available-for-sale Financial Assets Reclassified to Income Statement	-	(224,146)	-	(224,146)
Remeasurement of Defined Benefit (liability) / asset	-	-	(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
Transactions with Owners				
Dividend Paid	-	-	-	-
Balance as at 31st December 2013	1,062,500	114,663	654,531	1,831,694
Balance as at 1st January 2014	1,062,500	114,663	654,531	1,831,694
Profit for the Year	-	-	752,110	752,110
Other Comprehensive Income for the Year				
Available-for-sale Financial Asset -net Change in Fair Value	-	15,783	-	15,783
Available-for-sale Financial Asset-net Change in Fair Value Changes - Life	-	407,875	-	407,875
Available for Sale Financial Assets Reclassified to Income Statement	-	(82,849)	-	(82,849)
Remeasurement of Defined Benefit (liability) / asset	-	-	1,381	1,381
Total Other Comprehensive Income	-	340,809	1,381	342,190
Total Comprehensive Income for the year	-	340,809	753,491	1,094,300
Transactions with the Owners of the Company, Recognised Directly in Equity				
Contributions & Distributions				
First and Final Dividend - 2013	-	-	(180,000)	(180,000)
Interim Dividend - 2014	-	-	(375,000)	(375,000)
Balance as at 31st December 2014	1,062,500	455,472	853,022	2,370,994

The Notes on pages 303 to 387 are an integral part of these Consolidated Financial Statements

Statement of Cash Flows

For the year ended 31 December	Note	GROUP	COMPANY	
		2014 Rs. ' 000	2014 Rs. ' 000	2013 Rs. ' 000
CASH FLOWS FROM OPERATING ACTIVITIES				
Insurance Premium Received		5,017,865	5,017,865	4,226,129
Reinsurance Premium Paid		(436,166)	(436,166)	(576,268)
Insurance Claims and Benefits Paid	12.1	(1,679,179)	(1,679,179)	(1,293,089)
Reinsurance Claims Received	12.2	275,776	275,776	232,902
Payments to Intermediaries to Acquire Insurance Contracts		(923,591)	(923,591)	(807,641)
Cash Paid to Employees, Intermediaries and Other Suppliers for Services and Goods		(549,611)	(549,611)	(373,704)
Interest Received		440,896	436,990	397,397
Dividend Received		125,026	125,026	164,305
Other Operating Cash Flows		(994,557)	(994,457)	(948,418)
Net Cash Generated from Operating Activities	A	1,276,459	1,272,653	1,027,176
Income Tax paid		(3,787)	(3,787)	(3,354)
Gratuity Paid	34.2	(5,174)	(5,174)	(1,767)
Interest Paid		(21,347)	(21,347)	(12,569)
Net Cash Generated from Operating Activities		1,246,151	1,242,345	1,009,486
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of Subsidiary		-	(100,000)	-
Acquisition of Financial Investments		(14,524,186)	(14,420,311)	(21,122,164)
Proceeds from sale of Financial Investments		13,652,022	13,651,925	20,108,448
Acquisition of Property, Plant and Equipment	19.1/20.1	(299,507)	(299,507)	(79,571)
Proceeds from Sale of Property, Plant and Equipment		-	-	63
Net Cash (used) / Generated from Investing Activities		(1,171,671)	(1,167,893)	(1,093,224)
Net Cash (used in) / Generated from flow before Financing Activities		74,480	74,452	(83,738)
CASH FLOWS FROM FINANCING ACTIVITIES				
Dividend Paid		(346,598)	(346,598)	-
Short Term Borrowings		99,930	99,930	50,000
Net Cash (used in) / Generated from Financing Activities		(246,668)	(246,668)	50,000
Net Increase/(Decrease) in Cash and Cash Equivalents	B	(172,188)	(172,216)	(33,738)

For the year ended 31 December	Note	GROUP	COMPANY	
		2014 Rs. ' 000	2014 Rs. ' 000	2013 Rs. ' 000
Notes to Cash Flow Statement				
A. Reconciliation of operating profit with				
Cash Flows Operating Activities				
Profit Before Taxation		768,119	764,949	394,137
Adjustments for :				
Increase in Insurance Liabilities - Life		1,253,098	1,253,098	842,119
Depreciation on property plant & equipment	20.1	38,675	38,675	37,611
Amortisation of Intangible assets	19.1	9,503	9,503	
Provision for Employee Benefits	34.2a	13,429	13,429	11,193
Interest expense		25,840	25,840	12,569
Net Realised (Gains) / Losses	10	(765,268)	(765,268)	(286,312)
Net Fair Value (Gains) / Losses	11	(359,284)	(359,284)	(105,733)
Profit on Sale of Property, Plant and Equipments		-	-	(41)
(Increase) / Decrease in Receivables and Other Assets		(253,955)	(253,755)	(181,417)
Increase / (Decrease) in Insurance Contracts - General		217,473	217,473	239,707
(Increase) / Decrease in Deferred Acquisition Cost		(11,653)	(11,653)	(21,112)
Increase / (Decrease) in Deferred Revenue		7,958	7,958	1,140
Increase / (Decrease) in Payables and Other Liabilities		332,524	331,688	83,273
Net Cash Generated from Operating Activities		1,276,459	1,272,653	1,027,176
B. Increase in Cash and Cash Equivalents				
Cash and Cash Equivalents		130,283	130,255	102,228
Bank Overdrafts		(319,305)	(319,305)	(119,063)
Net Cash and Cash Equivalents as at 31st December 2014	28	(189,022)	(189,050)	(16,835)
Net Cash and Cash Equivalents as at the Beginning of the period		(16,834)	(16,834)	16,903
Increase / (Decrease) in Cash and Cash Equivalents		(172,188)	(172,216)	(33,738)

The Notes on pages 303 to 387 are an integral part of these Consolidated Financial Statements

Income Statement

Segment Review 2014

For the Year Ended 31 December	GROUP			COMPANY		
	Life Insurance Rs. ' 000	General Insurance Rs. ' 000	Total Rs. ' 000	Life Insurance Rs. ' 000	General Insurance Rs. ' 000	Total Rs. ' 000
Gross Written Premium	3,048,148	1,725,147	4,773,295	3,048,148	1,725,147	4,773,295
Net Change in Reserve for Unearned Premium GWP	-	(108,998)	(108,998)	-	(108,998)	(108,998)
Gross Earned Premiums	3,048,148	1,616,149	4,664,297	3,048,148	1,616,149	4,664,297
Less Premiums Ceded to Reinsurers	(231,555)	(321,008)	(552,563)	(231,555)	(321,008)	(552,563)
Net Change in Reserve for Unearned Premium Reinsurance	-	28,333	28,333	-	28,333	28,333
Net Earned Premium	2,816,593	1,323,474	4,140,067	2,816,593	1,323,474	4,140,067
Other Revenue						
Net Finance Income	655,842	170,248	826,090	655,842	166,345	822,187
Net Realized Gains	519,866	245,402	765,268	519,866	245,402	765,268
Fair value Gains	291,813	67,471	359,284	291,813	67,471	359,284
Other Operating Income	9,801	5,837	15,638	9,801	5,837	15,638
	1,477,322	488,958	1,966,280	1,477,322	485,055	1,962,377
Total Net Income	4,293,915	1,812,432	6,106,347	4,293,915	1,808,529	6,102,444
Net Benefits, Claims and Expenses						
Net Insurance Benefits and Claims Paid	(308,799)	(1,094,603)	(1,403,402)	(308,799)	(1,094,603)	(1,403,402)
Net Change in Insurance Claims Outstanding	(3,692)	(141,567)	(145,259)	(3,692)	(141,567)	(145,259)
Change in Insurance Contract Liabilities- Life Fund	(1,253,098)	-	(1,253,098)	(1,253,098)	-	(1,253,098)
Underwriting and Net Acquisition Costs	(714,531)	(118,794)	(833,325)	(714,531)	(118,794)	(833,325)
Other Operating and Administrative Expenses	(1,155,197)	(522,107)	(1,677,304)	(1,155,197)	(521,375)	(1,676,572)
Finance Cost	(18,499)	(7,341)	(25,840)	(18,499)	(7,341)	(25,840)
Total Benefits, Claims and Expenses	(3,453,816)	(1,884,412)	(5,338,228)	(3,453,816)	(1,883,680)	(5,337,496)
Profit / (Loss) Before Taxation	840,099	(71,980)	768,119	840,099	(75,151)	764,948
Income Tax Expenses	-	(12,838)	(12,838)	-	(12,838)	(12,838)
Profit / (Loss) for the Year	840,099	(84,818)	755,281	840,099	(87,989)	752,110

The Notes on pages 303 to 387 are an integral part of these Consolidated Financial Statements

Income Statement Segment Review 2013

For the Year Ended 31 December	Life Insurance Rs. ' 000	General Insurance Rs. ' 000	Total Rs. ' 000
Gross Written Premium	2,520,283	1,556,386	4,076,669
Net Change in Reserve for Unearned Premium GWP	-	(198,465)	(198,465)
Gross Earned Premiums	2,520,283	1,357,921	3,878,204
Less Premiums Ceded to Reinsurers	(381,617)	(254,261)	(635,878)
Net Change in Reserve for Unearned Premiums Reinsurance	-	(1,967)	(1,967)
Net Earned Premium	2,138,666	1,101,693	3,240,359
Other Revenue			
Net Finance Income	459,253	139,496	598,749
Net Realized Gains	165,103	121,209	224,186
Fair value Gains / (Losses)	84,616	21,116	167,858
Other Operating Income	298	5,472	5,770
	709,271	287,293	996,564
Total Net Income	2,847,937	1,388,986	4,236,923
Net Benefits, Claims and Expenses			
Net Insurance Benefits and Claims Paid	(206,083)	(901,837)	(1,107,921)
Net Change in Insurance Claims Outstanding	(8,018)	(8,487)	(16,505)
Change in Insurance Contract Liabilities- Life Fund	(842,119)	-	(842,119)
Underwriting and Net Acquisition Costs	(603,629)	(108,071)	(711,700)
Other Operating and Administrative Expenses	(747,679)	(404,292)	(1,151,971)
Finance Cost	(6,834)	(5,735)	(12,569)
Total Benefits, Claims and Expenses	(2,414,362)	(1,428,422)	(3,842,784)
Profit / (Loss) Before Taxation	433,575	(39,436)	394,138
Income Tax Expenses	-	(31,802)	(31,802)
Profit / (Loss) for the Year	433,575	(71,238)	362,336

The Notes on pages 303 to 387 are an integral part of these Consolidated Financial Statements

Statement of Financial Position

Segment Review 2014

As at 31 December	GROUP				COMPANY			
	General Insurance Rs. ' 000	Life Insurance Rs. ' 000	Elimination Rs. ' 000	Total Rs. ' 000	General Insurance Rs. ' 000	Life Insurance Rs. ' 000	Elimination Rs. ' 000	Total Rs. ' 000
Assets								
Intangible Assets	16,484	15,009		31,493	16,484	15,009		31,493
Property, Plant & Equipment	88,150	289,725		377,875	88,150	289,725		377,875
Investment in Subsidiary	-	100,000	(100,000)	-	-	100,000		100,000
Financial Investments	1,925,268	6,642,678		8,567,946	1,821,394	6,642,677		8,464,071
Loans to Life								
Policyholders & Others	(506)	134,352		133,846	(506)	134,352		133,846
Reinsurance Receivables	86,396	73,316		159,712	86,396	73,316		159,712
Premium Receivables	410,027	50,169		460,196	410,027	50,169		460,196
Amounts due from								
Related Companies	662	1,382	(1,382)	662	662	1,382		2,044
Receivables & Other Assets	134,178	211,423	(4,379)	341,222	133,978	211,423	(4,379)	341,022
Insurance Contract -								
Deferred Expenses	100,956	-		100,956	100,956		-	100,956
Cash and Cash Equivalents	25,255	105,028		130,283	25,227	105,028		130,255
Total Assets	2,786,870	7,623,082	(105,761)	10,304,191	2,682,768	7,623,081	(4,379)	10,301,470
Equity & Liabilities								
Equity								
Stated Capital	662,500	500,000	(100,000)	1,062,500	562,500	500,000		1,062,500
Available for Sale Reserves	2,266	453,206		455,472	2,266	453,206		455,472
Retained Earnings	405,512	450,181		855,693	402,843	450,179		853,022
Total Equity	1,070,278	1,403,387	(100,000)	2,373,665	967,609	1,403,385		2,370,994
Liabilities								
Insurance Contract								
Liabilities - Life	-	5,223,695		5,223,695	-	5,223,695		5,223,695
Insurance Contract								
Liabilities - General	1,138,694	-		1,138,694	1,138,694	-		1,138,694
Employee Benefits	27,304	25,724		53,028	27,303	25,725		53,028
Current Tax Liabilities	11,980	-		11,980	11,980	-		11,980
Reinsurance Payable	116,604	14,704		131,308	116,604	14,704		131,308
Insurance Contract-								
Deferred Revenue	25,779	-		25,779	25,779	-		25,779
Other Liabilities	223,797	654,218	(5,761)	872,254	222,365	654,218	(4,379)	872,204
Short Term Borrowings	-	154,483		154,483	-	154,483		154,483
Bank Overdraft	172,434	146,871		319,305	172,434	146,871		319,305
Total Liabilities	1,716,592	6,219,695	(5,761)	7,930,526	1,715,159	6,219,696	(4,379)	7,930,476
Total Equity and Liabilities	2,786,870	7,623,082	(5,761)	10,304,191	2,682,768	7,623,081	(4,379)	10,301,470

Note

Stated Capital was notionally allocated between Life and General Shareholders

The Notes on pages 303 to 387 are an integral part of these Consolidated Financial Statements

Statement of Financial Position

Segment Review 2013

As at 31 December	General Insurance Rs. ' 000	Life Insurance Rs. ' 000	Elimination Rs. ' 000	Total Rs. ' 000
Assets				
Intangible Assets	31,407	9,167		40,574
Property, Plant & Equipment	33,814	83,653		117,467
Financial Investments	1,416,119	4,826,752		6,242,871
Loans to Life Policyholders & Others	471	106,618		107,089
Reinsurance Receivables	82,284	61,774		144,058
Premium Receivables	418,368	46,085		464,453
Amounts due from Related Companies	259	-		259
Receivables & Other Assets	83,926	95,046	(12,117)	166,855
Insurance Contract - Deferred Expenses	89,304	-		89,304
Cash and Cash Equivalents	7,973	94,254		102,228
Total Assets	2,163,925	5,323,349	(12,117)	7,475,158
Equity & Liabilities				
Equity				
Stated Capital	562,500	500,000		1,062,500
Available for Sale Reserves	11,343	103,319		114,663
Retained Earnings	322,331	332,199		654,531
Total Equity	896,174	935,518		1,831,694
Liabilities				
Insurance Contract Liabilities - Life	-	3,938,030		3,938,030
Insurance Contract Liabilities - General	921,221	-		921,221
Employee Benefits	25,652	20,502		46,154
Current Tax Liabilities	15,537	-		15,537
Reinsurance Payable	55,594	81,989		137,583
Insurance Contract- Deferred Revenue	17,820	-		17,820
Other Liabilities	160,453	249,722	(12,117)	398,056
Short Term Borrowings	-	50,000		50,000
Bank Overdraft	71,474	47,588		119,063
Total Liabilities	1,267,751	4,387,831	(12,117)	5,643,464
Total Equity and Liabilities	2,163,925	5,323,349	(12,117)	7,475,158

Note

During the Year Stated Capital was segregated between Life and General Shareholders

The Notes on pages 303 to 387 are an integral part of these Consolidated Financial Statements

Statement of Cash Flows

Segment Review 2014

For the year ended 31 December	GROUP			COMPANY				
	General Rs. ' 000	Life Rs. ' 000	Elimination	Total Rs. ' 000	General Rs. ' 000	Life Rs. ' 000	Elimination	Total Rs. ' 000
CASH FLOWS FROM OPERATING ACTIVITIES								
Insurance Premium Received	1,960,447	3,057,418		5,017,865	1,960,447	3,057,418		5,017,865
Reinsurance Premium Paid	(200,990)	(235,176)		(436,166)	(200,990)	(235,176)		(436,166)
Insurance Claims and Benefits Paid	(1,172,870)	(506,309)		(1,679,179)	(1,172,870)	(506,309)		(1,679,179)
Reinsurance Claims Received	62,188	213,588		275,776	62,188	213,588		275,776
Payments to Intermediaries to Acquire insurance Contracts	(183,424)	(740,167)		(923,591)	(183,424)	(740,167)		(923,591)
Cash Paid to Employees, intermediaries and other Suppliers for Services and Goods	(306,012)	(243,599)		(549,611)	(306,012)	(243,599)		(549,611)
Interest Received	80,991	359,905		440,896	77,088	359,902		436,990
Dividend Received	32,907	92,119		125,026	32,907	92,119		125,026
Other Operating Cash Flows	(332,635)	(661,922)		(994,557)	(332,535)	(661,922)		(994,457)
Net Cash Generated from Operating Activities (Note A)	(59,398)	1,335,857		1,276,459	(63,201)	1,335,854		1,272,653
Income Tax Paid (Economic Service Charge)	(3,787)	-		(3,787)	(3,787)	-		(3,787)
Gratuity Paid	(3,636)	(1,538)		(5,174)	(3,636)	(1,538)		(5,174)
Interest Paid	(7,404)	(13,943)		(21,347)	(7,404)	(13,943)		(21,347)
Net Cash Generated from Operating Activities	(74,225)	1,320,376		1,246,151	(78,028)	1,320,373		1,242,345
CASH FLOWS FROM INVESTING ACTIVITIES								
Investment in Subsidiary	-	(100,000)	100,000	-	-	(100,000)		(100,000)
Acquisition of Financial Investments	(4,702,611)	(9,821,575)		(14,524,186)	(4,598,736)	(9,821,575)		(14,420,311)
Proceeds from sale of Financial Investments	4,653,308	8,998,714		13,652,022	4,653,211	8,998,714		13,651,925
Acquisition of Property, Plant and Equipment	(60,153)	(239,354)		(299,507)	(60,153)	(239,354)		(299,507)
Net Cash (used) in Investing Activities	(109,456)	(1,162,215)	100,000	(1,171,671)	(5,678)	(1,162,215)		(1,167,893)
Net Cash Flow (used in) / Generated from flow before Financing Activities	(183,681)	158,161	100,000	(74,480)	(83,706)	158,158		74,452
CASH FLOWS FROM FINANCING ACTIVITIES								
Proceeds from Share Issue	100,000	-	(100,000)	-				
Dividend Paid	-	(346,598)		(346,598)	-	(346,598)		(346,598)
Short Term Borrowings	-	99,930		99,930	-	99,930		99,930
Net Cash from / Generated from / (used in) Financing Activities	100,000	(246,668)		(246,668)	-	(246,668)		(246,668)
Net Increase/(Decrease) in Cash and Cash Equivalents (Note B)	(83,678)	(88,510)		(172,188)	(83,706)	(88,510)		(172,216)

For the year ended 31 December	GROUP			COMPANY				
	General Rs. ' 000	Life Rs. ' 000	Elimination Rs. ' 000	Total Rs. ' 000	General Rs. ' 000	Life Rs. ' 000	Elimination Rs. ' 000	Total Rs. ' 000
Notes to Cash Flow Statement								
A. Reconciliation of operating profit with								
Cash Flows Operating Activities								
Profit before Taxation	(71,980)	840,099		768,119	(75,150)	840,099		764,949
Adjustments for :								
Increase in Insurance Liabilities - Life	-	1,253,098		1,253,098	-	1,253,098		1,253,098
Depreciation on Property, Plant and Equipment	13,095	25,580		38,675	13,095	25,580		38,675
Amortization of Intangible Assets	7,643	1,860		9,503	7,643	1,860		9,503
Provision for Employee Benefits	5,289	8,140		13,429	5,289	8,140		13,429
Interest Expense	7,342	18,498		25,840	7,342	18,498		25,840
Net Realized (Gains) / Losses	(245,402)	(519,866)		(765,268)	(245,402)	(519,866)		(765,268)
Net Fair Value (Gains) / Losses	(67,471)	(291,813)		(359,284)	(67,471)	(291,813)		(359,284)
Profit on Sale of Property, Plant and Equipments	-	-		-	-	-		-
(Increase) / Decrease in Receivables and Other Assets	(45,450)	(200,768)	(7,737)	(253,955)	(45,250)	(200,768)	(7,737)	(253,755)
Increase / (Decrease) in Insurance Contracts - General	217,473	-		217,473	217,473	-		217,473
(Increase) / Decrease in Deferred Acquisition Cost	(11,653)	-		(11,653)	(11,653)	-		(11,653)
Increase / (Decrease) in Deferred Revenue	7,958	-		7,958	7,958	-		7,958
Increase / (Decrease) in Payables and Other Liabilities	123,759	201,028	7,737	332,524	122,923	201,028	7,737	331,688
Net Cash Generated from Operating Activities	(59,397)	1,335,856		1,276,459	(63,203)	1,335,856		1,272,653
B. Increase in Cash and Cash Equivalents								
Cash and Cash Equivalents	25,255	105,028		130,283	25,227	105,028		130,255
Bank Overdrafts	(172,434)	(146,871)		(319,305)	(172,434)	(146,871)		(319,305)
Net Cash and Cash Equivalents as at 31st December 2014	(147,179)	(41,843)		(189,022)	(147,207)	(41,843)		(189,050)
Net Cash and Cash Equivalents as at the Beginning of the Period	(63,500)	46,666		(16,834)	(63,500)	46,666		(16,834)
Increase / (Decrease) in Cash and Cash Equivalents	(83,679)	(88,509)		(172,188)	(83,707)	(88,519)		(172,216)

The Notes on pages 303 to 387 are an integral part of these Consolidated Financial Statements

Statement of Cash Flows

Segment Review 2013

For the year ended 31 December		General	Life Elimination	Total
	Note	Rs. ' 000	Rs. ' 000	Rs. ' 000
CASH FLOWS FROM OPERATING ACTIVITIES				
Insurance Premium Received		1,702,612	2,523,517	4,226,129
Reinsurance Premium Paid		(251,539)	(324,729)	(576,268)
Insurance Claims and Benefits Paid		(969,046)	(324,043)	(1,293,089)
Reinsurance Claims Received		63,362	169,540	232,902
Payments to Intermediaries to Acquire Insurance Contracts		(152,850)	(654,791)	(807,641)
Cash paid to Employees, Intermediaries and Other Suppliers for Services and Goods		(217,008)	(156,696)	(373,704)
Cash Received from Sale of Salvages		5,563	-	5,563
Interest Received		74,941	322,456	397,397
Dividend Received		48,995	115,309	164,305
Other Operating Cash Flows		(280,919)	(667,499)	(948,418)
Net Cash Generated from Operating Activities	A	24,111	1,003,065	1,027,176
Income Tax paid (Economic Service Charge)		(3,354)	-	(3,354)
Retiring Gratuity Paid		(1,170)	(597)	(1,767)
Interest Paid		(3,642)	(8,927)	(12,569)
Net Cash Generated from Operating Activities		15,945	993,541	1,009,486
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of Financial Investments		(5,578,842)	(15,543,322)	(21,122,164)
Proceeds from Sale of Financial Investments		5,538,197	14,570,253	20,108,448
Acquisition of Property, Plant and Equipment		(33,892)	(45,679)	(79,571)
Proceeds from Sale of Property, Plant and Equipment		-	63	63
Net Cash (used) in Investing Activities		(74,537)	(1,018,685)	(1,093,224)
Net Cash (used in) / Generated from Financing Activities		(58,593)	(25,144)	(83,738)
CASH FLOWS FROM FINANCING ACTIVITIES				
Short Term Borrowings		-	50,000	50,000
Net Cash Generated from/(used in) Financing Activities		-	50,000	50,000
Net Increase/(Decrease) in Cash and Cash Equivalents	B	(58,593)	24,856	(33,738)

For the year ended 31 December	General Rs. ' 000	Life Rs. ' 000	Elimination	Total Rs. ' 000
Notes to Cash Flow Statement				
A. Reconciliation of Operating Profit with Cash Flows Operating Activities				
Profit before Tax	(39,436)	433,575		394,137
Adjustments for:				-
Increase in Insurance Liabilities - Life		842,119		842,119
Depreciation on Property, Plant and Equipment	14,699	22,912		37,611
Provision for Employee Benefits	6,318	4,875		11,193
Interest Expense	3,642	8,927		12,569
Net realised (Gains) / Losses	(119,523)	(104,623)		(224,146)
Net Fair value (Gains) / Losses	(22,802)	(145,056)		(167,858)
Profit on Sale of Property, Plant and Equipments	-	(41)		(41)
(Increase) / Decrease in Receivables and Other Assets	(18,528)	(88,781)	(74,108)	(181,417)
Increase / (Decrease) in Insurance Contracts - General	239,707	-		239,707
(Increase) / Decrease in Deferred Acquisition Cost	(21,112)	-		(21,112)
Increase / (Decrease) in Deferred Revenue	1,140	-		1,140
Increase / (Decrease) in Payables and Other Liabilities	(19,993)	29,158	74,108	83,273
Net Cash Generated from Operating Activities	24,111	1,003,065		1,027,176
B. Increase in Cash and Cash Equivalents				
Cash and Cash Equivalents	7,973	94,254		102,228
Bank Overdrafts	(71,474)	(47,588)		(119,063)
Net Cash and Cash Equivalents as at 31st December 2013	(63,500)	46,666		(16,835)
Net Cash and Cash Equivalents as at the Beginning of the Period	(4,907)	21,810		16,903
Increase / (Decrease) in Cash and Cash Equivalents	(58,593)	24,856		(33,738)

The Notes on pages 303 to 387 are an integral part of these Consolidated Financial Statements

Insurance Revenue Account

For the year ended 31 December	GROUP	COMPANY	
	2014 Rs. '000	2014 Rs. '000	2013 Rs. '000
Life Insurance			
Gross Written Premium	3,048,148	3,048,148	2,520,283
Premiums Ceded to Reinsurers	(231,555)	(231,555)	(381,617)
Net Written Premium	2,816,593	2,816,593	2,138,666
Finance and Other Income	1,001,660	1,001,660	571,871
Net Benefits and Claims	(312,491)	(312,491)	(214,101)
Change in Insurance Contract Liabilities- Life Fund	(1,253,098)	(1,253,098)	(842,119)
Underwriting and net Acquisition Costs (including reinsurance)	(714,531)	(714,531)	(603,629)
Expenses	(1,001,257)	(1,001,257)	(750,688)
Surplus from Life Insurance Fund	536,876	536,876	300,000
Finance and Other Income not Attributable to Policyholders	475,662	475,662	137,400
Expenses not Attributable to Policyholder	(172,439)	(172,439)	(3,825)
Profit for the year	840,099	840,099	433,575
General Insurance			
Gross Written Premium	1,725,147	1,725,147	1,556,386
Outward Reinsurance	(321,008)	(321,008)	(254,261)
Net Written Premium	1,404,139	1,404,139	1,302,125
Net Change in Reserve for Unearned Premium	(80,665)	(80,665)	(200,432)
Net Earned Premium	1,323,474	1,323,474	1,101,693
Policy Fee Income	5,837	5,837	5,472
Total Income	1,329,311	1,329,311	1,107,165
Net Insurance Benefits and Claims Paid	(1,094,603)	(1,094,603)	(901,837)
Net Change in Insurance Claims Outstanding	(141,567)	(141,567)	(8,487)
Underwriting and net Acquisition Costs (including reinsurance)	(118,794)	(118,794)	(108,071)
Expenses	(491,999)	(491,266)	(402,903)
Total Benefits and Expenses	(1,846,963)	(1,846,230)	(1,421,298)
Underwriting Loss	(517,652)	(516,919)	(314,133)
Finance and Other income	483,122	479,218	281,821
Non Technical Expenses	(37,450)	(37,450)	(7,124)
Income Tax Expense	(12,838)	(12,838)	(31,802)
Loss for the year	(84,818)	(87,989)	(71,238)
Profit for the year - Company	755,281	752,110	362,335
Key Ratios General Insurance			
Net Loss Ratio	93%	93%	83%
Net Expense Ratio*	34%	34%	35%
Net Combined Ratio	127%	127%	118%

* Net of Policy Fee Income

* Shareholders assets are notionally allocated to each segments.

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. Consolidated Financial Statements

During the year fully owned subsidiary Asian Alliance General Insurance Limited was formed. Accordingly Asian Alliance Insurance PLC prepares consolidated financial statements, by consolidating its fully owned subsidiary Asian Alliance General Insurance Limited.

The financial statements for the year ended 31 December 2014, comprise " the Company" referring to Asian Alliance Insurance PLC as the holding Company and the " the Group" referring to the companies whose accounts have been consolidated therein.

No comparative financial statements are presented as there was no subsidiary formed as at 31st December 2013.

1.3. Principal Activities and Nature of Operation

Asian Alliance Insurance PLC, the Group's holding company is primarily involved in the life and General insurance business. There were no changes in the nature of the principal activities of the company during the financial year under review.

1.4. Parent Entity and Ultimate Parent Entity

The Group'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.

1.5. Approval of the Financial Statements

The Financial Statements for the year ended 31st December 2014 were authorised for issue by the Board of Directors on 13th February 2015.

1.6. 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', 'Statement of Directors Responsibility'.

1.7. Number of Employees

The staff strength of the Company as at December 31, 2014 was 730 (2013 was 618).

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The consolidated financial statements 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 (CA Sri Lanka) 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, Statement of recommended Practice (SoRP) issued by the Insurance Board of Sri Lanka and amendments thereto and the listing rules of the Colombo Stock Exchange.

These consolidated financial statements include the following components:

- a Statement of Financial Position providing the information on the financial position of the Company as at the year-end (Refer page 289);
- an Income Statement, a Statement of profit or loss and other comprehensive income are providing the information on the financial performance of the Company for the year under review (Refer pages 287 and 288);
- a Statement of Changes in Equity depicting all changes in shareholders' Equity (Refer pages 290 and 291);
- a Statement of Cash Flows providing the information to the users, on the ability of the Company to generate cash and cash equivalents and the needs of entity to utilise those cash flows (Refer page 292); and
- Notes to the Financial Statements comprising Accounting Policies and other explanatory information (Refer pages 303 to 387).

2.2 Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the consolidated statement of financial position:

Item	Basis of measurement	Note	Page reference
Derivative financial instruments	At fair value	21 and 39.2	338 and 369
Assets Held for Trading	At fair value	21 and 39.2	338 and 369
Available for Sale Financial Assets	At fair value	21 and 39.2	338 and 369

Notes to the Financial Statements

Item	Basis of measurement	Note	Page reference
The net defined benefit liability	Present value of the defined benefit obligation determined by actuary.	34	356
Policyholders' liabilities	actuarial-determined values based on actuarial guidelines issued by IBSL	32	352

The Company presents its Statement of Financial Position broadly in order of liquidity. No adjustments have been made for inflationary factors effecting Financial Statements.

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

2.3 Supplementary Statements - Statement of Financial Position - Life Insurance

Supplementary Statement of Financial Position of Life Insurance Fund together with notes are disclosed in page numbers 388 to 392 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.

2.4 Functional and Presentation Currency

The consolidated Financial Statements are presented in Sri Lankan Rupees (LKR), which is the Company's functional currency.

Financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand, except when otherwise indicated.

2.5 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'.

2.6 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.

2.7 Basis of Consolidation

The Consolidated Financial Statements comprise the financial statements of the Group and its subsidiary as at 31st December 2014.

2.7.1 Subsidiaries

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of that enterprise so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The Financial Statements of subsidiary is included in the Consolidated Financial Statements from the date that control effectively commences until the date that control effectively ceases. Accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company.

2.7.2. Non-Controlling Interest

The Non controlling Interest is presented in the Consolidated Statements of Financial Position within equity, separated from the equity attributable to the Equity Holders to the Company. Non controlling Interest in the profit or loss of the Group is disclosed separately in the Consolidated Statements of Comprehensive Income.

2.7.3 Loss of Control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's Accounting Policy for financial instruments depending on the level of influence retained.

2.7.4. Intra-Group Transactions

Intra-group balances, intra-group transactions and resulting unrealised profits are eliminated in full in the Financial Statements. Unrealised losses resulting from intra-group transactions are eliminated unless the cost cannot be recovered.

2.7.5. Accounting for Investment in Subsidiaries

When separated financial statements are prepared, investments in subsidiaries are accounted for using the cost method. Investments in subsidiaries are stated in the Company's Statement of Financial Position at cost less accumulated impairment losses.

2.7.6. Financial Period

The Consolidated Financial Statements are prepared to a common financial year ended 31st December. The accounting policies of

Subsidiaries have been changed where necessary to align them with the policies adopted by the Group.

2.8 Comparative Information

The comparative information is restated and reclassified wherever necessary to confirm 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 47 and page 387.

3 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:

3.1 Valuation of Insurance Contract Liabilities – Life Insurance

The valuation of the Long Term insurance business as at 31st December 2014 was carried out by the Consultant. Actuary based on the assumptions set out in Note No. 32.2 to the consolidated financial statements on Page. 353.

All Life Insurance contracts are subject to the Liability Adequacy Test (LAT) as required by SLFRS 4 – Insurance Contracts. The LAT was carried out by Mr. John C. Vieren, FSA MAA, of Messrs. Pinnacle Consulting Group Ltd. Hong - Kong. For further details please refer to the Note No. 32.2 to the Financial Statements on Page 353.

3.2 Valuation of Insurance Contract liabilities – General Insurance

For General Insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the Reporting Date and for the expected ultimate cost of claims incurred, but not yet reported, at the Reporting Date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty. The main assumption underlying estimating the amounts of outstanding claims is the past claims development experience. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. All General Insurance contracts are subject to a Liability Adequacy Test (LAT). The LAT was carried out by Messrs. NMG Consulting Pte Ltd, Singapore.

For further details please refer to the Note No. 33.5 to the Financial Statements on Page 355.

3.3 Valuation of Employee Benefit Obligation – Gratuity

The cost of defined benefit plans which is gratuity is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases and mortality rates. Due to the complexity of the valuation, the underlying assumptions and its long term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each Reporting Date. Details of the key assumptions used by the actuary in the estimates are contained in Note 34.3.

3.4 Deferred Tax assets and Liabilities

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. The Company establishes provisions, based on reasonable estimates based on the tax laws and interpretations.

3.5 Assessment of Impairment

The Company assesses whether there are any indicators of impairment for an asset or a cash - generating unit at each Reporting Date or more frequently, if events or changes in circumstances necessitate to do so. This requires the estimation of the 'value in use' of such individual assets or the cash - generating units. Estimating value in use requires management to make an estimate of the expected future cash flows from the asset or the cash - generating unit and also to select a suitable discount rate in order to calculate the present value of the relevant cash flows. This valuation requires the Company to make estimates about expected future cash flows and discount rates, and hence, they are subject to uncertainty.

3.6 Fair Value of Financial Instruments

Company measures its Fair values as specified under SLFRS 13 – "Fair Value Measurement". A comprehensive explanation is provided in note number 39 to these financial statements.

3.7 Deferred Acquisition Cost (DAC)

An impairment review is performed on DAC at each Reporting Date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the Statement of Comprehensive Income. No such indication of impairment was experienced during the year.

DAC is derecognised when the related contracts are either settled or disposed of.

3.8 Provisions for Liabilities and Contingencies

The Company receives legal claims against it in the normal course of business. Management has made judgments as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible

Notes to the Financial Statements

outflow of economic benefits. Timing and cost ultimately depend on the due process in respective legal jurisdictions.

The table below provides the reference for different locations in the report which discusses the estimates in detail.

4 SIGNIFICANT ACCOUNTING POLICIES

4.1 Changes in Accounting Policies

Except for the changes below, the Group has consistently applied the accounting policies as set out in Note 3 to all periods presented in these consolidated financial statements. The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2014.

- a. SLFRS 10 Consolidated Financial Statements
- b. SLFRS 12 Disclosure of Interests in Other Entities.

Critical Accounting Estimate /Judgment	Disclosure Reference	
	Note	Page
Going Concern	2.6	304
Impairment of Reinsurance Receivables	4.5	312
Insurance Contract Liabilities - Life and Key actuarial Assumptions	4.13.1	315
Insurance Contract Liabilities - General	4.13.2	316
Liability Adequacy Test (LAT) - Life	4.13.1	315
Liability Adequacy Test (LAT) -General	4.13.2	316
Deferred Acquisition Cost	4.9	314
Valuation of Employee Benefit Obligation - Gratuity	4.14	316
Assessment of Impairment	4.5	311
Fair Value of Financial Instruments	4.4.7	311
Provisions for Liabilities and Contingencies	4.27	320

- c. SLFRS 13 Fair Value Measurement.

Except for the changes specified in Note 3.1 the accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. Certain Comparative amounts in the Statement of Financial Position and Statement of Income have been reclassified to confirm with the current year's presentation as disclosed in Note No. 47.

4.2 Foreign Currency Transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group companies at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-Monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Foreign currency differences are generally recognized in profit or loss. Non-Monetary items that are measured based on historical cost in a foreign currency are not translated.

However, foreign currency differences arising from the translation of the following items are recognised in OCI:

- Available for sale equity investments (except on impairment, in which case foreign currency differences that

have been recognized in OCI are reclassified to profit or loss);

- A financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective and
- Qualifying cash flow hedges to the extent that the hedges are effective.

STATEMENT OF FINANCIAL POSITION

4. 3 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.

4. 3. 1. Product classification

Insurance Contracts

SLFRS 4 requires contracts written by insurers to be classified as either “insurance contracts” or “investment contracts” depending on the level of insurance risk transferred.

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:
 - The performance of a specified pool of contracts or a specified type of contract
 - Realised and or unrealised investment returns on a specified pool of assets held by the issuer
 - The profit or loss of the company, fund or other entity that issues the contract

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 income statement.

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.

4. 3. 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 statement of profit or loss and other comprehensive income.

4.4. Financial assets and financial liabilities

4.4.1 Non-Derivative Financial Assets

4.4.1.1. Initial Recognition and Measurement

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 income statement) 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 income statement, 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.

Notes to the Financial Statements

Financial Asset	Category			
	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				☒
Other Receivables			☒	

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 4.4.1.2 for further details on classification of Financial Instruments.

The Company's existing non derivative Financial Assets and their classifications are summarised in the table above.

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.

4.4.1.2 Subsequent Measurement

a. Financial Assets at Fair Value through Profit or Loss (FVTPL)

Financial assets at fair value through profit or loss include financial assets held for trading and those designated upon initial recognition at fair value through profit or loss. Investments typically bought with the intention to sell in the near future are classified as held for trading.

For investments designated as at fair value through profit or loss, the following criteria must be met:

Financial assets designated at fair value through profit or loss comprises of quoted equity instruments unless otherwise have been classified as available-for-sale.

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on a different basis, or
- The assets and liabilities are part of a company's financial assets, financial liabilities, or both, which are managed and their performance evaluated on a fair value basis, in accordance with the Company's investment strategy.

These investments are initially recorded at fair value. Subsequent to initial recognition, they are remeasured at fair value. Changes in fair value are recorded in 'Fair value gains and losses' in the Statement of Profit or loss and Comprehensive Income.

Interest is accrued and presented in 'Interest and Dividend Income' or 'Finance cost', respectively, using the Effective Interest Rate (EIR). Dividend income is recorded in the 'Interest and Dividend Income' when the right to the payment has been established.

The Company evaluates its financial assets at fair value through profit or loss (held for trading) whether the intent to sell them in the near term is still appropriate. When the Company is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Company may elect to reclassify these financial assets in rare circumstances. The reclassification to loans and receivables, available-for-sale or held to maturity depends on the nature of the asset.

b. Available-for-Sale Financial Assets (AFS)

Available-for-sale financial investments include equity and debt securities (Government Securities and Corporate Debt). Equity investments classified as available-for-sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those

that are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial assets are subsequently measured at fair value, with unrealised gains or losses recognised in statement of profit or loss and Other Comprehensive Income (OCI) in the available-for-sale reserve.

Interest earned whilst holding available-for-sale investments is reported as 'Interest and Dividend Income' using the EIR. Dividends earned whilst holding available-for-sale investments are recognised in the Statement of profit or loss and other Comprehensive Income as 'Interest and Dividend Income' when the right of the payment has been established. When the asset is derecognised, the cumulative gain or loss is recognised in the Interest and Dividend Income.

If the asset is determined to be impaired, the cumulative loss is recognised in the Statement of profit or loss and other Comprehensive Income in the 'Interest and Dividend Income' and removed from the available-for-sale reserve.

The Company evaluates its available-for-sale financial assets to determine whether the ability and intention to sell them in the near term would still be appropriate. In the case where the Company is unable to trade these financial assets due to inactive markets and management's intention significantly changes to do so in the foreseeable future, the Company may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and management has the intention and ability to hold these assets for the foreseeable future or until maturity. The reclassification to held-to-maturity is permitted only when the entity has the ability and intention to hold the financial asset until maturity.

Where financial asset is reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to income statement over the remaining life of the investment using the Effective Interest Rate (EIR). Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired then the amount recorded in equity is reclassified to the Statement of profit or loss and other Comprehensive Income.

c. Held-to Maturity Financial Assets (HTM)

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Company has the intention and ability to hold until maturity. Held-to-maturity financial assets comprise treasury bills and treasury bonds. After initial measurement, held to maturity financial assets are measured at amortised cost, using the EIR, less impairment.

The EIR amortisation is included in 'Interest and Dividend Income' in the Statement of profit or loss and other Comprehensive Income. Gains and losses are recognised in the Statement of profit or loss and other Comprehensive Income when the investments are derecognised or impaired, as well as through the amortisation process.

Held-to-maturity financial assets comprise of debt securities and treasury bonds.

d. 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.

These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. After initial measurement, loans and receivables are measured at amortised cost, using the EIR, less allowance for impairment.

Amortised cost is calculated by taking into account any discount or premium if any, on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in 'Interest and Dividend Income' in the Statement of profit or loss and other Comprehensive Income.

Gains and losses are recognised in the Income Statement when the investments are derecognised or impaired, as well as through the amortisation process.

- *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*

Insurance receivables from General Insurance are recognised when due and measured on initial recognition at the fair value of the consideration receivable. Collectability of premiums is reviewed on an ongoing basis. According to the Premium Payment Warranty (PPW) directive issued by the Insurance Board of Sri Lanka (IBSL), all general insurance policies are issued subject to PPW and are cancelled upon the expiry of 60 days if not settled.

Due Life Insurance premiums (only the premiums due in the 30 day grace period) are recognized at each Reporting Date and will be reversed if the premiums are not settled during the subsequent month, and thus the policies will be lapsed as per the Company policy.

Notes to the Financial Statements

- *Other Receivables and Dues from Related Parties*

Other receivables and dues from Related Parties are recognised at cost less allowances for bad and doubtful receivables.

- *Cash and Cash Equivalents*

Cash and Cash Equivalents comprise cash in hand, demand deposits and short-term highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

Bank overdrafts, if any, which form an integral part of cash management, are included as a component of cash and cash equivalents for the purposes of the Statement of Cash Flows. In the Statement of Financial Position, bank overdrafts are included under liabilities.

4.4.2 Non-derivative Financial Liabilities

- *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.

4.4.3 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 income statement.

- *Separable Embedded Derivatives*

Changes in the fair value of separated embedded derivatives are recognised immediately in income statement.

- *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 income statement as a component of income from other financial instruments at fair value through income statement.

4.4.4. De- recognition of Financial Instruments

4.4.4.1 Financial Assets

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

4.4.4.2. 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.

4.4.5. Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet 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.

Income and expenses are presented on a net basis only when permitted under SLASs, or for gains and losses arising from a group of similar transactions such as in the Company's trading activity.

4.4.6 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.

4.4.7 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 income statement 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 income statement 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 39.2 page 369.

4.4.8. 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 into 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.

4.5 Identification and Measurement of 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 income statement 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.

Notes to the Financial Statements

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
- Adverse 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 Amortised 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.

b. *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.

c. *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.

d. *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 'Net 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.

e. *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.

f. *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.

g. *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.

4.6 Intangible Assets Software

4.6.1 Basis of Recognition

An Intangible Asset is recognised if it is probable that future economic benefits that are attributable to the asset will flow to the Company and the cost of the asset can be measured reliably. Software acquired by the Company is stated at cost less accumulated amortisation and accumulated impairment losses. Expenditure on internally developed software is recognised as an asset when the Company is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs

directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

4.6.2 Subsequent Expenditure

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

4.6.3 Amortisation

Amortisation is recognised in income statement on a straight-line basis over the estimated useful life of the software, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software is five years. Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

4.6.4 De-recognition

An Intangible Asset is de-recognised on disposal or when no future economic benefits are expected from it. The gain or loss arising from the de-recognition of such Intangible Assets is included in the Statement of Profit or Loss and Other Comprehensive Income when the item is derecognised.

4.7 Property, Plant and Equipment

The company applies the requirements of the Sri Lanka Accounting Standard-LKAS 16 on 'Property, Plant & Equipment' in accounting for its owned assets which are 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.

4.7.1. 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.

4.7.2. Basis of Measurement

An item of Property, Plant & Equipment that qualifies for recognition as an asset is initially measured at its cost. Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, except for Land and Building.

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 followings;

- The cost of materials and direct labour;
- Any other costs directly attributable to bringing the asset to a working condition for its intended use;
- When the company has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located; and
- Capitalised borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in "other operating income" in the statement of profit or loss and other comprehensive income. When revalued assets are sold, any related amount included in the revaluation surplus reserves are transferred to retained earnings.

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.

Revaluations

Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment losses are recognised after the date of the revaluation. Valuations are performed every two years to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is recognised in statement of profit or loss and other comprehensive income and accumulated in equity in the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of profit or loss and other comprehensive income, in which case the increase is recognised in the statement of profit or loss and other comprehensive income. A revaluation deficit is recognised in the statement of profit or loss and other comprehensive income, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

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.

Notes to the Financial Statements

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
Building	05	20 years
Office Equipment	20	05 Years
Computer Equipments	20	05Years
Furniture & Fittings	10	10 Years
Fixtures & 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. The depreciation rates are determined separately for each significant part of an item of Property, Plant & Equipment and commence to depreciate when it is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is derecognised.

All classes of property, plant & 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 20.1 on page 336.

Carrying Value

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

The residual values of assets that are not insignificant are reassessed annually. Depreciation on revaluation of a class of assets is based on the remaining useful life of the assets at the time of the revaluation.

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 20.1 on page 336.

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-recognized.

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-recognized. Major inspection costs are capitalized. At each such capitalization the remaining carrying amount of the previous cost of inspections is derecognised.

4.8 Leased Assets-Lessee

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement at the inception date.

Finance Leases

Finance leases that transfer to the company substantially all of the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance cost in the statement of profit and loss and other comprehensive income.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating Leases

Leases that do not transfer to the company substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognized as an expense in the income statement on a straight line basis over the lease term.

4.9 Deferred Expenses

4.9.1. Deferred Acquisition Costs (DAC)

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 not calculated for Life Insurance Contracts as the acquisition costs are incurred in line with the revenues earned.

DAC is amortised over the period in which the related revenues are earned. In line with the available regulatory guidelines from the Insurance Board of Sri Lanka (IBSL), the DAC is calculated based on the 1/365th basis for non marine and 60:40 basis for marine class. 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.

4.9.2. Reinsurance Commissions - Unearned Commission Reserve (UCR) – General

Commissions receivable on outwards reinsurance contracts are deferred and amortised on a straight line basis over the term of the expected premiums payable.

4.10 Impairment of Non - Financial Assets

At each reporting date, the group reviews the carrying amounts of its non- financial assets (other than biological assets, investment property, inventories, and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually impairment.

For Impairment testing, assets are grouped together into the smallest group of assets that generates cash inflow from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the assets or CGU.

An impairment loss is recognised if the carrying amount of an assets or CGU exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reserved only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

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.

4.11 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.

4.12 Equity Movement

4.12.1 Ordinary Shares

The Company has issued ordinary shares that are classified as equity instruments.

4.12.2 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.

LIABILITIES AND PROVISIONS

4.13. Insurance Contract Liabilities

4.13.1. 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,

Notes to the Financial Statements

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.

4.13.2. Contract Liabilities - General Insurance

Measurement

General 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.

The liabilities are derecognised when the obligation to pay claim expires, is discharged or is cancelled.

IBNR reserve is decided by an independent external actuary.

Reserve for Unearned Premium (UPR)

The reserve for unearned premium represents that portion of premium 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 /365 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 premium. 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 general insurance technical provisions.

If the assessments show that the carrying amount of the unearned premium (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.

Title Insurance Reserve

Title insurance reserve is maintained by the Company to pay potential claims arising from the Title Insurance policies. Title Insurance policies are normally issued for a long period such as 5 years or more. Thus, no profit is recognised in the first year of the policy given the relatively higher probability of claims occurring in the first year. From the 2nd year onwards, profit is recognised by amortising the premium received and will be distributed throughout the remaining period of the policy using the straight line method. Profit in the first year will be recognised in the 2nd year and thereafter it is periodically recognised. If the corresponding loan of the Title Insurance Policy issued is settled before the maturity, full premium of such policies remaining as at the date of settlement of such loan is recognised in profits upon confirmation of the same by the respective Bank.

4.14 Employee Benefits

4.14.1 Short-term Employee Benefits

Short term employee benefits 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.

4.14.2 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.

4.14.3 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 statement of profit or loss and Other Comprehensive Income and all expenses related to defined benefit plans in employee benefit expense in Statement of profit or loss and other Comprehensive Income.

4.15 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.

INCOME STATEMENT

4.16 Revenue Recognition

4.16.1 Gross Written Premium (GWP)

a. General Insurance GWP

Gross written premium comprise the total premium 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 premium 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 in accordance with the Regulation of Insurance Industry Act, No. 43 of 2000. However, for those contracts for which the period of risk differs significantly from the contract period, premiums are earned over the period of risk in proportion to the amount of insurance protection provided. The proportion attributable to subsequent periods is deferred as a provision for unearned premium which is included under liabilities.

b. Life Insurance GWP

Gross recurring premium on life insurance contracts are recognised as revenue when payable by the policyholder (policies within the 30 day grace period are considered as due). Premiums received in advance are not recorded as revenue and recorded as liability until the premium is due unless otherwise the relevant policy conditions require such premiums to be recognized as income. Benefits and expenses are provided against such revenue to recognize profits over the estimated life of the policies. For single premium business, revenue is recognised on the date on which the policy is effective.

4.16.2 Reinsurance Premium

Gross reinsurance premium on insurance contracts are recognised as an expense on the earlier of the date when premiums are payable or when the policy becomes effective. Reinsurance premiums are decided based on rates agreed with reinsurers.

a. General Insurance reinsurance Premium

Reinsurance premium written comprise of total premiums payable for the whole cover provided by contracts entered into the period and are recognised 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 premium 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 premium which is included under Insurance contract liabilities - General.

b. Life Insurance Reinsurance Premium

Reinsurance premium 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.

4.16.3 Finance Income

Finance income comprises interest income on funds invested (including available-for-sale financial assets) and dividend income.

Interest Income

Interest income and expenses are recognised in income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts or payments through the expected life of the financial asset or liabilities (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liabilities. When calculating the Effective Interest Rate, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

Notes to the Financial Statements

The calculation of the Effective Interest Rate includes all transaction costs and fees and points paid or received that are an integral part of the Effective Interest Rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Dividend Income

Finance income also includes dividends when the right to receive payment is established. Usually this, occurs on the ex-dividend date for equity securities. Dividends are presented in net trading income or net income from other financial instruments at fair value through income statement based on the underlying classification of the equity investment.

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.

4.16.4 Realised 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.

4.16.5. Fair Value Gains and Losses

Faire value gains and losses recorded in the Statement of Income on investments include fair value gains on financial assets at fair value through income statement and investment properties.

4.16.6 Other Income

Other income is recognised on an accrual basis

4.16.7 Reinsurance Commission Income

a. General 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 premium 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.

4.17 Benefits, Claims and Expenses

4.17.1 Gross Benefits and Claims

a. General 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.

4.18 Reinsurance Claims

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

4.19 Actuarial Valuation of Life Insurance Fund

The Directors agree to the long term insurance provision for the Company at the year-end on the recommendations of the Independent Consultant Actuary following his annual investigation of the Life Insurance business. The actuarial valuation takes into account all liabilities and is based on assumptions recommended by the Independent Consultant Actuary.

4.20 Net Deferred Acquisition Expenses

Acquisition expenses, representing commissions, which vary with and are directly related to the production of business, are deferred and amortised over the period in which the related written premiums are earned.

Reinsurance commission is also treated in the same manner within deferred acquisition costs.

4.21 Expenditure Recognition

Expenses are recognised in the Statement of profit or loss and 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.

4.22 Operating Lease Payments

Where the Company 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.

4.23 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.

4.24 Income Tax Expense

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.

4.24.1 Current Tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted on the reporting date, and any adjustment to tax payable in respect of previous years. Provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act, No. 10 of 2006 and the amendments thereto.

Current income tax assets and liabilities also include adjustments for tax expected to be payable or recoverable in respect of previous periods.

Current income tax relating to items recognised directly in equity or statement of profit or loss and other comprehensive income is recognised in equity or statement of profit or loss and other comprehensive income and not in the Statement of profit or loss and Comprehensive Income

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions, where appropriate.

4.24.2 Deferred Taxation

Deferred Tax is recognised 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 recognised 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 recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

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

Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

4.24.3 Withholding Tax on Dividends

Withholding tax that arises from the distribution of dividends by the Company is recognised at the same time as the liability to pay the related dividend is recognised.

4.24.4 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.

However with the amendment made by Inland Revenue to the Act, if the Company in relation to any relevant quarter commencing on or after April 01, 2012, where such part of the taxable income as consists of profits from any trade, business, profession or vocation assessed under the provisions of Inland Revenue Act No, 10 of 2006 for the year of assessment 2011/2012, is more than zero, the relevant turnover for such quarter shall be deemed to be zero.

4.24.5 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.

Notes to the Financial Statements

4.25 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.

4.26 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.

4.27 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 44 to the Financial Statements on page 384. Commitments are disclosed in note 42 to the Financial Statements on page 384.

4.28 Events Occurring After the Reporting Period

Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date when the Financial Statements are authorised for issue.

All material post reporting period events have been considered and where appropriate adjustments or disclosures have been made in note no 46 to the Financial Statements on Page 387.

4.29 Proposed Dividends

Dividend proposed by the Board of Directors after the Balance Sheet date is not recognised as a liability and is only disclosed as a Note to the Financial Statements.

5 NEW ACCOUNTING STANDARDS NOT EFFECTIVE AT THE REPORTING DATE

The following SLFRSs have been issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) that have an effective date in the future and have not been applied in preparing these Financial Statements. Those SLFRSs will have an effect on the accounting policies currently adopted by the Company and may have an impact on the future Financial Statements.

5.1 Sri Lanka Accounting Standard – SLFRS 9 "Financial Instruments Classification and Measurement"

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. SLFRS 9 is effective for annual period beginning on or after 1st January 2018 with early adoption permitted.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of SLFRS 9. Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's financial statements.

5.2 Standards Issued but not yet Adopted which may not have Significant Impact

SLFRS 15 Revenue from contracts with customers – effective from 1st January 2017.

5.3 Standards Issued but not yet Adopted which is not Expected to have an Impact

The following new or amended standards are not expected to have an impact of the Group's consolidated financial statements.

- SLFRS 14 Regulatory Deferral Accounts – effective from 01st January 2016
- Agriculture: Bearer Plants (Amendments to LKAS 16 and LKAS 41) – effective from 01st January 2016

6. OPERATING SEGMENTS

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

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

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	<ul style="list-style-type: none"> • 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
General Insurance	Nature of product	It comprises general 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	<ul style="list-style-type: none"> • Insurance premium and fees charged from policyholders • Commission income • 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 income statement 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.

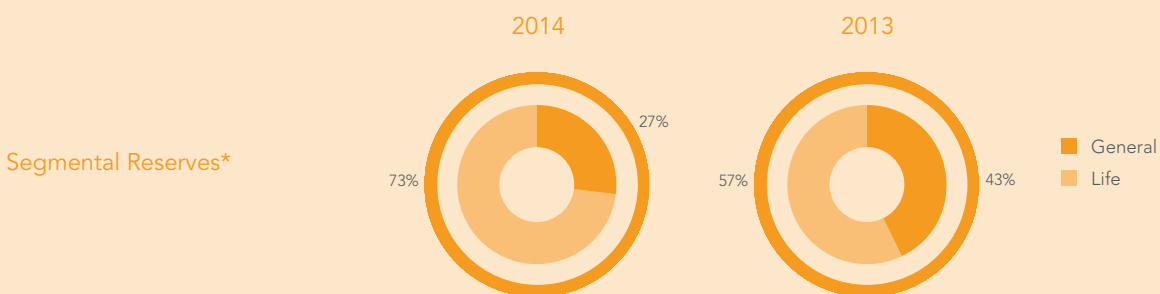
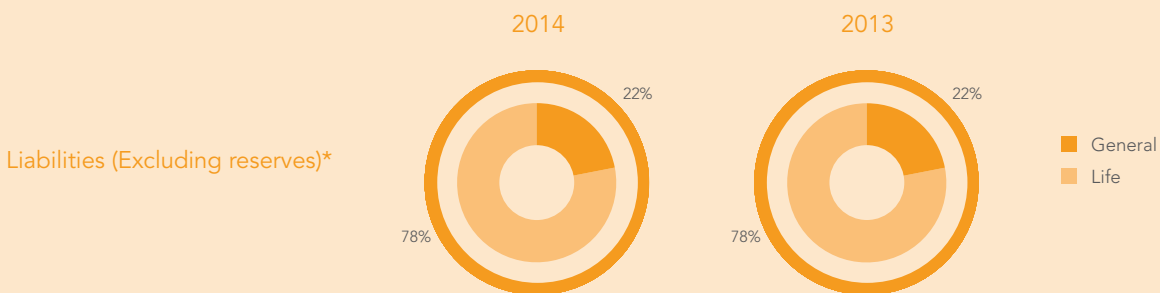
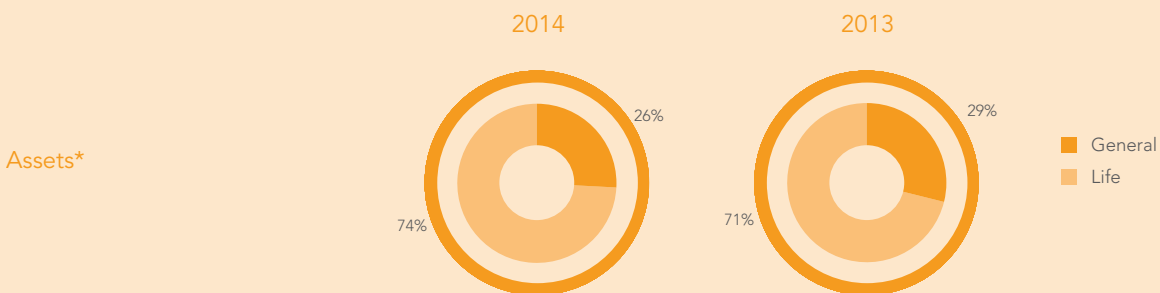
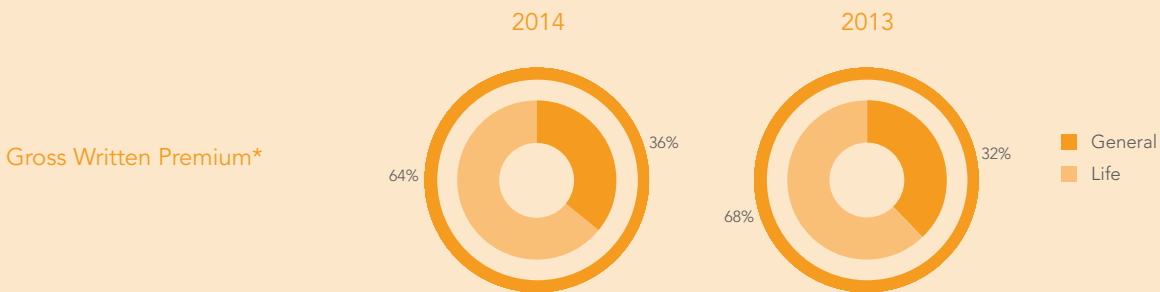
Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated

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.

Notes to the Financial Statements

6.1 Graphical Presentation of segment results are given as follows;

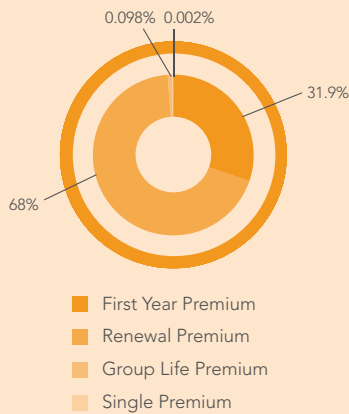


*As a percentage of total for all report of the sectors

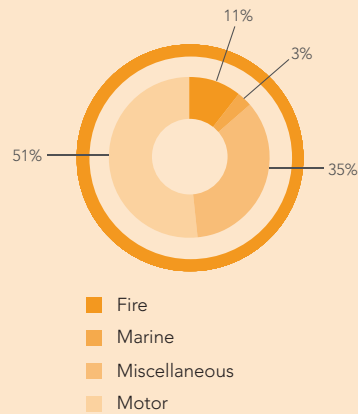
7. GROSS WRITTEN PREMIUM GROUP & COMPANY

The Premium Income for the year by major classes of business is as follows;

Life GWP Mix - 2014



General GWP Mix - 2014



For the year ended 31 December,	2014 Total Rs. '000	2013 Total Rs. '000
Life Insurance		
First Year Premium	930,524	819,837
Renewal Premium	2,085,613	1,687,633
Group Life Premium	27,137	11,269
Single Premium	4,874	1,543
Total for Life Insurance GWP	3,048,148	2,520,283

For the year ended 31 December,	2014				2013			
	GWP excluding SRCC / TC Rs. '000	SRCC / TC* Rs. '000	Co- Insurance** Rs. '000	Total Rs. '000	GWP excluding SRCC / TC Rs. '000	SRCC / TC* Rs. '000	Co- Insurance** Rs. '000	Total Rs. '000
General Insurance								
Fire	135,346	62,824	(12,925)	185,245	96,983	44,607	(4,319)	137,271
Marine	51,469	-	(200)	51,269	46,208	-	(673)	45,535
Motor	760,678	126,115	-	886,793	731,042	119,031	-	850,073
Miscellaneous	597,455	9,065	(4,680)	601,840	507,521	16,126	(140)	523,507
Total for General Insurance Business	1,544,948	198,004	(17,805)	1,725,147	1,381,753	179,764	(5,131)	1,556,386
Consolidated Gross Written Premiums				4,773,295				4,076,669

* SRCC - Strike Riot and Civil Commotion Cover, TC - Terrorism Cover

**Co-Insurance is an arrangement to share with a domestic insurer a special contract and they are not considered as a portion of GWP.

7.1 As explained in Note 4.16.1 to the Financial Statements, Gross Written Premium is recorded on an accrual basis.

Notes to the Financial Statements

7.2 Net Change in Reserve for Unearned Premium GWP

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 Premium

This includes Earned GWP for the Financial year after adjusting the GWP for unexpired period of the policies.

8 PREMIUMS CEDED TO REINSURERS - GROUP & COMPANY

For the year ended 31 December,	2014 Rs. '000	2013 Rs. '000
Life Insurance	231,555	381,617
General Insurance		
-Fire	167,752	125,753
-Marine	38,792	25,246
-Miscellaneous	42,047	51,597
-Motor	72,417	51,665
Total General Insurance	321,008	254,261
Total Premium Ceded to Reinsurers	552,563	635,878

8.1 Net Change in Reserve for Unearned Reinsurance Premium

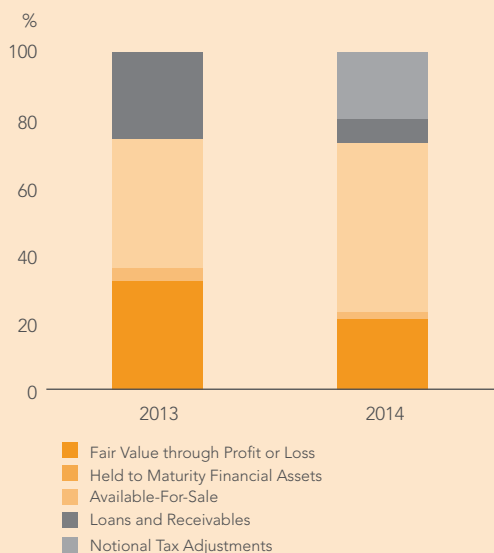
Net Change represents the net portion of the reinsurance premium transferred to the unearned reinsurance premium reserve during the year to cover unexpired period of the policies.

8.2 Net Earned Premium

This represents the Net Earned Premium for the Financial year subsequent to deduction of reinsurance and net change in unearned premium from Gross Written Premium. However there is no Unearned premium adjustment for life insurance business.

9. NET FINANCE INCOME

Investment Income Analysis



9. NET FINANCE INCOME CONTD.

For the year ended 31 December	Note	GROUP	COMPANY	
		2014 Rs. ' 000	2014 Rs. ' 000	2013 Rs. ' 000
This note includes the investment income generated by the Group & Company from its various assets.				
Income from Financial Assets classified at Fair Value through Profit or Loss	9.1	201,545	201,545	191,057
Income from Financial Assets classified at Held to Maturity Financial Assets	9.2	21,229	21,229	22,135
Income from Financial Assets classified as Available-For-Sale	9.3	381,928	381,928	227,743
Income from Financial Assets classified at Loans and Receivables	9.4	59,576	55,673	157,814
Notional Tax Adjustment	9.5	161,812	161,812	-
Total Finance Income		826,090	822,187	598,749

9.1 Income from Financial Assets classified as Fair Value through Profit or Loss

For the year ended 31 December	Note	GROUP	COMPANY	
		2014 Rs. ' 000	2014 Rs. ' 000	2013 Rs. ' 000
Interest Income	9.1.a	79,270	79,270	104,386
Dividend Income	9.1.b	122,275	122,275	86,671
		201,545	201,545	191,057
9.1.a Interest Income				
Treasury Bonds		79,270	79,270	104,386
		79,270	79,270	104,386
9.1.b Dividend Income				
Equity Shares		101,748	101,748	86,671
Unit Trust		20,527	20,527	-
		122,275	122,275	86,671

9.2. Income from Financial Assets classified as Held to Maturity Financial Assets

For the year ended 31 December	Note	GROUP	COMPANY	
		2014 Rs. ' 000	2014 Rs. ' 000	2013 Rs. ' 000
Interest Income	9.2.a	21,229	21,229	22,135
9.2.a Interest Income				
Treasury Bonds		21,229	21,229	22,135
		21,229	21,229	22,135

Notes to the Financial Statements

9.3. Income from Financial Assets Classified as Available-For-Sale

For the year ended 31 December	Note	GROUP		COMPANY
		2014 Rs. ' 000	2014 Rs. ' 000	2013 Rs. ' 000
Interest Income	9.3.a	379,178	379,178	150,110
Dividend Income	9.3.b	2,750	2,750	77,633
		381,928	381,928	227,743
9.3.a Interest Income				
Treasury Bonds		235,664	235,664	50,022
Treasury Bills		-	-	1,612
Debentures		136,420	136,420	63,546
Commercial Papers		7,094	7,094	34,930
		379,178	379,178	150,110
9.3.b Dividend Income				
Equity Shares		2,750	2,750	72,428
Unit Trusts		-	-	5,205
		2,750	2,750	77,633

9.4. Income from Financial Assets Classified as Loans and Receivables

For the year ended 31 December	Note	GROUP		COMPANY
		2014 Rs. ' 000	2014 Rs. ' 000	2013 Rs. ' 000
Interest Income	9.4.a	59,576	55,673	157,814
9.4.a Interest Income				
Repurchase agreement with Government		15,852	11,949	37,824
Debentures		(529)	(529)	11,253
Term Deposits		25,532	25,532	94,557
Loans to Life Policyholders		18,721	18,721	14,180
		59,576	55,673	157,814

9.5. Notional Tax Adjustment

Arising from Government Securities investments, the Company had an entitlement of Notional Tax that it chose not to recognize in financial year 2012 and 2013, as such an asset would need to be reversed or be utilized against a subsequent tax liability. The Company therefore made a conscious decision to hold back booking of the asset pending a full year of performance during which a significant tax liability would materialize. Based on subsequent performance and future development strategies implemented, during the year company had re assessed the situation and decided to account for entitlement of Notional tax credit amounting Rs.161Mn as an asset. Accordingly the related adjustment had been made in the current financial year.

10. NET REALIZED GAINS -GROUP & COMPANY

For the year ended 31 December,	Note	2014 Rs. '000	2013 Rs. '000
Net Gains from Available-for-sale Financial Assets	10.1	40,731	224,145
Net Gains from Fair Value through Profit or Loss		42,118	-
Net Gains from Property, Plant and Equipment		-	41
Net Realised Capital Gain / (loss) on Sale of Shares		493,550	(2,813)
Capital Gain on Sale of Treasury Bonds		188,869	64,938
Total Net Realised gains		765,268	286,312

10. NET REALISED GAINS -GROUP & COMPANY CONTD.

10.1. Net Gains from Available-for-sale Financial Assets

For the year ended 31 December,	2014 Rs. '000	2013 Rs. '000
Realised gains		
Equity securities	-	189,026
Money Market securities - Treasury Bonds	26,315	8,309
Unit Trust	-	26,844
Debt securities	14,452	-
Realised losses		
Equity securities	(36)	(34)
	40,731	224,145

11 NET FAIR VALUE GAINS -GROUP & COMPANY

For the year ended 31 December,	Note	2014 Rs. '000	2013 Rs. '000
Financial Investments at Fair Value through Profit or Loss	11.1	327,935	101,382
Gain on Derivative Financial Instrument		31,349	4,350
Total Fair Value Gains		359,284	105,733

11.1 Financial Investments at Fair Value through Profit or Loss

For the year ended 31 December,	2014 Rs. '000	2013 Rs. '000
Unrealised Gains		
Equity Securities	290,056	79,545
Treasury Bonds	56,440	6,833
Unit Trust	(15,290)	15,005
Debenture	(3,271)	-
	327,935	101,382

12. NET INSURANCE BENEFITS AND CLAIMS PAID-GROUP & COMPANY

For the year ended 31 December,	Note	2014 Rs. '000	2013 Rs. '000
Net Insurance Benefits and Claims paid			
Gross Benefits and Claims paid	12.1	1,679,178	1,341,340
Claims Ceded to Reinsurers	12.2	(275,776)	(233,419)
Total Net Insurance Benefits and Claims paid		1,403,402	1,107,921

Notes to the Financial Statements

12.1 Gross Benefits and Claims Paid

For the year ended 31 December,	2014 Rs. '000	2013 Rs. '000
Life Insurance	522,387	377,463
General Insurance	1,156,791	963,877
Total Gross Claims Paid	1,679,178	1,341,340

12.2 Claims Ceded to Reinsurers

For the year ended 31 December,	2014 Rs. '000	2013 Rs. '000
Life Insurance	(213,588)	(171,380)
General Insurance	(62,188)	(62,040)
Total Claims Ceded to Reinsurers	(275,776)	(233,419)
Total Net Insurance Benefits and Claims Paid	1,403,402	1,107,921

13. NET CHANGE IN INSURANCE CLAIMS OUTSTANDING -GROUP & COMPANY

For the year ended 31 December,	Note	2014 Rs. '000	2013 Rs. '000
Gross change in Insurance Contract Liabilities	13.1	153,297	48,953
Change in Contract liabilities Ceded to Reinsurers	13.2	(8,038)	(32,448)
Total Insurance Benefits and Claims (net)		145,259	16,505

13.1 Gross change in Insurance Contract Liabilities

For the year ended 31 December,	2014 Rs. '000	2013 Rs. '000
Life Insurance		
Change in Life Insurance Contract Liabilities without Actuarial Valuation	16,489	9,712
Change in Premium Deficiency Provision	-	-
	16,489	9,712
General Insurance		
Change in General insurance contract outstanding claims provision	136,808	39,241
Change in Premium Deficiency Provision (LAT provision)	-	-
	136,808	39,241
Total	153,297	48,953

13. NET CHANGE IN INSURANCE CLAIMS OUTSTANDING - GROUP & COMPANY CONTD.

13.2 Change in Contract liabilities Ceded to Reinsurers

For the year ended 31 December,	2014 Rs. '000	2013 Rs. '000
Life Insurance	(12,797)	(1,694)
General Insurance	4,759	(30,754)
Change in Premium Deficiency Provision (LAT provision)	-	-
Total	(8,038)	(32,448)

13.3 Net Insurance Benefits and Claim Expense Analysis

For the year ended 31 December,	Note	2014 Rs. '000	2013 Rs. '000
Life Insurance Benefits and Claims Expense(Net)	13.3.1	312,491	214,100
General Insurance Benefits and Claims Expense (Net)	13.3.2	1,236,170	910,325
Total Net Insurance Claims Expense		1,548,661	1,124,425

13.3.1 Life Insurance Benefits and Claims Expense (Net)

Death, disability and hospitalisation claims	355,727	285,836
Surrenders	80,098	50,727
Maturities	61,784	34,619
Relief Refund	41,267	15,993
Reinsurance recoveries	(226,385)	(173,074)
Net Life Insurance Benefits and Claim Expense	312,491	214,100

13.3.2 General Insurance Claims Expense (Net)

Gross claims incurred	1,293,600	1,003,120
Reinsurance recoveries	(57,430)	(92,795)
Net General Insurance Claims Expense	1,236,170	910,325

14. UNDERWRITING AND NET ACQUISITION COST-GROUP & COMPANY

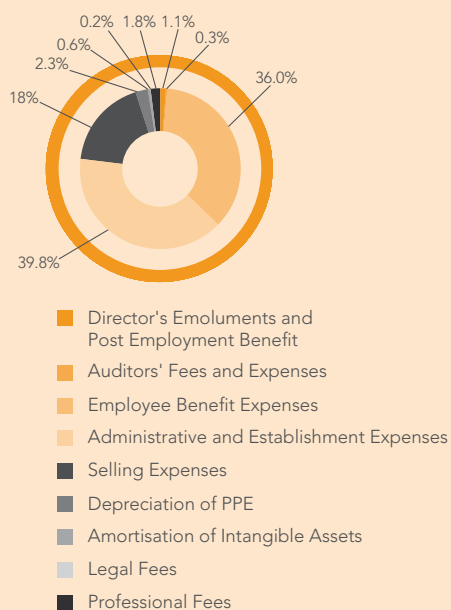
For the year ended 31 December	GROUP	COMPANY	
	2014 Rs. ' 000	2014 Rs. ' 000	2013 Rs. ' 000
Underwriting and Policy Acquisition Cost	959,692	959,692	834,930
Net change in Reserve for Deferred Acquisition Cost (DAC)	(11,653)	(11,653)	(21,074)
Acquisition Cost incurred for the year	948,039	948,039	813,856
Reinsurance Commission including Profit Commission	(122,672)	(122,672)	(103,294)
Net change in Reserve for Unearned Commission (UCR)	7,958	7,958	1,138
Net Earned Commission	(114,714)	(114,714)	(102,156)
Total Net Acquisition Cost	833,325	833,325	711,700

Notes to the Financial Statements

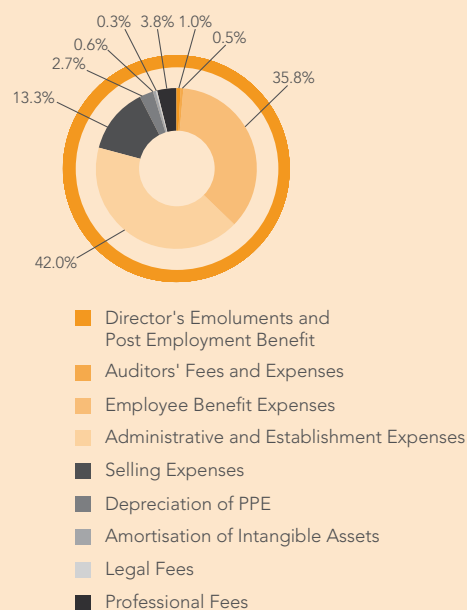
15. OTHER OPERATING AND ADMINISTRATIVE EXPENSES-GROUP & COMPANY

For the year ended 31 December	Note	GROUP	COMPANY	
		2014 Rs. ' 000	2014 Rs. ' 000	2013 Rs. ' 000
Directors' Fees	Note 15.1	41,980	41,980	20,433
Auditors' Fees and Expenses	Note 15.2	5,402	5,263	5,289
Employee Benefit Expense	Note 15.3	603,009	603,009	412,291
Administration and Establishment Expenses		644,589	643,996	475,527
Selling Expenses		301,761	301,761	153,725
Depreciation of Property, Plant and Equipment		38,675	38,675	31,090
Amortisation of Intangible Asset		9,503	9,503	6,522
Legal Fees		2,774	2,774	2,974
Professional Fees		29,611	29,611	44,122
Total Other Operating and Administration Expenses		1,677,304	1,676,572	1,151,972

Other Operating and Administrative Expenses 2014



Other Operating and Administrative Expenses 2013



15.1 Directors' Emoluments

Directors emoluments represent the fees paid to both the Executive and Non-Executive Directors of the Company.

15.2 Auditors' Remunerations

For the year ended 31 December	GROUP	COMPANY	
	2014 Rs. ' 000	2014 Rs. ' 000	2013 Rs. ' 000
Audit Fees	1,600	1,500	1,375
Audit Related and Non-Audit Fee including Expenses	3,802	3,763	3,914
	5,402	5,263	5,289

15. OTHER OPERATING AND ADMINISTRATIVE EXPENSES-GROUP & COMPANY CONTD.

15.3 Employee Benefit Expense

For the year ended 31 December	GROUP		COMPANY	
	2014	2014	2014	2013
	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000
Staff Remuneration	475,826	475,826	322,936	
Defined Contribution Plan Costs - EPF	41,309	41,309	31,766	
Defined Contribution Plan Costs - ETF	10,348	10,348	7,945	
Defined Benefit Plan Cost	13,429	13,429	11,191	
Other Staff Costs (Travelling, Overtime, Bonuses etc.)	62,097	62,097	38,451	
	603,009	603,009	412,291	

16. INCOME TAX EXPENSE-GROUP & COMPANY

The major components of income tax expense for the year ended 31st December are as follows;

For the year ended 31 December	GROUP		COMPANY	
	2014	2014	2014	2013
	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000
Tax recognised in Income Statement				
Income Tax on Current Year's Profits	11,980	11,980	15,537	
Adjustments for Prior Years	858	858	16,265	
	12,838	12,838	31,802	
Deferred Income Tax				
Origination of Deferred Tax Liability	72,595	72,595	15,641	
Origination of Deferred Tax Assets	(72,595)	(72,595)	(15,641)	
Differed Taxation Charge / (Reversal)	-	-	-	
Income Tax Expense Reported in the Income Statement	12,838	12,838	31,802	
Tax Recognised in Statement of Profit or Loss and Other Comprehensive Income				
Deferred Tax Expense	-	-	-	
Income Tax Expense	-	-	-	

16.1 Reconciliation of Effective Tax Rate

For the year ended 31 December	GROUP				COMPANY		
	2014		2014		2014		2013
	Rs. ' 000		Rs. ' 000		Rs. ' 000		Rs. ' 000
Profit for the Year		755,281		752,110			362,335
Current Tax Expense		12,838		12,838			31,802
Profit Before Taxation		768,119		764,948			394,137
Tax Effect at the Statutory Income	28%	215,073	28%	214,186	28.0%		110,358
Income Exempt from Tax	-21%	(163,887)	-21%	(163,000)	-23.8%		(93,547)
Aggregate Allowable Expenses	-7%	(51,801)	-7%	(51,801)	-5.9%		(23,303)
Aggregate Disallowed Expenses	2%	19,046	2%	19,046	13.2%		52,749
Recognition of Previously Unrecognised tax losses	-1%	(6,451)	-1%	(6,451)	-7.6%		(29,878)
Adjustments for Prior Years	0%	858	0%	858	4.1%		15,423
	2%	12,838	2%	12,838	8.1%		31,802

Notes to the Financial Statements

16.2 Analysis of Tax Losses -Group and Company

Asian Alliance Insurance PLC is liable to income tax at 28% (2013 - 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 General Insurance division. 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 31st December 2014 is Rs. 5,029 million (2013 - Rs.3,798 million).

The break up of Tax Loss is as follows;

For the year ended 31 December,	2014 Rs. '000	2013 Rs. '000
General Insurance		
Balance as at 1st January	628,894	331,359
Tax Loss during the year	470,306	327,413
Tax Loss utilised during the year	(23,039)	(29,878)
Balance as at 31st December	1,076,161	628,894

Life Insurance

The carried forward tax loss of the Life Insurance business as at 31st December 2014 is Rs. 3,953 million. (2013-Rs. 3,142 million)

16.2a Tax Intimation on Life Insurance Business

The Company has received a tax Intimation letter on Life Insurance taxation. However, no assessment has been issued yet on this intimation. The Company is of the strong view that no additional tax liability is arising due to this intimation letter and also we have filed a response highlighting our view, which was done in consultation with Tax Consultants. Even if this tax intimation would materialized against the Company, no additional tax liabilities are required for the Company. However, the tax loss recorded above will come down by Rs. 269 million.

16.3 Deferred Taxation - Group & Company

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:

For the year ended 31 December,	2014 Rs. '000	2013 Rs. '000
Deferred Tax Assets	(72,595)	(15,641)
Deferred Tax Liabilities	72,595	15,641
Net Deferred Tax Asset / Liability	-	-

	2014 Statement of Financial Position		2013 Statement of Financial Position	
	Temporary Difference/ Tax Loss Rs. '000	Tax Effect Rs. '000	Temporary Difference/ Tax Loss Rs. '000	Tax Effect Rs. '000
Deferred Tax Liability				
Property, Plant and Equipment	259,269	72,595	55,860	15,641
Deferred Tax Assets				
Tax Losses Carried Forward	5,029,479	1,408,254	3,798,228	1,063,504
Retirement Benefit Obligation	53,029	14,848	46,154	12,923
	5,082,508	1,423,102	3,844,382	1,076,427
Deferred Tax Asset Recognised up to the Liability		(72,595)		(15,641)
Unrecognised Deferred Tax Assets		1,350,507		1,060,786

16. INCOME TAX EXPENSE-GROUP & COMPANY CONTD.

16.3 Deferred Taxation-Group & Company Contd.

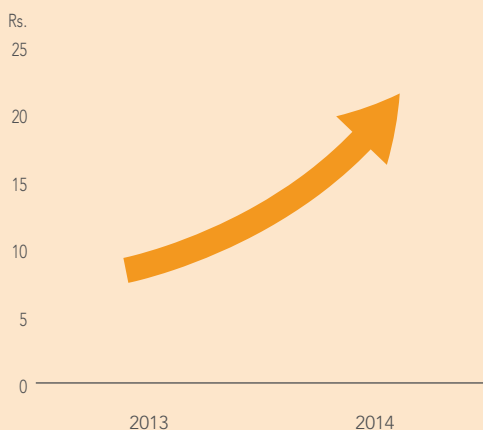
Movement in temporary differences

	2014			2013		
	Balance as at 1 January	Movement	Balance as at 31 December	Balance as at 1 January	Movement	Balance as at 31 December
As at 31st December						
Deferred Tax - liability						
Property, Plant and Equipment	(55,860)	(203,409)	(259,269)	(25,881)	(29,979)	(55,860)
Deferred Tax - Assets						
Retirement Benefit Obligation	3,798,228	1,231,251	5,029,479	3,122,414	675,814	3,798,228
Un-utilised Tax Losses	46,154	6,875	53,029	34,399	11,755	46,154
	3,844,382	1,238,126	5,082,508	3,156,813	687,569	3,844,382
Net Movement	3,788,522	1,034,717	4,823,239	3,130,932	657,590	3,788,522

As at 31st December 2014, total carried forward tax loss is Rs. 5,029 million (2013 - Rs. 3,798 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. The Company has not recognised Deferred Tax Asset amounting to Rs. 1,350 mn (2013- 1,061 mn) as it not probable that the future taxable profits will be adequate to utilise the available tax losses in the foreseeable future.

17. EARNINGS PER SHARE (EPS)-GROUP & COMPANY

Earnings Per Share



17.1 Basis Earnings Per Share-Group & Company

For the year ended 31 December	GROUP	COMPANY	
	2014	2014	2013
Amount Used as the Numerator			
Profit Attributable to Ordinary Shareholders (Rs. '000)	755,281	752,110	362,335
Weighted Average number of ordinary shares as at 31st December ('000)	37,500	37,500	37,500
Basic Earnings Per Share (Rs.)	20.14	20.05	9.66

Notes to the Financial Statements

17.2 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 17.1.

18 DIVIDEND PER SHARE (DPS)

First Interim Dividend 2014

The Company has declared and paid first Interim dividend of Rs. 5.00 per share to the Ordinary Shareholders of the Company on December 2014.

Second Interim Dividend 2014

The Company has declared Second Interim dividend of Rs. 5.00 per share on 13th February 2015 to the Ordinary Shareholders of the Company. Payment is due on 09th March 2015.

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 Company satisfied the solvency test in accordance with Section 57, prior to recommending the Second Interim dividend. A statement of solvency completed and duly signed by the directors on February 13, 2015 has been audited by Messrs KPMG.

For the year ended 31 December	GROUP	COMPANY	
	2014	2014	2013
Dividend Declared (Rs.000)	375,000	375,000	180,000
Number of Ordinary Shares ('000)	37,500	37,500	37,500
Dividend Per Share (Rs)	10.00	10.00	4.80

19 INTANGIBLE ASSETS-GROUP & COMPANY

19.1 Reconciliation of Carrying Amount

For the year ended 31 December,	2014	2013
	Rs. '000	Rs. '000
Computer Software		
Cost		
Balance as at 1st January	73,652	61,340
Acquisition	15,739	12,312
Balance as at 31st December	89,391	73,652
Accumulated Amortisation and Impairment Losses		
Balance as at 1st January	48,395	41,873
Amortisation	9,503	6,522
Impairment Losses	-	-
Balance as at 31st December	57,898	48,395
Carrying Amounts as at 31st December	31,493	25,257
Capital Work in Progress		
Balance as at 31st December	15,317	-
Incurred during the Year	422	15,317
Capitalised during the Year	(15,739)	-
Balance as at 31st December	-	15,317
Carrying Value as at 31st December	31,493	40,574

19 INTANGIBLE ASSETS-GROUP & COMPANY CONTD.

19.2 Acquisition of Intangible Assets During the year

During the financial year, the Company acquired/capitalised Intangible Assets (OCR and Prophet) to the aggregate value of Rs. 15.7 million. Cash payments amounting to Rs. 3.8 million were made during the year for purchase of Intangible Assets.

19.3 Fully amortised Intangible Assets in Use

Currently there are no fully amortised Intangible assets in use.

19.4 Title Restriction on Intangible Assets

There are no restrictions that existed on the title of the Intangible Assets of the Company as at the reporting date. There were no items pledged as securities for liabilities.

19.5 Assessment of Impairment of Intangible Assets

The Board of Directors has assessed potential impairment loss of intangible assets as at 31st December 2014. Based on the assessment, no impairment provision is required to be made in the Financial Statements as at the Reporting Date in respect of Intangible Assets.

19.6 Capitalisation of Borrowing Costs

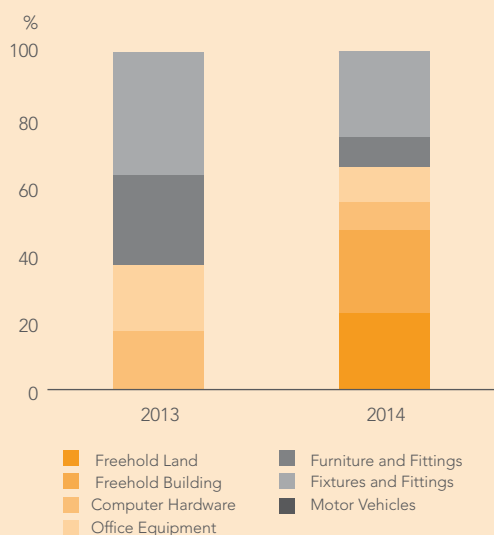
There were no capitalised borrowing costs relating to the acquisition of Intangible Assets during the year (2013- Nil).

19.7 Amortisation of Intangible Assets

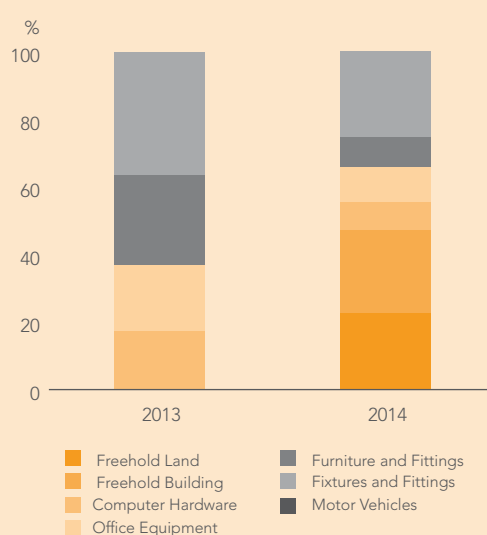
Amortization expense of Rs. 9.5 million (2013: Rs. 6.5 million) has been charged in statement of income.

20 PROPERTY, PLANT AND EQUIPMENT (PPE)-GROUP & COMPANY

Cost of Property, Plant and Equipment



WDV of Property, Plant and Equipment



Notes to the Financial Statements

20.1 Reconciliation of Carrying Amount

	Freehold Land	Freehold Building	Computer Hardware	Office Equipment	Furniture and Fittings	Fixtures and Fittings	Motor Vehicles	Total 2014	Total 2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cost									
Balance as at 1st January	-	-	64,311	64,221	58,390	96,983	2,155	286,060	234,235
Additions during the year	85,620	92,755	18,601	24,473	6,678	70,757	-	298,884	51,942
Disposals during the year	-	-	-	-	-	-	-	-	(117)
Balance as at 31st December	85,620	92,755	82,912	88,694	65,068	167,740	2,155	584,944	286,060
Accumulated Depreciation and Impairment Losses									
Balance as at 1st January	-	-	43,898	41,312	26,901	54,411	2,071	168,593	137,598
Additions during the year	-	-	7,782	8,199	4,712	17,953	30	38,676	31,090
Disposals during the year	-	-	-	-	-	-	-	-	(95)
Balance as at 31st December	-	-	51,680	49,511	31,613	72,364	2,101	207,269	168,593
Capital Work In Progress									
Balance as at 1st January	-	-	-	-	-	-	-	-	-
Incurred during the Year	-	8,934	-	-	-	-	-	8,934	-
Capitalised during the Year	-	(8,734)	-	-	-	-	-	(8,734)	-
Balance as at 31st December	-	200	-	-	-	-	-	200	-
Carrying Value as at 31st December 2014									
	85,620	92,955	31,232	39,183	33,455	95,376	54	377,875	-
Carrying Value as at 31st December 2013									
	-	-	20,413	22,909	31,489	42,572	84	-	117,467

20.2 Acquisition of PPE During the Year

During the financial year, the Company acquired PPE to the aggregate value of Rs. 299 million (2013 - Rs. 52 million).

20 PROPERTY, PLANT AND EQUIPMENT (PPE)-GROUP & COMPANY CONTD.

20.3 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,	2014 Rs. '000	2013 Rs. '000
Computer Hardware and Software	69,243	63,399
Office Equipment	32,789	25,694
Furniture and Fittings	11,782	10,791
Fixtures and Fittings	38,433	28,351
Motor Vehicle	2,005	2,005
	154,252	130,240

20.4 PPE Pledged as Security

None of the PPE have been pledged as securities as at the reporting date.

20.5 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.

20.6 Title Restriction on PPE

There are no restrictions that existed on the title of the PPE of the Company as at the reporting date.

20.7 Assessment of Impairment

The Board of Directors has assessed the potential impairment loss of PPE as at 31st December 2014. 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.

20.8 Inter Segment Transfer During the Year

There were no transfers done during the year

20.9 Depreciation of PPE

Depreciation expense of Rs. 38.6 million (2013: Rs. 31 million) has been charged in statement of income.

20.10 Temporarily Idle Property, Plant and Equipment

There are no temporarily idle property, plant and equipment as at the reporting date.

20.11 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.

20.12 Capitalisation of Borrowing Cost

There were no capitalised borrowing costs relating to the acquisition of Property Plant and Equipment during the year (2013- Nil).

Notes to the Financial Statements

20.13 The Details of Freehold land and Buildings are as Follows;

Company Property (Perches)	Extent (Building)	Square feet
Land & Building Situated at No. 283, R.A. De Mel Mawatha, Colombo 03	0A-0R-12.00P	11,824Sqft

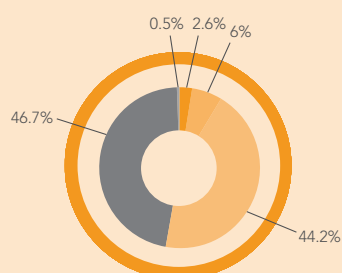
Fair Value Note is not relevant for this year as we have purchased it during the year and no revaluation was done.

21. FINANCIAL INVESTMENTS-GROUP & COMPANY

The Company's Financial Investments are summarised by Categories as follows:

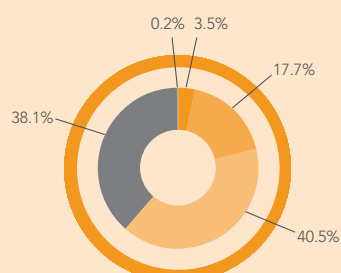
For the year ended 31 December	Note	GROUP	COMPANY	
		2014 Rs. ' 000	2014 Rs. ' 000	2013 Rs. ' 000
Held to Maturity (HTM)	21.1	222,929	222,929	218,549
Loans and Receivables (L & R)	21.2	615,526	511,651	1,102,292
Available - for - Sale (AFS)	21.3	3,743,413	3,743,413	2,528,601
Fair Value through Profit or Loss (FVTPL)	21.4	3,944,822	3,944,822	2,383,523
Derivative Financial Instrument (Interest rate derivative)		41,256	41,256	9,907
Total Financial Investments		8,567,946	8,464,071	6,242,872

Financial Investments Mix - 2014



- Held to Maturity (HTM)
- Loans and Receivables (L & R)
- Available - for - Sale (AFS)
- Fair Value Through Profit or Loss (FVTPL)
- Derivative Financial Instrument (Interest Rate Derivative)

Financial Investments Mix - 2013



- Held to Maturity (HTM)
- Loans and Receivables (L & R)
- Available - for - Sale (AFS)
- Fair Value Through Profit or Loss (FVTPL)
- Derivative Financial Instrument (Interest Rate Derivative)

21. FINANCIAL INVESTMENTS-GROUP & COMPANY CONTD.

21.a The Following Table Compare the Fair values of the Financial Investments to their Carrying Values:

As at 31 December,	Note	GROUP		COMPANY		COMPANY	
		2014		2014		2013	
		Carrying Value Rs. '000	Fair Value Rs. '000	Carrying Value Rs. '000	Fair Value Rs. '000	Carrying Value Rs. '000	Fair Value Rs. '000
Held to Maturity (HTM)	21.1	222,929	240,578	222,929	240,578	218,549	208,625
Loans and Receivables (L & R)	21.2	615,526	615,526	511,651	511,651	1,102,292	1,102,292
Available - for - Sale (AFS)	21.3	3,743,413	3,743,413	3,743,413	3,743,413	2,528,601	2,528,601
Fair Value Through Profit or Loss (FVTPL)	21.4	3,944,822	3,944,822	3,944,822	3,944,822	2,383,523	2,383,523
Derivative Financial Instrument		41,256	41,256	41,256	41,256	9,907	9,907
Total Financial Investments		8,567,946	8,585,595	8,464,071	8,481,720	6,242,872	6,232,948

Fair Value through Profit or Loss investments and Available For Sale Investments have been valued at fair value. Held to Maturity investments and Loans and Receivable investments are valued at amortised cost.

Analysis of Financial Investments Based on Characteristics

Following notes provides disclosure of the Financial Investments based on Characteristics of the each class of Instruments

21.1 Held to Maturity (HTM)

As at 31 December,	GROUP		COMPANY		COMPANY	
	2014		2014		2013	
	Carrying Value Rs. '000	Fair Value Rs. '000	Carrying Value Rs. '000	Fair Value Rs. '000	Carrying Value Rs. '000	Fair Value Rs. '000
Treasury Bonds	222,929	240,578	222,929	240,578	218,549	208,625
	222,929	240,578	222,929	240,578	218,549	208,625

21.1.a Valuation of HTM Financial Investments

HTM Financial Investments 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 published by Central Bank of Sri Lanka (CBSL). Held to Maturity consist of Treasury Bonds.

Notes to the Financial Statements

21.1.b Impairment of Financial Investments at HTM

At the reporting date, there were no held to maturity assets that were overdue and impaired.

21.2 Loans and Receivables (L & R)

As at 31 December,	Note	GROUP		COMPANY		COMPANY	
		2014		2014		2013	
		Carrying Value Rs. '000	Fair Value Rs. '000	Carrying Value Rs. '000	Fair Value Rs. '000	Carrying Value Rs. '000	Fair Value Rs. '000
Bank Deposits	21.2.a	14,286	14,286	14,286	14,286	495,986	495,986
Debentures	21.2.b	60,261	60,261	60,261	60,261	149,209	149,209
Overnight Reverse Repo		540,979	540,979	437,104	437,104	457,097	457,097
		615,526	615,526	511,651	511,651	1,102,292	1,102,292

21.2.a Bank Deposits (L & R)

As at 31 December,	GROUP		COMPANY		COMPANY	
	2014		2014		2013	
	Carrying Value Rs. '000	Fair Value Rs. '000	Carrying Value Rs. '000	Fair Value Rs. '000	Carrying Value Rs. '000	Fair Value Rs. '000
Licensed Commercial Banks	14,286	14,286	14,286	14,286	271,528	271,528
Registered Finance Companies	-	-	-	-	224,458	224,458
	14,286	14,286	14,286	14,286	495,986	495,986

21.2.b Debentures (L & R)

As at 31 December,	GROUP		COMPANY		COMPANY	
	2014		2014		2013	
	Carrying Value Rs. '000	Fair Value Rs. '000	Carrying Value Rs. '000	Fair Value Rs. '000	Carrying Value Rs. '000	Fair Value Rs. '000
Unlisted	-	-	-	-	149,209	149,209
	-	-	-	-	149,209	149,209

21.2.c Impairment of L & R Financial Investments

At the reporting date, there were no Loans and Receivables that were overdue and impaired.

21. FINANCIAL INVESTMENTS-GROUP & COMPANY CONTD.

21.3 Available - for - Sale (AFS)

As at 31 December,	Note	GROUP		COMPANY		2013	
		2014		2014		Carrying Value Rs. '000	Fair Value Rs. '000
		Carrying Value Rs. '000	Fair Value Rs. '000	Carrying Value Rs. '000	Fair Value Rs. '000		
Debt Securities							
- Debentures	21.3.a	1,094,522	1,094,522	1,094,522	1,094,522	760,684	760,684
Equity Securities	21.3.b	208,000	208,000	208,000	208,000	180,000	180,000
Treasury Bonds		2,440,891	2,440,891	2,440,891	2,440,891	1,587,917	1,587,917
		3,743,413	3,743,413	3,743,413	3,743,413	2,528,601	2,528,601

21.3.a Debt Securities - Debentures (AFS)

As at 31 December,	GROUP		COMPANY		2013	
	2014		2014		Carrying Value Rs. '000	Fair Value Rs. '000
	Carrying Value Rs. '000	Fair Value Rs. '000	Carrying Value Rs. '000	Fair Value Rs. '000		
Listed	1,094,522	1,094,522	1,094,522	1,094,522	760,684	760,684
	1,094,522	1,094,522	1,094,522	1,094,522	760,684	760,684

21.3.b Equity Securities (AFS)

As at 31 December,	GROUP		COMPANY		2013	
	Number of Shares	Fair Value Rs. '000	Number of Shares	Fair Value Rs. '000	Number of Shares	Fair Value Rs. '000
	Unlisted					
Banks, Finance and Insurance						
Cargills Agricultural Commercial Bank Limited	8,000,000	100,000	8,000,000	100,000	8,000,000	100,000
Listed						
Health Care						
Asiri Hospitals PLC	5,000,000	108,000	5,000,000	108,000	5,000,000	80,000
Total Investments in Equity Shares		208,000		208,000		180,000

Notes to the Financial Statements

21.3.c Impairment of AFS Financial Investments

At the reporting date, there were no AFS Financial Investments that were overdue but not impaired.

21.4 Fair Value Through Profit or Loss (FVTPL)

As at 31 December,	Note	GROUP		COMPANY		2013	
		2014		2014		Carrying Value Rs. '000	Fair Value Rs. '000
		Carrying Value Rs. '000	Fair Value Rs. '000	Carrying Value Rs. '000	Fair Value Rs. '000		
Equity Securities	21.4.a	2,478,863	2,478,863	2,478,863	2,478,863	1,476,485	1,476,485
Treasury Bonds		1,315,491	1,315,491	1,315,491	1,315,491	489,056	489,056
Unit Trust		58,960	58,960	58,960	58,960	417,981	417,981
Debenture		91,508	91,508	91,508	91,508		
		3,944,822	3,944,822	3,944,822	3,944,822	2,383,523	2,383,523

21.4.a Equity Securities (FVTPL)

As at 31 December,	GROUP		COMPANY		2013	
	Number of Shares	Fair Value Rs. '000	Number of Shares	Fair Value Rs. '000	Number of Shares	Fair Value Rs. '000
Listed						
Banks, Finance and Insurance						
Asia Capital PLC	-	-	-	-	543,268	9,235
Commercial Bank of Ceylon PLC (Non Voting)	504,482	63,111	504,482	63,111	495,072	46,015
Hatton National Bank PLC	22,443	4,374	22,443	4,374	22,443	3,299
Hatton National Bank PLC (Non Voting)	358,505	54,815	358,505	54,815	358,505	42,662
National Development Bank PLC	8,151,700	2,037,925	8,151,700	2,037,925	8,151,700	1,308,348
Seylan Bank PLC (Non Voting)	285,499	16,416	285,499	16,416	285,499	8,850
Union Bank of Colombo	5,827,256	147,430	5,827,256	147,430	-	-
Sector Total		2,324,071		2,324,071		1,418,409
Diversified Holdings						
Aitken Spence PLC	114,269	11,827	114,269	11,827	114,269	11,689
Softlogic Holdings PLC	4,591,702	75,763	4,591,702	75,763	4,591,702	38,570
Sector Total		87,590		87,590		50,259
BTelecommunications						
Dialog Axiata PLC	868,600	11,552	868,600	11,552	868,600	7,817
Sector Total		11,552		11,552		7,817
Manufacturing						
Alumex	3,500,000	55,650	3,500,000	55,650	-	-
Sector Total		55,650		55,650		
Total Investments in Listed Equity Shares		2,478,863		2,478,863		1,476,485

21. FINANCIAL INVESTMENTS-GROUP & COMPANY CONTD.

21.5 Carrying Values of Financial Investments

21.5.a Movement of Financial Investments other than Derivative Financial Investments-Group

	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 2014	218,549	1,102,292	2,528,600	2,383,523	6,232,964
Purchases	-	5,774,424	1,604,768	7,144,994	14,524,186
Maturities	-	-	(838,314)	(2,512,873)	(3,351,187)
Disposals	-	(6,291,825)	-	(4,009,009)	(10,300,834)
Fair value gains recorded in the Statement of Income	-	-	-	327,935	327,935
Fair value gains recorded in the Profit or Loss and other Comprehensive Income	-	-	340,809	-	340,809
Amortisation adjustment	4,380	30,634	107,550	610,253	752,817
As at 31st December 2014	222,929	615,525	3,743,413	3,944,823	8,526,690
Movement of Financial Investments-Derivative					
As at 1st January 2014	-	-	-	-	9,097
Purchases	-	-	-	-	-
Maturities	-	-	-	-	-
Disposals	-	-	-	-	-
Fair value gains recorded in the Statement of Income	-	-	-	-	32,159
Fair value gains recorded in the Profit or Loss and other Comprehensive Income	-	-	-	-	-
Amortisation adjustment	-	-	-	-	-
As at 31st December 2014	-	-	-	-	41,256
Total Financial Investment as at 31st December 2014	-	-	-	-	8,567,946

21.5.b Movement of Financial Investments other than Derivative Financial Investments-Company

	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 2013	214,551	1,100,766	2,614,156	896,004	4,825,477
Purchases	-	-	6,017,243	15,086,734	21,103,977
Maturities	-	(12,683)	(356,739)	-	(369,422)
Disposals	-	-	(5,756,243)	(13,762,719)	(19,518,962)
Fair value gains recorded in the Statement of Income	-	-	-	163,504	163,504
Fair value gains recorded in the Profit or Loss and other Comprehensive Income	-	-	10,184	-	10,184
Amortisation adjustment	3,998	14,209	-	-	18,207
As at 31st December 2013	218,549	1,102,292	2,528,601	2,383,523	6,232,965
As at 1st January 2014	218,549	1,102,292	2,528,601	2,383,523	6,232,965
Purchases	-	5,670,550	1,604,768	7,144,993	14,420,311
Maturities	-	-	(838,314)	(2,512,777)	(3,351,091)
Disposals	-	(6,291,825)	-	(4,009,009)	(10,300,834)
Fair value gains recorded in the Statement of Income	-	-	-	327,935	327,935
Fair value gains recorded in the Profit or Loss and other Comprehensive Income	-	-	340,809	-	340,809
Amortisation adjustment	4,380	30,635	107,550	610,156	752,721
As at 31st December 2014	222,929	511,652	3,743,414	3,944,822	8,422,817

Notes to the Financial Statements

	Held to Maturity (HTM)	Loans and Receivable (L&R)	Available for Sale (AFS)	Fair Value Through Profit and Loss (FVTPL)	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Movement of Financial Investments-Derivative					
As at 1st January 2014	-	-	-	-	9,097
Purchases	-	-	-	-	-
Maturities	-	-	-	-	-
Disposals	-	-	-	-	-
Fair value gains recorded in the Statement of Income	-	-	-	-	32,159
Fair value gains recorded in the Profit or Loss and Other Comprehensive Income	-	-	-	-	-
Amortisation adjustment	-	-	-	-	-
As at 31st December 2014	-	-	-	-	41,256
Total Financial Investment as at 31st December 2014	-	-	-	-	8,464,071

21.5.c Methodologies and Assumption Used to Determine Fair Value of the Financial Investments are Disclosed in Note 39.2.1.c on page 372 to the Financial Statements.

21.5.d Disclosure of Financial Risk

The Company's exposure to Credit, Currency and Interest rate risks related to investments are disclosed in Note 39.1.3 on page 373 to 381 to the Financial Statements.

21.5.e Financial Investments Pledged as Security

Financial Investments are not pledged as a security as at the reporting date.

22. LOANS TO LIFE POLICYHOLDERS AND OTHERS-GROUP & COMPANY

As at 31 December,	Note	2014 Rs. '000	2013 Rs. '000
Loans to Life Policyholders	22.2	133,846	106,049
Loans to Employees		-	1,040
Total		133,846	107,089

22.1 Loans to Life Policyholders

As at 31 December,	2014 Rs. '000	2013 Rs. '000
Balance as at 1st January	106,049	79,673
Loans granted during the year	41,084	65,548
Repayments during the year	(32,008)	(53,352)
	115,125	91,869
Interest Receivable	18,721	14,180
Total	133,846	106,049
Current	12,600	3,921
Non Current	121,246	103,168
	133,846	107,089

22.1.a Collateral details

The surrender value of the policy loans granted to Policyholders as at 31st December 2014 amount exceeded its carrying value as at reporting date which is amounting to Rs. 203 million.

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 39.1.3.

The Company grants policy loans at a rate equivalent to the market rate, hence initial recognition is at Fair Value.

22. LOANS TO LIFE POLICYHOLDERS AND OTHERS-GROUP & COMPANY CONTD.

22.2 Loans to Employees

As at 31 December,	2014 Rs. '000	2013 Rs. '000
Balance as at 01st January	1,040	1,725
Loans granted during the Year	-	2,223
		3,948
Repayment during the Year	(1,040)	(2,908)
Balance as at 31st December	-	1,040

22.3 Impairment of Loans to Life Policyholder and Others

The Board of Directors has assessed potential impairment loss as at 31st December 2014. 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.

No Loans have been granted to the Directors of the Company.

23. REINSURANCE RECEIVABLES-GROUP & COMPANY

As at 31 December,	Note	2014 Rs. '000	2013 Rs. '000
Reinsurance Receivable on Outstanding Claims	23.1	134,616	126,577
Reinsurance Receivable on settled Claims net of dues		25,096	17,481
Total Receivable arising from Reinsurance Contracts		159,712	144,058

23.1 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.

23.2 Collateral Details

The Company does not hold collateral as security against potential default by reinsurance counterparties.

23.3 Impairment of Reinsurance Receivables

The Board of Directors has assessed potential impairment loss of Reinsurance Receivables as at 31st December 2014. 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. Please refer Note 39.1.3 for Reinsurer Rating Analysis.

24. PREMIUM RECEIVABLES-GROUP & COMPANY

As at 31 December,	Note	2014 Rs. '000	2013 Rs. '000
General Insurance	24.1	410,027	418,368
Life Insurance	24.2	50,169	46,085
		460,196	464,453

Notes to the Financial Statements

24.1 General Insurance

As at 31 December,	Note	2014 Rs. '000	2013 Rs. '000
Receivable from Policyholders		382,238	398,509
Receivable from Related Parties	24.1.1	27,789	19,859
		410,027	418,368
Less Impairment			
As at the beginning of the year		-	3,857
Provision made during the year		-	-
Provision reversal during the year		-	(3,857)
Written-off during the year		-	-
As at end of the year		-	-
Premium Receivable net of Impairment		410,027	418,368

24.1.1 Premium Receivables from Related Parties

As at 31 December,	2014 Rs. '000	2013 Rs. '000
Softlogic Holdings PLC	2,384	338
Softlogic Information Technologies (Pvt) Limited	209	824
Softlogic Computers (Pvt) Limited	88	105
Softlogic Communication Services (Pvt) Limited	584	1,729
Softlogic Finance PLC	14,469	9,365
Softlogic Retail (Pvt) Limited	1,506	624
Future Automobiles (Pvt) Limited	554	544
Softlogic International (Pvt) Limited	30	52
Asiri Surgical Hospitals PLC	2,061	6,126
Asiri Hospitals PLC	4,391	-
Central Hospitals (Pvt) Limited	14	152
Ceysand Resorts Ltd	1,473	-
Odel PLC	26	-
	27,789	19,859

24.2 Life Insurance

As at 31 December,	2014 Rs. '000	2013 Rs. '000
Receivable from Policyholders	50,169	46,085
Receivable from Related Parties	-	-
	50,169	46,085

The Company has opted to record the Life Insurance premium on an accrual basis in terms of Sri Lanka Financial Reporting Standard SLFRS 4 - Insurance Contracts from the year ended 31st December 2013. The Life Insurance premiums for policies within 30 day grace period are considered as due premium , subject to a provision for premium default. Premium default ratio is computed by analysing the default history. Commission cost and Reinsurance Premium relating to that is accrued in the same manner.

24. PREMIUM RECEIVABLES-GROUP & COMPANY CONTD.

24.3 Impairment of Premium Receivables

The Board of Directors has assessed potential impairment loss of Premium Receivables as at 31st December 2014. 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.

24.4 Collateral details

The Company does not hold any collateral as security against potential default by policyholders.

24.5 Fair Value

The Carrying Value disclosed above approximate Fair Value at the reporting date.

24.6 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. Please refer Note 39.1.3 to the Financial Statements for more information.

25. AMOUNTS DUE FROM RELATED COMPANIES-GROUP & COMPANY

25.1 Amounts Due from Related Companies-Group

As at 31 December,	2014 Rs. '000
Soft Logic Capital PLC	505
Softlogic Stock Brokers (Pvt) Ltd	157
	662

25.2 Amounts Due from Related Companies-Company

As at 31 December,	2014 Rs. '000	2013 Rs. '000
Soft Logic Capital PLC	505	259
Softlogic Stock brokers (Pvt) Ltd	157	-
Asian Alliance General Insurance Ltd	1,382	-
	2,044	259

26. RECEIVABLES AND OTHER ASSETS-GROUP & COMPANY

26.1 Receivables and other Assets-Group

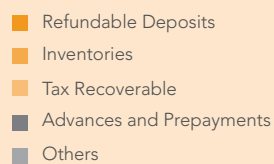
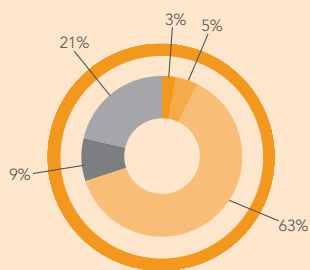
As at 31 December,	Note	2014 Rs. '000
Financial Assets		
Refundable Deposits		10,311
Total Financial Assets		10,311
Non Financial Assets		
Inventories		16,604
Tax Recoverable	26.1a	206,357
Advances and Prepayments		52,225
Others		55,725
Total Non Financial Assets		330,911
Total		341,222

Notes to the Financial Statements

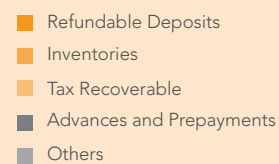
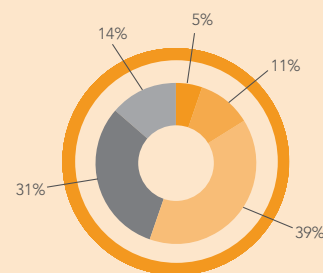
26.1a Tax Recoverable

As at 31 December,	Note	2014 Rs. '000
WHT Receivable		55,560
ESC Receivable		1,988
Notional Tax Recoverable	26.2a	148,809
		206,357

Receivables & Other Assets - 2014



Receivables & Other Assets - 2013



26.2 Receivables and other Assets-Company

As at 31 December,	Note	2014 Rs. '000	2013 Rs. '000
Financial Assets			
Refundable Deposits		10,111	8,939
Total Financial Assets		10,111	8,939
Non Financial Assets			
Inventories		16,604	18,151
Tax Recoverable	26.2a	206,357	65,428
Advances and Prepayments		52,225	51,684
Others		55,725	22,653
Total Non Financial Assets		330,911	157,916
Total		341,022	166,855

26.2a Tax Recoverable

As at 31 December,	Note	2014 Rs. '000	2013 Rs. '000
WHT Receivable		55,560	49,936
ESC Receivable		1,988	6,361
VAT Receivable		-	9,131
Notional Tax Recoverable	26.2a.a	148,809	-
		206,357	65,428

26.2a.a Notional Tax on Government Securities

For the year ended 31 December,	2014 Rs. '000	2013 Rs. '000
Notional Tax adjustment	161,812	-
Notional Tax additions during the year	34,880	-
Notional Tax utilised during the year	(47,883)	-
Balance as at 31st December	148,809	-

26.2b 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.

26.3 Credit and Market Risks, and Impairment losses

Information about the Group's exposure to credit and market risks, and impairment losses for trade and other receivables is included in Note 39.1.3.

26.4 Loans to Directors

No loans have been granted to the Directors of the Company.

26.5 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.

Notes to the Financial Statements

27 INSURANCE CONTRACT-DEFERRED EXPENSES-GROUP & COMPANY

As at 31 December,	2014 Rs. '000	2013 Rs. '000
At 1st January	89,304	68,192
Acquisition cost	170,128	155,886
Amortisation	(158,476)	(134,774)
Total	100,956	89,304

27.1 Impairment of Carrying Value of DAC

The Board of Directors has assessed potential impairment of DAC as at 31st December 2014. 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.

28 CASH AND CASH EQUIVALENTS-GROUP & COMPANY

As at 31 December,	2014 Rs. '000
GROUP	
Cash in Hand	3,915
Cash at Bank	126,368
	130,283
Bank Overdraft	319,305
Net	(189,022)

As at 31 December,	2014 Rs. '000	2013 Rs. '000
COMPANY		
Cash in Hand	3,915	3,147
Cash at Bank	126,340	99,081
	130,255	102,228
Bank Overdraft	319,305	119,063
Net	(189,050)	(16,835)

28.1 Fair Value

The Carrying amounts disclosed above reasonably approximate fair value at the reporting date.

28.2 Risk management Initiative Relating to Cash and Cash Equivalents

Please refer Note 39.1.3 to the Financial Statements.

29. STATED CAPITAL

As at 31 December,	2014		2013	
	Number of Shares	Rs. '000	Number of Shares	Rs. '000
Balance as at 1st January	37,500,000	1,062,500	37,500,000	1,062,500
Issued during the year	-	-	-	-
	37,500,000	1,062,500	37,500,000	1,062,500

29.1 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.

30. AVAILABLE FOR SALE RESERVES-GROUP & COMPANY

This reserve includes unrealised fair value change in investments classified as Available for Sale and reserve made for Solvency.

As at 31 December,	GROUP	COMPANY	
	2014 Rs. ' 000	2014 Rs. ' 000	2013 Rs. ' 000
Balance as at 1st January	114,663	114,663	104,477
Adjustment from unrealised (losses) / gains on AFS Assets	423,658	423,658	234,332
Net changes in AFS Assets transferred to Income Statement	(82,849)	(82,849)	(224,146)
Total AFS Reserve	455,472	455,472	114,663

30.1 The Available for Sale reserves comprises the cumulative net change in the fair value of available for sale financial assets until the assets are derecognised or impaired.

31. RETAINED EARNINGS-GROUP & COMPANY

As at 31 December,	GROUP	COMPANY	
	2014 Rs. ' 000	2014 Rs. ' 000	2013 Rs. ' 000
Balance as at 1st January	654,531	654,531	294,526
Profit for the year	755,281	752,110	362,335
Recognition of Defined benefit plan actuarial (losses)	1,381	1,381	(2,330)
Dividend Paid	(555,000)	(555,000)	-
Share issue cost	(500)	-	-
	855,693	853,022	654,531

Notes to the Financial Statements

32. INSURANCE CONTRACT LIABILITIES LIFE-GROUP & COMPANY

As at 31 December,	Note	2014 Rs. '000	2013 Rs. '000
Life Insurance Fund	32.1	4,999,563	3,746,464
Claims Payable		224,132	191,566
Provision for Premium deficiency	32.3	-	-
		5,223,695	3,938,030

32. INSURANCE CONTRACT LIABILITIES LIFE-GROUP & COMPANY CONTD.

32.1 Movement in Life Insurance Fund

	Insurance Contract Liabilities (Gross) Rs. '000	Reinsurance Rs. '000	Net Rs. '000
At 1st January 2013	2,904,346	-	2,904,346
Change in Contract Liabilities Life Fund			
Premiums received	2,520,283	(381,617)	2,138,666
Liabilities released for payments on Death, Surrender and Other terminations in the year	(387,175)	173,074	(214,101)
Net Finance and Other Income	571,871	-	571,871
Net Acquisition and Other Expenses	(1,354,017)	-	(1,354,017)
Surplus distributed to shareholders	(300,301)	-	(300,301)
Increase in Life Insurance Fund	1,050,661	(208,543)	842,118
Balance as at 31st December 2013	3,955,007	(208,543)	3,746,464
At 1st January 2014	3,746,464	-	3,746,464
Change in Contract Liabilities Life Fund			
Premiums received	3,048,148	(231,555)	2,816,593
Liabilities released for payments on Death, Surrender and Other terminations in the year	(538,876)	226,385	(312,491)
Net Finance and Other Income	1,001,660	-	1,001,660
Net Acquisition and Other Expenses	(1,715,787)	-	(1,715,787)
Surplus distributed to Shareholders	(536,876)	-	(536,876)
Increase in Life Insurance Fund	1,258,269	(5,170)	1,253,099
Balance as at 31st December 2014	5,004,732	(5,170)	4,999,563

32.2 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 2014 was made by Mr. M. Poopalanathan, AIA, Messers of Actuarial and Management Consultants (Pvt) Ltd a firm of professional actuaries, who recommended a sum of Rs.536.8 million to be transferred from Life Insurance fund to the Shareholders fund for the year ended 2014. Subsequent to the transfer the conventional life fund stands as Rs.4,999 million , including the liability in respect of bonuses and dividends declared up to and including for the year 2014.

Solvency Margin

In the opinion of the consultant actuary, the Admissible Assets of the Life Insurance fund as at 31st December 2014 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.

32.3 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 2014 as required by SLFRS 4- Insurance Contracts. 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 2014.

No additional provision was required against the LAT as at 31st December 2014.

Notes to the Financial Statements

33 INSURANCE CONTRACT LIABILITIES GENERAL-GROUP & COMPANY

The General Insurance Contract liability as shown in the Statement of Financial Position represents the following:

As at 31 December,		2014 Rs. '000	2013 Rs. '000
Reserves for Net Unearned Premium	Note 33.2b	845,323	764,658
Claims Payable including IBNR Provision		293,371	156,563
Provision for Premium Deficiency	Note 33.5	-	-
		1,138,694	921,221

33.1 Movement in Insurance Contract Liabilities - General

		Insurance Contract Liabilities (Gross) Rs. '000	Reinsurance Rs. '000	Net Rs. '000
As at 31st December 2013				
Claims Payable	Note 33.3	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 33.2.a	850,483	(85,825)	764,658
Total Net Liabilities as at 31st December 2013		1,007,045	(154,459)	852,586
As at 31st December 2014				
Claims Payable	Note 33.3	215,996	(63,876)	152,120
Reserve for IBNR and IBNER		77,375	-	77,375
Total Outstanding Claims provision		293,371	(63,876)	229,495
Reserves for Net Unearned Premium	Note 33.2.b	959,482	(114,159)	845,323
Total Net Liabilities as at 31st December 2014		1,252,853	(178,035)	1,074,818

*Reinsurance Receivable on Outstanding Claims are provided in Note 23 together with outstanding Reinsurance Receivables on paid claims.

33.2 Reserves for Unearned Premium

Below note provides the movement of Gross Unearned Reserve and Reserve for Reinsurance

		Insurance Contract Liabilities (Gross) Rs. '000	Reinsurance Rs. '000	Net Rs. '000
33.2.a As at 1st January 2013				
Premiums Written during the year		1,556,386	(254,261)	1,302,125
Premiums Earned during the year		(1,357,921)	256,229	(1,101,692)
Balance as at 31st December 2013		850,483	(85,825)	764,658
33.2.b As at 1st January 2014				
Premiums Written during the year		1,725,147	(321,008)	1,404,139
Premiums Earned during the year		(1,616,148)	292,674	(1,323,474)
Balance as at 31st December 2014		959,482	(114,159)	845,323

33 INSURANCE CONTRACT LIABILITIES GENERAL-GROUP & COMPANY CONTD.

33.3 Claims Payable

	2014 Rs. '000	2013 Rs. '000
Balance as at 1 January	102,210	99,507
Claims Approved during the year	1,293,519	971,749
Claims Paid during the year	(1,179,733)	(969,046)
Balance as at 31 December	215,996	102,210

33.4 Reserve for IBNR and IBNER

	2014 Rs. '000	2013 Rs. '000
Balance as at 1st January	54,352	17,772
Provision made during the year	23,023	36,580
Balance as at 31st December	77,375	54,352

33.5 Liability Adequacy Test

A Liability Adequacy Test ("LAT") for General insurance contract liability was carried out by Mr. Mathhew Maguire, FIAA for and on behalf of NMG Financial Services Consulting Pvt Limited as at 31st December 2014 as required by SLFRS 4 -Insurance Contracts. The valuation is based on internationally accepted actuarial methods and is performed on annual basis. According to the Consultant Actuary's report, the Company adequately satisfies the LAT as at 31st December 2014.

No additional provision was required against the LAT as at 31st December 2014.

33.6 Valuation of IBNR and IBNER

The incurred but not reported claims reserve has been actuarially computed by NMG Financial Services Consulting as at 31st December 2014.

Changes in Assumption

There were no estimation changes from valuation previous valuation done on 31st December 2014.

33.7 Technical Reserves

	Note	2014 Rs. '000	2013 Rs. '000
Total General Insurance Contract Liabilities	33	1,138,694	921,221
Differed Acquisition Cost(net)		(75,178)	(71,483)
Reinsurance Receivable on Outstanding Claims		(63,876)	(68,634)
		999,640	781,104

Notes to the Financial Statements

34 EMPLOYEE BENEFITS-GROUP & COMPANY

34.1 Contribution to Defined Contribution Plans

As at 31 December,	2014 Rs. '000	2013 Rs. '000
Employees' Provident Fund (EPF)	41,309	31,766
Employees' Trust Fund (ETF)	10,348	7,945
	51,657	39,711

34.2 Defined Benefit Plans

This show the movement in the present value of the Employee benefits

As at 31 December,	Note	2014 Rs. '000	2013 Rs. '000
Defined benefit obligations as at 1st January		46,154	34,398
Expenses recognised in Income Statement	34.2.a	13,427	11,193
Actuarial (gains)/ losses in other Comprehensive Income	34.2b	(1,380)	2,330
		58,201	47,921
Payments during the year		(5,174)	(1,767)
		53,028	46,154

The Company recognises the actuarial (gains)/losses in the Statement of profit or loss and other comprehensive income for the year ended 31st December 2014, in line with the revised Employee Benefits (LKAS 19) which became effective from 1st January 2013.

34.2.a Expenses recognised in Income Statement

As at 31 December,	2014 Rs. '000	2013 Rs. '000
Interest cost	5,076	3,786
Current service costs	8,351	7,407
	13,427	11,193

34.2.b Actuarial (gains)/ losses in Statement of Profit or loss and Other Comprehensive Income

As at 31 December,	2014 Rs. '000	2013 Rs. '000
Amount accumulated in Retained Earnings as at 1st January	2,644	314
Recognised (gain)/loss during the year	(1,380)	2,330
Amount accumulated in retained earnings as at 31st December	1,264	2,644

34.2.c Valuation of Employee Benefit Obligation

As at 31st December 2014 the Gratuity Liability was actuarially valued under the Projected Unit Credit (PUC) method by Mr. M. Poopalanathan, AIA, Messers of Actuarial & Management Consultants (Pvt) Limited a firm of professional actuaries. The valuation is performed on an annually.

34 EMPLOYEE BENEFITS-GROUP & COMPANY CONTD.

34.3 Actuarial Assumptions

As at 31 December,	2014	2013
Discount Rate	9%	11%
Future Salary Increment	7%	10%
Normal Retirement Age	55 years	55 years

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

34.4 Sensitivity Analysis

Reasonable possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

Discount Rate	Salary Escalation Rate	Present Value of Defined Benefit Obligation (Rs'000.)
1% point increase	7%	49,561
1% point decrease	7%	57,069
9%	1% point increase	57,188
9%	1% point decrease	49,424

34.5 Gratuity Liability is not Externally Funded

35 REINSURANCE PAYABLE-GROUP & COMPANY

As at 31 December,	2014 Rs. '000	2013 Rs. '000
At 1st January	137,583	77,974
Arising during the year	552,563	635,878
Utilised	(821,454)	(576,269)
	131,308	137,583

36 INSURANCE CONTRACT-DEFERRED REVENUE-GROUP & COMPANY

As at 31 December,	2014 Rs. '000	2013 Rs. '000
At 1st January	17,820	16,680
Commission Income	122,672	103,294
Amortisation	(114,713)	(102,154)
	25,779	17,820

Notes to the Financial Statements

37 OTHER LIABILITIES-GROUP & COMPANY

37.a Other Liabilities-Group

As at 31 December,	2014 Rs. '000
Other Financial Liabilities	
Commission Payable	195,935
Premium Deposit	58,759
Accruals & Other Payables	602,708
	857,402
Other Non Financial Liabilities	
Tax and Other Statutory payables	14,852
	14,852
Total Other Liabilities	872,254
Current	872,254
Non Current	-

37.b Other Liabilities-Company

As at 31 December,	2014 Rs. '000	2013 Rs. '000
Other Financial Liabilities		
Commission Payable	195,935	164,922
Premium Deposit	58,759	56,499
Accruals & Other Payables	602,658	147,504
	857,352	368,925
Other Non Financial Liabilities		
Tax and Other Statutory payables	14,852	29,131
	14,852	29,131
Total Other Liabilities	872,204	398,056
Current	872,204	398,056
Non Current	-	-

38 SHORT TERM BORROWINGS-GROUP & COMPANY

As at 31 December,	Note	2014 Rs. '000	2013 Rs. '000
Commercial Papers - Softlogic Finance	38.1	154,483	50,000
		154,483	50,000

38.1 Terms and Repayment Schedule

	Nominal Interest Rate	Year of Maturity	2014		2013	
			Carrying Value	Fair Value	Carrying Value	Fair Value
			Rs. '000	Rs. '000	Rs. '000	Rs. '000
Unsecured short term loan	9%	20-Jan-15	52,043	52,298	-	-
Unsecured short term loan	9%	23-Mar-15	102,440	104,298	-	-
Unsecured short term loan	15.50%	4-Jan-14	-	-	50,000	50,000

39 INSURANCE AND FINANCIAL RISK MANAGEMENT AND FAIR VALUE DISCLOSURES

39.a Risk Management Framework

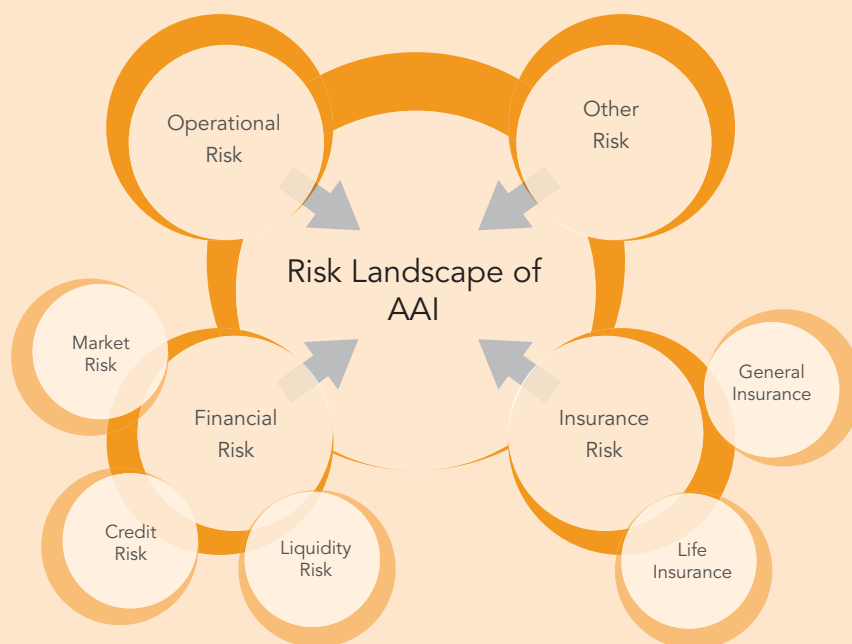
The Group Board of Directors has overall responsibility for the establishment and oversight of the Group risk management framework. The Board of Directors has established the Risk Management Committee, which is responsible for developing and monitoring the Group risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Group Risk management policies are established to identify and analyse the risks faced by the Group, 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 Group activities.

The Audit Committee oversees how management monitors compliance with the Group risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

39.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:



39.c Disclosure Requirement Under SLFRS 4 – Insurance Contracts and SLFRS 7 – Financial Instruments

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 risk landscape that AAI is exposed to and its objectives, policies, process and methodologies adopted for managing those risks, the reader needs to refer this section as well as the risk management report in the stewardship section from pages 252 to 257 of this Annual Report 2014.

39.1 Insurance Risk

Insurance risk is the likelihood that an insured event will occur, requiring the insurer to pay a claim. This risk is transferred to the Company through the underwriting process. The principal risk the Company 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.

AAI actively seeks to write those risks it understands and that provide a reasonable opportunity to earn an acceptable profit. Therefore, the objective of the Group is to ensure that sufficient reserves are available to cover these liabilities.

39 INSURANCE AND FINANCIAL RISK MANAGEMENT AND FAIR VALUE DISCLOSURES CONTD.

Insurance Risk Management Strategy of Asian Alliance Insurance

Initiatives of risk mitigation policies relating to insurance are summarised below;

Strategy Areas	Risk Mitigation Initiatives
Underwriting	<ul style="list-style-type: none"> • Continuous training for underwriting staff • Adherence to the Social and Environmental Policy at the time of underwriting • Establishing a clearly defined Pricing Policy • Establishing limits for underwriting authority
Product Mix	<ul style="list-style-type: none"> • Aligning product mix with the overall strategy of the Company. • Aligning performance incentives of sales staff to maintain desired product mix • Frequent monitoring and reporting of product mix by the respective operations • Constant monitoring and comparison of competitor products
Re-insurance	<ul style="list-style-type: none"> • Reviewing the Company's reinsurance strategy and arrangements on an annual basis. The strategy is presented to and approved by the Board Risk Committee. • Conducting detail studies on the adequacy of reinsurance arrangements for catastrophic events. • Ensuring that reinsurance transactions are conducted with parties which meet IBSL rating requirements. • Ensuring minimum concentration amongst reinsurance parties.

Risks encountered by the Company in respect of its Life Insurance Business and General Insurance Business are discussed in detail below.

Life Insurance Business

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 and constitute as material risks for the Company.

The information given below on the risks faced by the Company through its Life Insurance Business and mitigation actions taken on the relevant risks.

Determination of the Life Insurance Contract Liability

Definition / Description

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.

Mitigation Strategy

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

Policyholder Decision Risk

Description / Definition

The risk of loss arising due to policyholders experiences being different than expected. (Ex: Lapses and Surrenders). Lapses relate to the termination of policies due to non-payment of premiums. Surrenders relate to the voluntary termination of policies by policyholders.

Mitigation Strategy

Assumptions on Policy termination are determined using statistical measures based on the Company's experience and vary by product type, policy duration and sales trends.

Expense Risk

Definition

Risk that expenses incurred in acquiring and administering policies are higher than expected.

Notes to the Financial Statements

Mitigation Strategy

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.

Mortality Risk

Definition

The risk that actual policyholder death experience on life insurance policies is higher than expected.

Mitigation Strategy

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.

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.

Subsequently, new estimates are developed at each reporting date to determine whether liabilities are adequate in the light of the latest current estimates.

Longevity Risk

Definition

Risk that annuitants live longer than expected. 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.

Mitigation Strategy

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. Annuitant mortality assumptions also include allowance for future mortality improvements.

Concentration Risk

Definition

Risk of exposure to increased losses as a result of inadequately diversified portfolios of assets and /or obligations.

Mitigation Strategy

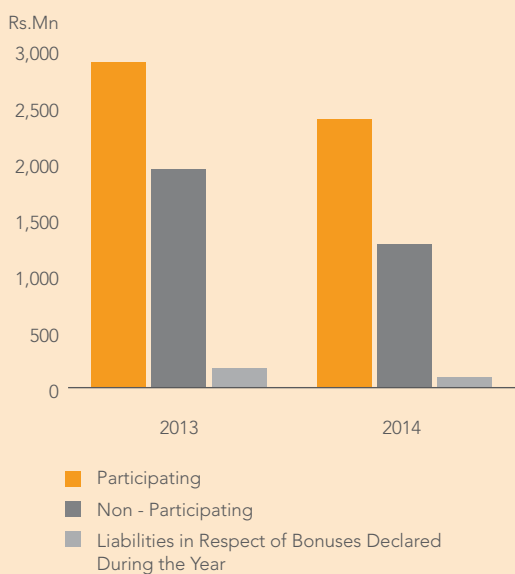
The Company's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. A more diversified portfolio of risks is less likely to be affected across the board by a change in any subset of risks. Accordingly having a well-diversified portfolio with mix of participative and non-participative reduces risk associated with the life business by Asian Alliance Insurance.

The data below shows the concentration of the life insurance segment of the Company by type of Contract and type of Exposure.

Type of Contract	31 December 2014		31 December 2013	
Description	Insurance Contract Liabilities Rs'000	% Share	Insurance Contract Liabilities Rs'000	% Share
Participating	2,890,014	58%	2,383,139	64%
Non-participating	1,939,805	39%	1,270,994	34%
Liabilities in respect of bonuses declared during the year	169,743	3%	92,331	2%
Total	4,999,562		3,746,464	

39 INSURANCE AND FINANCIAL RISK MANAGEMENT AND FAIR VALUE DISCLOSURES CONTD.

Life Insurance Segment



Claim Risk

Definition

The Company is liable for all insured events. There are several variables that could affect the value of insurance liabilities, and the amount and timing of cash flows from these contracts.

Assumptions (such as the mortality rate, morbidity and longevity) are used to estimate the value of insurance liabilities. The amount of liabilities of life insurance contracts with fixed and guaranteed terms will not change as a result of these assumptions unless the change is severe enough to trigger a liability adequacy test adjustment.

The table below 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.

31 December 2014		
Assumption	Change in Assumptions	Impact on Liabilities Rs'000
Mortality	+10%	42,339
	-10%	(56,350)
Morbidity	+10%	27,310
	-10%	(27,310)
Discount Rate	+50 basis points	(165,046)
	-50 basis points	138,993

Notes to the Financial Statements

31 December 2014		
Assumption	Change in Assumptions	Total Liabilities Rs'000
Mortality	+10%	+5,078,650
	-10%	-4,979,961
Discount Rate	+50 basis points	+4,871,266
	-50 basis points	-5,175,305

31 December 2013		
Assumption	Change in assumptions	Total Liabilities Rs'000
Mortality	+10%	+3,750,697
	-10%	-3,657,747
Discount Rate	+50 basis points	-3,566,823
	-50 basis points	+3,837,179

Market Risk

Definition

The possibility for an investor to experience losses due to factors that affect the overall performance of the financial markets. Market risk, also called "Systematic Risk," cannot be eliminated through diversification, though it can be hedged against. This is further analysed in the section on "Market Risk" under Financial Risk.

Mitigation Strategy

Discussed in detail in the Market Risk" under Financial Risk.

General Insurance Business

The following table provides an overview of the main lines of business within the General Insurance Business Operation.

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.

Claims Risk

Definition

The reasonable possibility of significant loss due to the uncertainty in the frequency of the occurrence of the insured events as well as in the severity of the resulting claims.

Mitigation Strategy

Strict claim review policies to assess all new and on-going 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.

39 INSURANCE AND FINANCIAL RISK MANAGEMENT AND FAIR VALUE DISCLOSURES CONTD.

Supporting Data / Statistics

Sensitivity of net profit after tax (PAT) and the sensitivity of net assets (NA) as a result of an adverse development in the net loss ratio by one percentage point are provided in the 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.

Sensitivity of Profitability and net assets due to increase in net claim ratio

	2014	2013
	Rs.'000	Rs.'000
+1% in claim ratio		
Net impact to profit after tax	5,338	(15,097)
Impact to net assets	(5,338)	(15,097)

Uncertain future Claim Risk

Definition

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

Mitigation Strategy

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.

Concentration Risk

Definition

Risk of exposure to increased losses as a result of inadequately diversified portfolios of assets and /or obligations.

Mitigation Strategy

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.

Notes to the Financial Statements

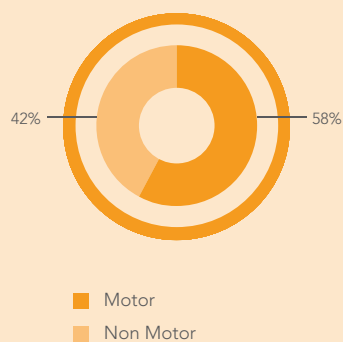
Statistics

Concentration Risk of GWP by Business Class

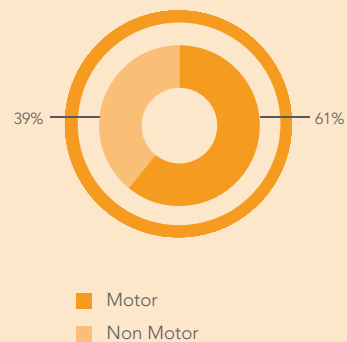
Class	2014			
	Gross Written Premium	Reinsurance	Net Written Premium	%
Motor	887	72	815	58%
Fire	185	168	17	1%
Marine	51	39	12	1%
Miscellaneous and Medical	602	42	560	40%
	1725	321	1404	
Motor/Non Motor composition				
Motor	887	72	815	58%
Non Motor	838	249	589	42%
	1725	321	1404	

Class	2013			
	Gross Written Premium	Reinsurance	Net Written Premium	%
Motor	850	52	798	61%
Fire	137	126	12	1%
Marine	46	25	20	1%
Miscellaneous and Medical	523	52	472	37%
	1,556	254	1,302	
Motor/Non Motor composition				
Motor	850	52	798	61%
Non Motor	706	203	504	39%
	1,556	254	1,302	

Motor / Non Motor Composition - 2014

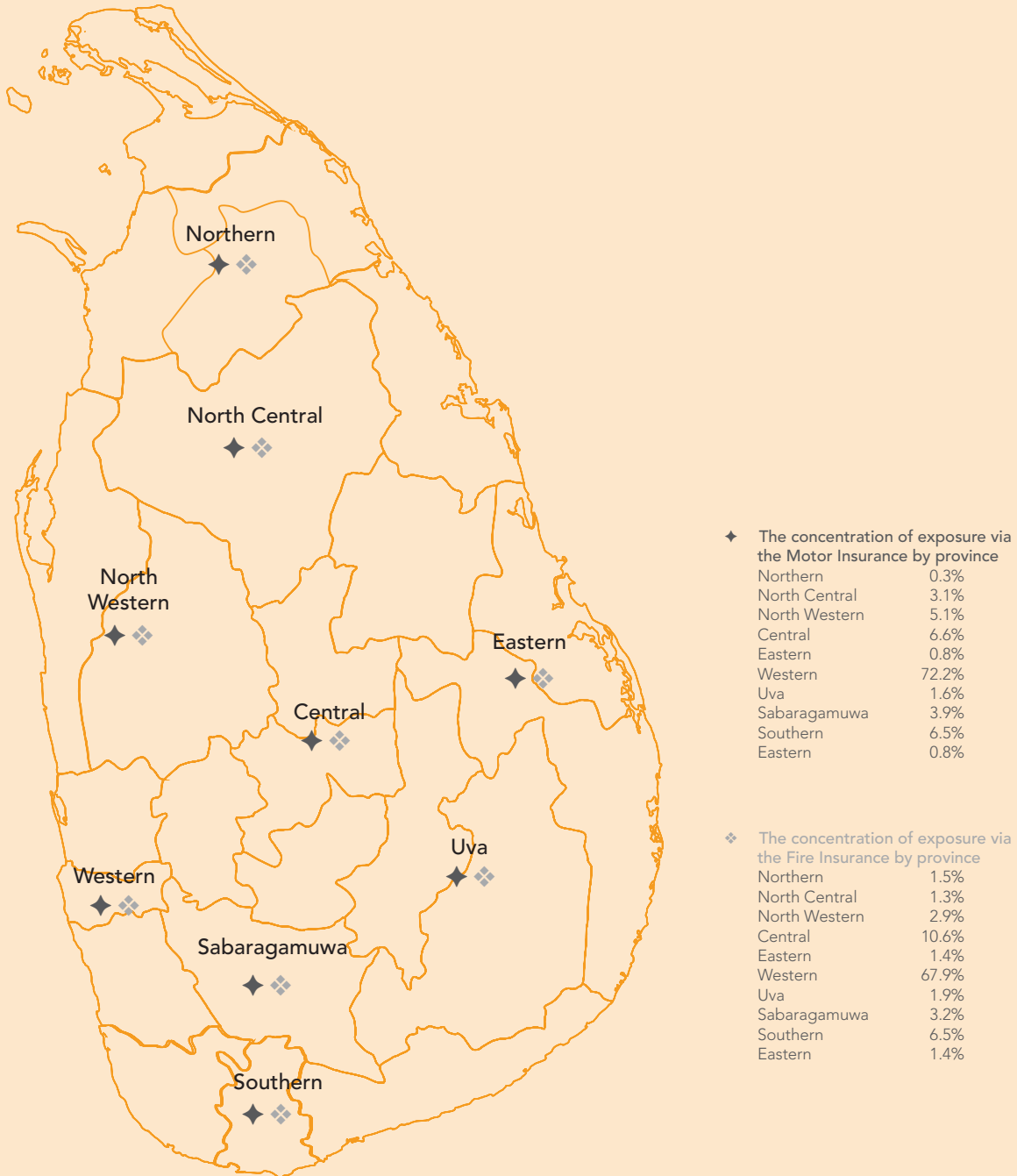


Motor / Non Motor Composition - 2013



39 INSURANCE AND FINANCIAL RISK MANAGEMENT AND FAIR VALUE DISCLOSURES CONTD.

The concentration of exposure via the Motor Insurance by province and the concentration of exposure via the Fire Insurance by province is given below.



Notes to the Financial Statements

Re-insurance Risk

Definition

Reinsurance is insurance purchased in order to manage the Company's risk. It protects against significantly large claims or disasters, allowing the insurance company to cover more individuals without fear of bankruptcy should a disaster occur, resulting in multiple policyholders filing claims at one time.

The company is also exposed to a certain amount of credit risk through its reinsurance arrangements.

Mitigation Strategy

According to the overall risk management strategy, the Company cedes insurance risk through proportional, non-proportional and specific risk reinsurance treaties. The following steps are taken to manage reinsurance risk;

- Reinsurance agreements are placed in line with policy guidelines approved by the Board Risk Committee on an annual basis. They are also in line with the guidelines issued by the Insurance Board of Sri Lanka. Accordingly the Company's reinsurers for 2014 are given below.

Name of the Reinsurer	Credit Rating	Name of Rating Agency
Asia Capital Re	A-	AM Best
GIC of India	AAA	AM Best
Kuwait Re	A-	AM Best
Labuan Re	A-	AM Best
Lloyd's Syndicate CCL 3010	A+	S & P
Malaysian Re	A-	AM Best
Munich Re	AA-	S & P
New India Assurance	A-	AM Best
Saudi Re	BBB+	S & P
Swiss Re	AA-	S & P
Trust International	A-	AM Best

- Counterparty limits which are set annually are subject to regular reviews. 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. As at the reporting date reinsurance receivables amount to Rs.160 million as at 31st December, 2014 (2013-Rs.144 million). This mainly consists of reinsurance receivable on paid claims amounting to Rs.25 million (2013-Rs.17.48 million) and reinsurance share of claim reserve (receivables on outstanding claims) of Rs.135 million as at 31st December 2014. (2013-Rs.126 million).
- Maintaining a professional relationship with reinsurers
- No cover is issue without confirmation from reinsurance unless non reinsurance business.

39 INSURANCE AND FINANCIAL RISK MANAGEMENT AND FAIR VALUE DISCLOSURES CONTD.

39.2 Financial Instruments - Fair Values and Risk Management

Financial Instruments are measured 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 recognised.

39.2.a Valuation Methodologies of Financial Instruments Measured at Fair Value

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position.

As at 31 December 2014	Note	Fair Value hierarchy			Total Rs'000
		Level 1	Level 2	Level 3	
Derivative Financial Instruments	21.a	-	41,256	-	41,256
Available-for-Sale Financial Investments					
Debt Securities	21.3	3,535,413	-	-	3,535,413
Equity Securities	21.3	108,000	-	100,000	208,000
		3,643,413	-	100,000	3,743,413
Financial Investments Held for Trading					
Debt Securities	21.4	1,406,999	-	58,960	1,465,959
Equity Securities	21.4	2,478,863	-	-	2,478,863
		3,885,863	-	58,960	3,944,822
		7,529,276	41,256	158,960	7,729,491

As at 31 December 2013	Note	Fair Value hierarchy			Total Rs'000
		Level 1	Level 2	Level 3	
Derivative Financial Instruments	21.a	-	9,907	-	9,907
Available-for-Sale Financial Investments					
Debt Securities	21.3	2,348,601	-	-	2,348,601
Equity Securities	21.3	80,000	-	100,000	180,000
		2,428,601	-	100,000	2,528,601
Financial Investments Held for Trading					
Debt Securities	21.4	489,056	-	417,981	907,038
Equity Securities	21.4	1,476,485	-	-	1,476,485
		1,965,541	-	417,981	2,383,522
		4,394,143	9,907	517,981	4,922,031

Whenever available, quoted prices in active markets are obtained for identical assets at the reporting date to measure fixed maturity securities at fair value in trading and available for sale portfolios. Market price data is generally obtained from dealer markets.

Notes to the Financial Statements

39.2.b Fair Values of Financial Assets and Liabilities not Carried at Fair Value

Financial Assets - Group

Set out below is a comparison of the carrying amounts and fair values of the financial assets and liabilities of the company which are not measured at fair value in the financial statements.

As at 31 December 2014	Note	Fair Value Hierarchy			Total Rs'000
		Level 1	Level 2	Level 3	
Held to Maturity Financial Investments	21.1	240,578	-	-	240,578
Financial Investments at Loans and Receivables	21.2	601,240	-	14,286	615,526
Loans to Life Policy holders and Others	22	133,846	-	-	133,846
		975,664	-	14,286	989,950
Other Financial Assets:					
Reinsurance Receivables	23	-	-	-	159,711
Premium Receivables	24	-	-	-	460,196
Amounts due from Related Companies	25	-	-	-	663
Receivables and Other Assets	26.1	-	-	-	10,311
Cash and Cash Equivalents	28.1	-	-	-	130,282
		-	-	-	761,163
		975,664	-	14,286	1,751,112

Financial Assets - Company

As at 31 December 2014	Note	Fair Value Hierarchy			Total Rs'000
		Level 1	Level 2	Level 3	
Held to Maturity Financial Investments	21.1	240,578	-	-	240,578
Financial Investments at Loans and Receivables	21.2	497,366	-	14,286	511,652
Loans to Life Policyholders and Others	22	133,846	-	-	133,846
		871,790	-	14,286	886,076
Other Financial Assets:					
Reinsurance Receivables	23	-	-	-	159,711
Premium Receivables	24	-	-	-	460,196
Amounts due from Related Companies	25	-	-	-	2,044
Receivables and Other Assets	26.2	-	-	-	10,111
Cash and Cash Equivalents	28.2	-	-	-	130,254
		-	-	-	762,316
		871,790	-	14,286	1,648,392

39 INSURANCE AND FINANCIAL RISK MANAGEMENT AND FAIR VALUE DISCLOSURES CONTD.

39.2.b Fair values of financial assets and liabilities not carried at fair value Contd.

Financial Assets - Company Contd.

As at 31 December 2013	Note	Fair Value hierarchy			Total Rs'000
		Level 1	Level 2	Level 3	
Financial Assets not Measured at Fair Value					
Held to Maturity Financial Investments	21.1	208,625	-	-	208,625
Financial Investments at Loans and Receivables	21.2	606,306	-	495,986	1,102,292
Loans to Life Policy holders and Others	22	-	-	-	-
		814,931	-	495,986	1,310,917
Other Financial Assets:					
Reinsurance Receivables	23	-	-	-	144,058
Premium Receivables	24	-	-	-	464,453
Amounts due from Related Companies	25	-	-	-	259
Receivables and Other Assets	26.2	-	-	-	8,939
Cash and Cash Equivalents	28.2	-	-	-	102,228
		-	-	-	719,936
		814,931	-	495,986	2,030,853

Note: The Group has not disclosed the fair values for financial instruments such as Reinsurance Receivables, Premium Receivables, Loans to policy holders, Amounts due from Related Companies, Receivables and other assets, Other assets and Cash and Cash equivalents because their carrying amounts are a reasonable approximation of fair value.

Financial Liabilities: Group

	2014	
	Carrying value	Fair Value
As at 31st December		
Reinsurance Payable	35	131,308
Short-term Borrowings	38	154,483
Bank Overdraft	28.1	319,305
Other Financial Liabilities	37.a	857,401
	1,462,497	1,462,497

Note: The Group has disclosed fair values of financial liabilities similar to carrying amounts since those amounts are reasonable approximation of fair values. Thus the fair-value hierarchy disclosure is not applicable.

Financial liabilities : Company

	2014		2013	
	Carrying value	Fair Value	Carrying value	Fair Value
As at 31st December				
Reinsurance Payable	131,308	131,308	137,583	137,583
Short-term Borrowings	154,483	154,483	50,000	50,000
Bank Overdraft	319,305	319,305	119,063	119,063
Other Financial Liabilities	857,351	857,351	368,925	368,925
	1,462,447	1,462,447	675,571	675,571

Notes to the Financial Statements

39.2.1 Measurement of fair value

39.2.1a Valuation techniques and significant unobservable inputs

The following tables show the valuation techniques used in measuring Level 2 and Level 3 fair values, as well as the significant unobservable inputs used.

Financial Instruments measured at fair value

Type	Valuation Technique	Significant Unobservable Inputs	Inter-relationship between Significant Unobservable Inputs and Fair Value Measurement
Derivative	Market comparison technique: The fair values are based on average selling price of underlying asset (Treasury Bonds) which are published in the Central Bank of Sri Lanka.	Value of the Bond, Terms of the agreement	Change in the agreement terms and bond values will impact the value
Equity shares	Consideration of Net Assets of the entity	Net Asset of the entity	Change in Net Asset will impact the change in value
Unit Trust	Published value of the unit trust computed & published by the fund	Criteria used to value the units by the fund	The estimated fair value would increase/(decrease) if: the net assets value of the fund increase/(decrease)

39.2.1b Sensitivity Analysis

For the fair values of Unit Trust -FVTPL, reasonably possible changes at the reporting date to one of the significant unobservable inputs, holding other inputs constant, would have the following effects;

Unit Trust	Gain/(Loss)	
	Increase	Decrease
For the year ended 31 December 2014		
Share price movement by one rupee-Life Fund	1,334	(1,334)
Share price movement by one rupee-General Fund	3,142	(3,142)

39.2.1c Determination of Fair Value and Fair Values hierarchy of Financial Investments

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.

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.

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.

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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.

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.

Loans 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.

Cash and Bank Balances

The carrying amount approximate to fair value due to the relatively short term maturity.

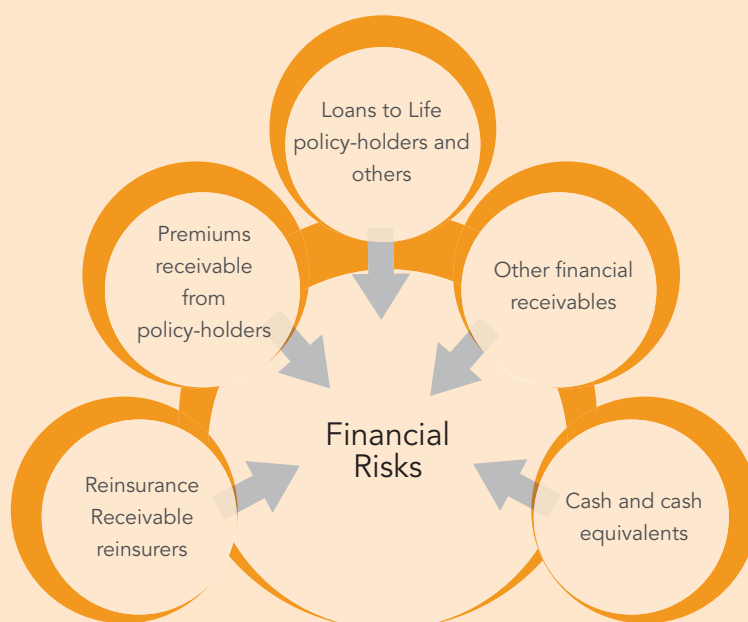
Other Receivable and Financial Liabilities

The carrying value has been considered as the fair value due to uncertainty of the timing cash flows.

39.1.3 Financial Risk Management

Overview

The Company has exposure to the following risks arising from financial instruments:



This diagram 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.

Notes to the Financial Statements

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. The Company could also experience a maturity mismatch with respect to unexpected large claims and expected reinsurance recoveries from insurers.

Mitigation Strategies

- Reporting to the ALCO on a regular basis
- Monitoring of Duration on fixed income portfolios by the Treasury Team.
- Regular reviews cash flow projections
- Adhering to defined limits on maturity gaps as per approved risk limits and adhering to compositions of investments as per the investment policy
- Reinsurance contracts contain clauses permitting the immediate draw down of funds to meet claim payments in the event claims exceed a certain amount.

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, differed acquisition expenses and the reinsurers' share of unearned premiums have been excluded from the analysis as they are not contractual obligations.

Maturity profiles -Group

As at 31 December 2014

	No maturity	Less than 1 year	1- 3 years	More than 3 years	Total
Derivative Financial Instruments	-	-	-	41,256	41,256
Held to Maturity Financial Assets	-	-	-	222,929	222,929
Loans & Receivables	-	615,526	-	-	615,526
Available For Sale Financial Assets	208,000	94,809	305,023	3,135,581	3,743,413
Financial Assets at FVTPL (Trading)	2,537,823	-	889,225	517,774	3,944,822
Life Policyholder Loans	-	12,771	31,381	89,694	133,846
Reinsurance Receivables	-	159,711	-	-	159,711
Premium Receivables	-	460,196	-	-	460,196
Receivables & Other Assets	-	341,220	-	-	341,220
Reinsurance Payable	-	131,308	-	-	131,308
Insurance Contract Liabilities - Life (Gross basis)	-	82,881	604,334	4,346,874	5,034,089
Insurance Contract Liabilities - General	-	1,138,694	-	-	1,138,694
Other Liabilities	-	872,254	-	-	872,254
Current Tax Liabilities	-	11,980	-	-	11,980
Short Term Borrowings	-	154,483	-	-	154,483
Bank Overdraft	-	319,305	-	-	319,305
Total	2,745,823	4,395,138	1,829,963	8,354,108	17,325,032

39 INSURANCE AND FINANCIAL RISK MANAGEMENT AND FAIR VALUE DISCLOSURES CONTD.

Maturity Profiles -Company

As at 31 December 2014

	No maturity	Less than 1 year	1- 3 years	More than 3 years	Total
Derivative Financial Instruments	-	-	-	41,256	41,256
Held to Maturity Financial Assets	-	-	-	222,929	222,929
Loans & Receivables	-	511,651	-	-	511,651
Available For Sale Financial Assets	208,000	94,809	305,023	3,135,581	3,743,413
Financial Assets at FVTPL (Trading)	2,537,823	-	889,225	517,774	3,944,822
Life Policyholder Loans	-	12,771	31,381	89,694	133,846
Reinsurance Receivables	-	159,711	-	-	159,711
Premium Receivables	-	460,196	-	-	460,196
Receivables & Other Assets	-	341,020	-	-	341,020
Reinsurance Payable	-	131,308	-	-	131,308
Insurance Contract Liabilities - Life (Gross basis)	-	82,881	604,334	4,346,874	5,034,089
Insurance Contract Liabilities - General	-	1,138,694	-	-	1,138,694
Other Liabilities	-	872,204	-	-	872,204
Current Tax Liabilities	-	11,980	-	-	11,980
Short Term Borrowings	-	154,483	-	-	154,483
Bank overdraft	-	319,305	-	-	319,305
Total	2,745,823	4,291,013	1,829,963	8,354,108	17,220,907

As at 31 December 2013

	No maturity	Less than 1 year	1- 3 years	More than 3 years	Total
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 Policyholder Loans	-	2,881	25,658	72,586	101,125
Reinsurance Receivables	-	144,058	-	-	144,058
Premium Receivables	-	444,594	-	-	444,594
Receivables & 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 - General	-	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	2,007,929	1,763,662	1,191,006	5,751,328	10,713,925

Notes to the Financial Statements

Credit Risk

The risk that one party to a financial arrangement will fail to meet their contractual obligation. The Company is exposed to credit risk through the following.

Mitigation Strategies

- Reinsurance Receivables

Management assesses the creditworthiness of reinsurers to update the reinsurance strategy on an annual basis and ascertains 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.

As at the reporting date reinsurance receivables amount to Rs.160 million as at 31 December, 2014 (2013-Rs.144 million). This mainly consists of reinsurance receivable on paid claims amounting to Rs.25 million (2013-Rs.17.48 million) and reinsurance share of claim reserve (receivables on outstanding claims) of Rs.135 million as at 31st December 2014. (2013-Rs.126 million).

As at 31st December 2014, 2.1 million 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 balance sheet date.

Credit risk of Reinsurance Receivables by Rating Class

Rating	2014	
	On Paid Claims	%
AAA	553	2%
AA -	1,556	7%
A +	2,247	10%
A	444	2%
A -	2,143	10%
BBB	207	1%
B +	1,469	7%
NITF	13,806	61%
Unrated	94	0%
Total	22,520	100%

- Financial Investments

The Company is also exposed to credit risk through its financial investments. The credit worthiness of the financial instruments are assessed using the credit ratings assigned to each security and fixed deposit. This rating provides the Company and indication of the financial stability of the investment.

Lists of financial investments as at 31st December 2014 along with their ratings are given below.

Credit Ratings of Financial Investments	31st December 2014		31st December 2013	
	Rs Mn	% of total	Rs Mn	% of total
AA-	273	25%	225	23%
A-	239	22%	189	19%
BBB	118	11%	118	12%
BBB-	387	35%	264	27%
BBB+	36	3%	10	1%
Guaranteed by Treasury	50	5%	50	5%
Not rated*	-	-	135	14%
Total	1,103	100%	992	100%

* Debt securities exclude securities issued by the Government of Sri Lanka as they are assumed to be zero risk securities.

39 INSURANCE AND FINANCIAL RISK MANAGEMENT AND FAIR VALUE DISCLOSURES CONTD.

Mitigation Strategies Contd.

Reverse repo investments which fall under government securities is backed by treasury bills and bonds which are provided as collateral. The 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.

The above has been derived as per the company's risk management policy of using the carrying values in the Statement of financial position. There were no off - balance sheet exposures as at the dates. This does not include the exposure that would arise in the future as a result of changes in values.

- **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;

Loan Category	2014	2013
	Rs.'000	Rs.'000
Life policyholders	133,846	106,049
Staff loans	-	1,040
Total	133,846	107,089

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. 41 million (2013 – 65 million) and its related surrender value is Rs. 203 million.

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.

- **Insurance Premium Receivables**

In life insurance, credit risk is minimal, since premium is collected before the policy is issued.

In the General Insurance Business, 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 24 of the Statement of Financial Position for additional information on premium receivables

Credit Risk relating to Cash and Cash Equivalents

The Company maintains a strict policy to maintain cash deposits at counterparties with sound ratings and future outlooks, the company also maintains exposure limits to ensure that the company has a diverse range of counterparties to ensure low concentration risk.

The Company held cash and cash equivalents of Rs.(189) million at 31st December 2014. (2013 -Rs.(16) million). The cash and cash equivalents are held with bank and financial institutional counterparties, which are rated BBB+ or better.

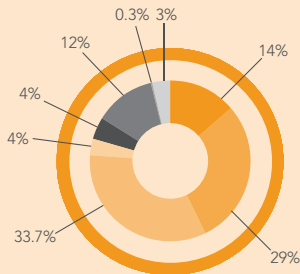
Assessment of Impairment Losses

Company monitors the requirement for impairment provision in the Financial Statements on going basis. The relevant accounting policies and financial details are given in Note 4.5 to these financial statements.

Based on the assessments made there was no provision has been made for impairment in the financial statements

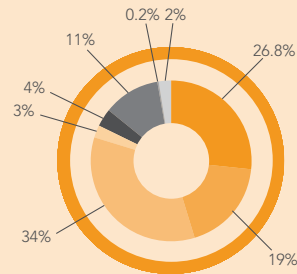
Notes to the Financial Statements

Credit Risk Exposure - 2014



- Loans & Receivables
- Available for Sale Financial Assets
- Total Debt Securities
- Life Policyholders Loans
- Reinsurance Receivable
- Premiums Receivable
- Other Financial Assets
- Cash and Cash Equivalents

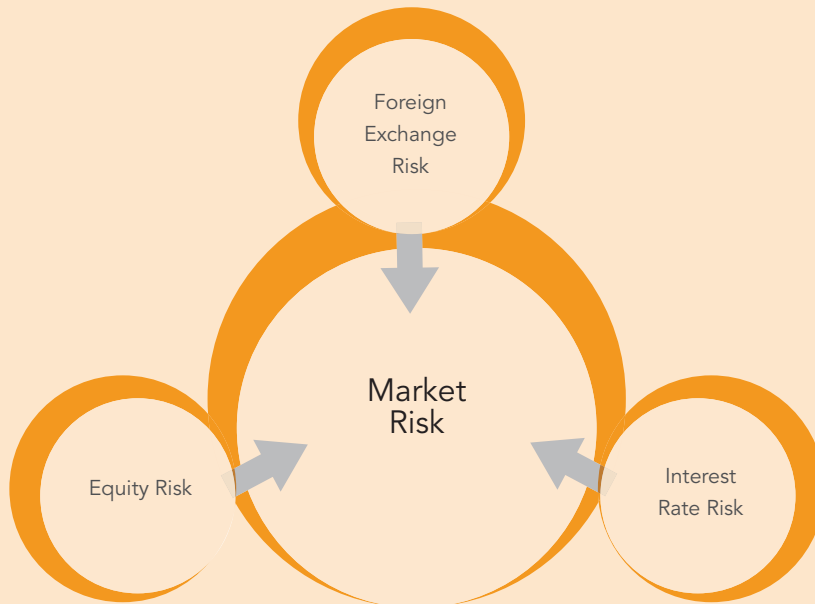
Credit Risk Exposure - 2013



- Loans & Receivables
- Available for Sale Financial Assets
- Total Debt Securities
- Life Policyholders Loans
- Reinsurance Receivable
- Premiums Receivable
- Other Financial Assets
- Cash and Cash Equivalents

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.

Equity Risk

Listed equity securities are susceptible to market price risk arising from uncertainties of future values of the investment securities.

39 INSURANCE AND FINANCIAL RISK MANAGEMENT AND FAIR VALUE DISCLOSURES CONTD.

Mitigation Strategies

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
- Investment decisions are based on in depth macroeconomic and industry analysis as well as research reports on company performance
- 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

The risk exposure to listed equity securities based on segment analysis as at 31st December 2014 with the comparatives are as follows;

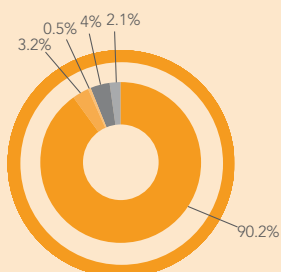
Listed Equity Investment

Segment	2014	2013
	Rs. Mn	Rs. Mn
Life Insurance	1,958	1,179
General Insurance	728	477
Total	2,687	1,656

Portfolio Diversification of Equity Investments

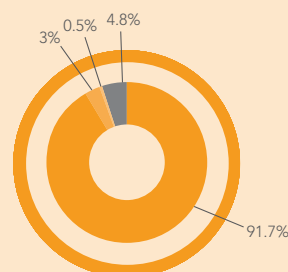
Sector	2014		2013	
	Rs'000	%	Rs'000	%
Banks Finance and Insurance	2,424,071	90.2%	1,518,406	91.7%
Diversified Holdings	87,590	3.2%	50,260	3%
Telecommunications	11,552	0.5%	7,817	0.5%
Healthcare	108,000	4%	80,000	4.8%
Manufacturing	55,650	2.1%		0%
Total	2,686,863	100%	1,656,483	100%

Portfolio Diversification of Equity Investments - 2014



- Banks Finance and Insurance
- Diversified Holdings
- Telecommunications
- Healthcare
- Manufacturing

Portfolio Diversification of Equity Investments - 2013



- Banks Finance and Insurance
- Diversified Holdings
- Telecommunications
- Healthcare

Notes to the Financial Statements

Sensitivity Analysis of Equity Risk

General Insurance Business	2014 Rs.'000	2013 Rs.'000
10% decline in stock markets		
Investments	-69,639	-42,733
Liabilities		
Net impact before tax	-69,639	-42,733
Tax impact		
Net impact after tax	-69,639	-42,733

Life Insurance Business	2014 Rs.'000	2013 Rs.'000
10% decline in stock markets		
Investments	-190,836	-162,677
Liabilities		
Net impact before tax	-190,836	-162,677
Tax impact		
Net impact after tax	-190,836	-162,677

Interest Rate Risk

a. Interest rate risk is the risk of fluctuation of the value or cash flows of an instrument due to changes in market interest rates.

Mitigation Strategies

The Company has adopted the following policies to manage interest rate risk

- A regular track of macroeconomic indicators is kept track of by the Risk Unit as well as the Treasury Department. These indicators together with their forecasts are reported to the Internal Risk Committee, the Board Risk Committee and the Investment committee so as to analyse their impact on investments.
 - Regular meetings and monitoring of risks by the ALCO
 - Adhering to limits set on interest rate risk through the Risk Policy
- b. Floating rate instruments expose the company to cash flow fluctuations, whereas fixed interest rate instruments expose the company to changes in fair values.

Mitigation Strategies

As at 31st December 2014 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

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.

As at 31st December 2014

Change in Variables	Impact on Profit Before Tax	Impact on Equity
General		
+ 100 basis points	-23,974	-23,974
- 100 basis points	25,724	25,724
Life segment *		
+ 100 basis points	-210,536	-210,536
- 100 basis points	187,303	187,303

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As at 31st December 2013

Change in Variables	Impact on Profit Before tax	Impact on Equity
General		
+ 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

*Subject to actuarial valuation

Foreign Exchange Risk

The risk of an investment's value changing due to changes in currency exchange rates. The Company's principle operation is based in Sri Lanka, therefore Company is it is not materially exposed to the foreign exchange risk.

Mitigation Strategies

The Company's foreign exchange exposure is minimal.

40 GROUP COMPOSITION

40.1 List of Subsidiaries

Set out below is a list of material subsidiaries of the Group.



40.2 Incorporation of Subsidiary

The Company incorporated a fully owned subsidiary, Asian Alliance General Insurance Limited, on 31st March 2014 in order to transfer the General Insurance business w.e.f. 1st January 2015 in line with the requirement to segregate Life and General Insurance business as required by the RII (Amendment) Act No. 03 of 2011.

Asian Alliance Insurance PLC invested Rs.100 million in line with the regulatory requirements in the said subsidiary Company subsequent to incorporation on 31st March 2014. In addition to above Asian Alliance Insurance PLC invested a further Rs.700 million in the Company on 1st January 2015 in order to meet its regulatory and business capital requirements. Accordingly, total stated capital of Asian Alliance General Insurance Limited is Rs. 800 million.

Having increased the capital and obtained all regulatory and other approvals, Asian Alliance Insurance PLC transferred its General Insurance business to Asian Alliance General Insurance Limited, w.e.f. 1st January 2015 in line with the IBSL guidelines for segregation of Insurance companies and relevant disclosures to Colombo Stock Exchange (CSE) were also made as appropriate.

Accordingly, Asian Alliance Insurance PLC is now a Life Insurance Company whilst Asian Alliance General Insurance Limited is a licensed General Insurance company 100% owned by Asian Alliance Insurance PLC.

Notes to the Financial Statements

41 THE SEGREGATION OF THE LIFE AND GENERAL INSURANCE BUSINESSES

Under Section 53 of the Regulation of Insurance Industry (Amendment) Act No.3 of 2011

In terms of Section 53 of the Regulation of Insurance Industry (Amendment) Act No. 3 of 2011, all composite insurance companies are required to split their Life and General Insurance business into two separate legal entities. In consultation with the insurance industry, IBSL has brought forward the deadline for completion this process on or before 11th February 2015 and has set out a timetable with key milestones leading to the completion of the process by that date.

Asian Alliance Insurance PLC, following the due process stipulated by the Insurance Board of Sri Lanka (IBSL) and having obtained approvals from all relevant parties including District Courts, transferred its General Insurance Business to its newly formed subsidiary Asian Alliance General Insurance Limited with effect from 1st of January 2015. Accordingly, Asian Alliance Insurance PLC has become a Life Insurance Company and the holding Company of Asian Alliance General Insurance Limited which is now a licensed General Insurance Company. Asian Alliance Insurance PLC is providing both Life and General Insurance solutions under a group structure from 01st January 2015, which was under one company as a composite insurer till 31st of December 2014.

Considering the nature of the restructuring required by IBSL, Institute of Chartered Accountants of Sri Lanka has issued guidelines on presentation and disclosure with regard to Segregation of the Life and General Insurance Business under Section 53 of the Regulation of Insurance Industry (Amendment) Act No. 03 of 2011. Based on these guidelines, company had presented the following disclosures.

41.1 Condensed Income Statement of the segregated operations included in separate financial statements

As explained above the segregated operation which is the General Business is disclosed below.

For the Year Ended 31 December	2014 LKR'000	2013 LKR'000
Gross Written Premium	1,725,147	1,556,386
Net Change in Reserve for Unearned Premium-GWP	(108,998)	(198,465)
Gross Earned Premium	1,616,149	1,357,921
Less Premiums Ceded to Reinsurers	(321,008)	(254,261)
Net Change in Reserve for Unearned Premium-Reinsurance	28,333	(1,967)
Net Earned Premium	1,323,474	1,101,693
Investment and Other Income	485,055	287,294
Total Revenue	1,808,529	1,388,987
Benefits, Claims and Expenses		
Net Insurance Benefits and Claims Paid	(1,094,603)	(901,837)
Net Change in Insurance Claims Outstanding	(141,567)	(8,487)
Underwriting and Net Acquisition Cost	(118,794)	(108,071)
Other Operating and Administrative Expenses	(521,374)	(404,292)
Finance Cost	(7,341)	(5,735)
Total Benefits, Claims and Expenses	(1,883,680)	(1,428,422)
Profit / (Loss) Before Taxation	(75,151)	(39,436)
Income Tax Expense	(12,838)	(31,803)
Net Profit from Ordinary Activities	(87,989)	(71,238)

41 THE SEGREGATION OF THE LIFE AND GENERAL INSURANCE BUSINESS CONTD.

41.2 Condensed Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 31 December	2014 LKR'000	2013 LKR'000
Loss for the year	(87,989)	(71,238)
Other Comprehensive Income		
Items that will never be reclassified to profit or loss		
Remeasurement of defined benefit (liability)/asset	-	-
Related Tax	-	-
	(87,989)	(71,238)
Items that are or may be reclassified to profit or loss		
Available for sale financial asset net change in fair value	13,093	62,941
Available for sale financial assets reclassified to profit or loss	(22,170)	(119,523)
Related Tax	-	-
Other Comprehensive Income, net of tax	(9,077)	(56,582)
Total Comprehensive Income for the year	(97,067)	(127,820)

41.3 Tax Implications

The Company did not record any gain or loss on segregation of insurance business and hence no significant tax consequences expected

41.4 Condensed Cash Flow Statement of the segregated operations included in separate financial statements

For the Year Ended 31 December	2014 LKR'000	2013 LKR'000
Cash flow from operating activities	(78,030)	15,945
Cash flow from investing activities	(5,676)	(74,537)
Cash flow from financing activities	-	-
Increase in cash and cash equivalents	(83,706)	(58,593)
Cash and cash equivalents and bank overdraft at the end of the year	(147,206)	(63,500)
Cash and cash equivalents and bank overdraft at the beginning of the year	(63,500)	(4,907)

41.5 Income from Continuing Operations and Operations Transferred to the Subsidiary

For the Year Ended 31 December	Continuing Operations 2014 LKR'000	Transferred Operations 2014 LKR'000
Profit After Tax (PAT) from Ordinary Activities	840,099	(87,988)
Net income attributable to:		
Owners of the Parent	840,099	(87,988)
Non-Controlling Interest	-	-

41.6 Information presented above includes the results of the General Insurance Operation of the Company together with the Investment Income of Shareholders' Funds which is in line with the segmental information presented on page 294. However, the Company has decided to invest only Rs. 800 million in Asian Alliance General Insurance Ltd as Stated Capital which is lower than the capital recorded under the General Insurance Business till 31st December 2014.

Notes to the Financial Statements

41.7 Selection of operation segment to transfer

Asian Alliance Insurance PLC selected the option of incorporation of a fully owned subsidiary for General Insurance as it was comparatively easier to transfer a General Insurance Business when compared to transferring a Life Insurance Business due to its long term nature and this model has a minimum impact on taxation at the group level.

42 CAPITAL COMMITMENTS-GROUP & COMPANY

During the year, the Company has not entered into a contract to purchase property, plant and equipment. (2013:17.7 million).

43 OPERATING LEASES

The Company does not have any non-cancellable operating lease as at reporting date.

44 CONTINGENCIES-GROUP & COMPANY

44.1 Assessment in Respect of Value Added Tax (VAT)

The Contingent Liability of the Company as at 31st December 2014 , relates to the followings;

The Company has been issued with an assessment by the Department of Inland Revenue on 28th October 2011 and 26th April 2013 under the Value Added Tax Act, in relation to the taxable period ending 31st December 2009 and 2010 for Rs. 4.5 million and Rs. 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 has appealed to the Tax Appeals Commission. The Company is awaiting the final decision.

44.2 Pending Litigation

In the opinion of the Directors, and in consultation with the Company Lawyers, litigation currently pending against the Company would not have a material impact on the reported financial results of the Company.

All pending litigations for claims have been evaluated and adequate provisions have been made in these Financial Statements where necessary.

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.

45 RELATED PARTY DISCLOSURE-GROUP & COMPANY

45.1 Parent and Ultimate Controlling party

Softlogic Capital PLC is the Parent entity and the ultimate parent undertaking and controlling is Softlogic Holdings PLC which is incorporated in Sri Lanka.

45.2 Transaction with Key Management Personnel

According to Sri Lanka Accounting Standard (LKAS) 24 Related Party Disclosure, Key Management Personnel are those having authority and responsibility for planning, directing and controlling the activities of the entity. Accordingly, 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. In addition, members of the Executive Committee(EXCO) and their immediate family members have also been classified as Key Management Personnel of the Company.

45 RELATED PARTY DISCLOSURE-GROUP & COMPANY CONTD.

45.2a Key Management Personnel Compensation

As at 31 December,	2014 LKR'000	2013 LKR'000
Short Term Employee Benefits	52,606	32,273
Post Employment Benefits	6,075	3,870
Other Long Term Benefits	12,650	10,550
	71,331	46,693
Directors' Fees	18,943	12,053

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.

45.2.b Loans to Directors

No Loans have been granted to the Directors of the Company.

45.3 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.

Immediate family member is defined as spouse or dependent. A dependent is defined as anyone who depends on the respective Director for his/her financial needs.

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	Relationship	Nature of Transaction	Transaction Value	
			2014 LKR ' 000	2013 LKR ' 000
Paul Rathnayeke Associates	Director Related Entity	Insurance Placed	48	-
		Claims Incurred	-	142
		Legal Fees Paid	627	1,018
P.R.Secretarial Services (Pvt) Ltd	Director Related Entity	Secretarial Fees paid	719	198
Acquity Partners Ltd	Director Related Entity	Fees paid on Financial Advisory	439	561

Notes to the Financial Statements

45.4 Transactions with Group Companies

From time to time there were transactions with Group Companies which shown as follows;
Transactions values for the year ended

Company	Relationship	Nature of Transaction	2014 LKR ' 000	2013 LKR ' 000
Softlogic Holdings PLC & Group	Soft Logic Holdings PLC owns 43.32% of the Company's issued Share Capital	Insurance Placed Claims Incurred	79,915 64,114	85,327 19,716
Softlogic Holdings PLC	Do	Investments in Equity Shares as at Investments in Debentures as at Dividend Income Interest income on Debentures	- 143,621 - 44,697	38,570 130,284 - 6,351
Softlogic Capital PLC	Soft Logic Capital PLC owns 59.19% of the Company's issued Share Capital	Fees for Management of Fixed Income Securities Consultancy Fees	68,911 30,000	41,102 24,490
Softlogic Finance PLC	Group Company of Soft Logic Holdings PLC	Investments in Debentures Interest income on Debentures Short Term Borrowing Interest Income	82,914 24,263 154,483 -	148,420 4,409 - 9,632
Softlogic Information Technologies (Pvt) Ltd	Group Company of Soft Logic Holdings PLC	Purchase of Fixed Assets Insurance Premiums Claims Incurred	13,639 6,667 10,147	17,967
Softlogic Communication Services (Pvt) Ltd	Do	Interest Income	4,014	4,509
Softlogic Retail (Pvt) Ltd	Do	Purchase of Fixed Assets Investments in Commercial Papers Insurance Premiums Claims Incurred Interest Income	28,187 - 21,474 32,683 -	10,180 - - - 15,783
Softlogic Stockbrokers (Pvt) Ltd	Do	Broker Charges	961	5,251
Softlogic Destination Management (Pvt) Ltd	Do	Foreign Travelling Expenses Paid	3,679	6,199
Asiri Hospitals PLC	Do	Investments in Equity Shares Dividend Income	108,000 2,750	80,000 -
Nextage (Pvt) Ltd	Do	Advertising Expenses Paid Provision made for reported services	303 90,000	27,847 -
Asian Alliance General Insurance Ltd	Subsidiary Company	Investment in Subsidiary	100,000	-
Softlogic Computers (Pvt) Ltd	Group Company of Softlogic Holdings PLC	Purchase of Fixed Assets	14,026	-

45.5 The Amounts Due from and Amounts due to above related parties are disclosed in Note 24.1.1 on page 346 and Notes 25.1 and 25.2 on page 347.

46 EVENTS AFTER THE REPORTING DATE-GROUP & COMPANY

As explained in Note 40.2, subsequent to the Balance Sheet date company had separated its General business in to its newly formed subsidiary AAGI commencing from 1st January 2015.

Mr. Ramal Jasinghe, a Director / CEO of Asian Alliance Insurance PLC resigned from his position as the Chief Executive Officer of the Company to the take up the appointment as the Chief Executive Officer of Asian Alliance General Insurance Limited as of 1st January 2015. However he will remain as a Non-Executive Director in the Company.

Except for the above there have been no events subsequent to the reporting date which would have any material effect on the Company.

47 COMPARATIVE INFORMATION

The presentation and classification of following items in these Financial Statements are amended to ensure comparability with the current year information.

For the year ended	2014 Current Presentation	2013 As reported previously
Statement of Financial Position		
Intangible Assets	17,328	-
Statement of Comprehensive Income		
Net Realized Gains	765,267	224,146
Net Fair value Gains / (Losses)	359,284	167,858
Statement of Cash Flows		
Realised Gains	(765,267)	(224,146)
Fair value Gains	(359,284)	(167,858)

48 DIRECTORS' RESPONSIBILITY STATEMENT

The Board of Directors of the Company is responsible for the preparation and presentation of the Financial Statements. Please refer to page 278 of the Statement of Directors' Responsibility for Financial Reporting.

Supplementary Information

Statement of Financial Position of the Life Insurance Fund

As at 31 December	Note	Page	2014 Rs. ' 000	2013 Rs. ' 000
Assets				
Intangible Assets	1	389	15,009	9,167
Property, Plant and Equipment	2	390	289,725	83,653
Investments in Subsidiary			100,000	-
Financial Investments	3	390	5,736,359	4,220,428
Loans to Life Policyholders and Others			134,352	106,618
Reinsurance Receivables	4	392	73,316	61,775
Premium Receivables			50,169	46,085
Amounts due from Related Companies			1,381	-
Other Assets	5	392	238,252	95,047
Cash and Cash Equivalents	6	392	105,025	94,254
Total Assets			6,743,589	4,717,027
Equity and Liabilities				
Equity				
Other Reserves			449,139	101,979
Total Equity			449,139	101,979
Liabilities				
Insurance Contract Liabilities - Life			5,223,695	3,938,030
Employee Benefits	7	392	25,725	20,502
Reinsurance Payable			14,704	81,990
Other Liabilities	8	392	728,974	476,937
Short Term Borrowings			154,483	50,000
Bank Overdraft			146,869	47,589
Total Liabilities			6,294,450	4,615,048
Total Equity and Liabilities			6,743,589	4,717,027

Notes to the Supplementary Information

1 INTANGIBLE ASSETS

1.1 Reconciliation Of Carrying Amount

For the year ended 31 December,	2014 Rs. '000	2013 Rs. '000
Computer Software		
Cost		
Balance as at 1 January	25,429	24,652
Acquisition	15,739	777
Balance as at 31 December	41,168	25,429
Accumulated Amortisation and Impairment Losses		
Balance as at 1 January	24,348	24,072
Amortisation	1,860	276
Balance as at 31 December	26,208	24,348
Carrying Amounts		
As at 31 December	14,961	1,081
Capital Work in Progress		
Balance as at 31 December	8,086	-
Incurred During the Year	3,806	8,086
Capitalised During the Year	(11,844)	-
Balance as at 31 December	48	8,086
Carrying Value As at 31 December	15,009	9,167

Notes to the Supplementary Information

2 PROPERTY, PLANT AND EQUIPMENT (PPE)

2.1 Reconciliation of Carrying Amount

	Freehold Land	Freehold Building	Computer Hardware	Office Equipment	Furniture and Fittings	Fixtures and Fittings	Total 2014	Total 2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cost								
Balance as at 1 January	-	-	26,608	49,449	44,163	80,957	201,177	164,477
Additions during the year	85,620	92,755	7,467	11,791	11,625	22,195	231,453	36,817
Disposals during the year	-	-	-	-	-	-	-	(117)
Balance as at 31 December	85,620	92,755	34,075	61,240	55,788	103,152	432,630	201,177
Accumulated Depreciation and Impairment Losses								
Balance as at 1 January	-	-	19,494	33,162	20,336	44,533	117,525	94,984
Additions during the year	-	-	3,032	6,009	4,117	12,421	25,580	22,636
Disposals during the year	-	-	-	-	-	-	-	(95)
Balance as at 31 December	-	-	22,526	39,171	24,453	56,954	143,105	117,525
Capital Work In Progress								
Balance as at 1 January	-	-	-	-	-	-	-	-
Incurring During the Year	-	1,777	-	-	-	-	1,777	-
Capitalised During the Year	-	(1,577)	-	-	-	-	(1,577)	-
Balance as at 31 December	-	200	-	-	-	-	200	-
Carrying Value As at 31 December 2014	85,620	92,955	11,549	22,068	31,335	46,198	289,725	-
Carrying Value As at 31 December 2013	-	-	7,115	16,287	23,827	36,424	-	83,653

3 FINANCIAL INVESTMENTS

As at 31 December,	Note	2014 Rs. '000	2013 Rs. '000
Derivative Financial Instruments		-	9,907
Held to Maturity Financial Assets		222,929	218,549
Loans & Receivables	3.1	306,896	788,836
Available For Sale Financial Assets	3.2	3,575,490	1,985,080
Financial Assets at FVTPL (Trading)	3.3	1,631,044	1,218,057
		5,736,359	4,220,428

3.1 Loans and Receivables

As at 31 December,	2014 Rs. '000	2013 Rs. '000
Debt Securities - Debentures	48,631	147,542
Bank Deposits	1,231	437,194
Reverse Repos	257,034	204,100
	306,896	788,836

3 FINANCIAL INVESTMENTS

3.2 Available for sale Financial Assets

As at 31 December,	Note	2014 Rs. '000	2013 Rs. '000
Equity Securities	3.2.1	158,000	130,000
Debt Securities - Debentures		976,599	564,124
Treasury Bonds		2,440,891	1,290,956
		3,575,490	1,985,080

3.2.1 Available For Sale Financial Assets - Equity

As at 31 December,	2014 Rs. '000	2013 Rs. '000
Un-Quoted	50,000	50,000
Quoted	108,000	80,000
Total	158,000	130,000

3.3 Financial Assets at FVTPL (Trading)

As at 31 December,	Note	2014 Rs. '000	2013 Rs. '000
Equity Securities	3.3.1	937,621	495,269
Money Market -Treasury Bonds		675,854	341,806
Unit Trust		17,569	380,981
		1,631,044	1,218,057

3.3.1 Financial Assets at FVTPL (Trading) -Equity

As at 31 December,	2014 Rs. '000	2013 Rs. '000
Banks, Finance & Insurance		
Asia Capital PLC	-	9,236
Commercial Bank of Ceylon PLC	63,111	46,013
Hatton National Bank PLC	4,374	3,299
Hatton National Bank PLC (Non Voting)	54,815	42,662
National Development Bank PLC	539,937	346,639
Seylan Bank PLC (Non Voting)	16,416	8,850
Union Bank of PLC	147,430	-
Diversified Holdings		
Softlogic Holdings PLC	75,763	38,570
Manufacturing		
Alumex	35,775	-
Total	937,621	495,269

Notes to the Supplementary Information

4 REINSURANCE RECEIVABLES

As at 31 December,	2014 Rs. '000	2013 Rs. '000
Reinsurance on Claims Paid	2,576	3,832
Reinsurance on Claims Outstanding	70,740	57,943
	73,316	61,775

5 RECEIVABLES AND OTHER ASSETS

As at 31 December,	2014 Rs. '000	2013 Rs. '000
Other Debtors and Receivables	63,622	56,624
Tax Recoverable	174,630	38,423
	238,252	95,047

6 CASH AND CASH EQUIVALENTS

As at 31 December,	2014 Rs. '000	2013 Rs. '000
Cash in Hand	2,814	2,116
Cash at Bank	102,211	92,138
	105,025	94,254

7 EMPLOYEE BENEFITS

As at 31 December,	2014 Rs. '000	2013 Rs. '000
Balance as at 1 January	20,502	14,851
Provisions made during the year	8,141	6,248
	28,643	21,099
Payments during the year	(2,918)	(597)
Balance as at 31 December	25,725	20,502

8 OTHER LIABILITIES

As at 31 December,	2014 Rs. '000	2013 Rs. '000
Commission Payable	130,229	96,765
Current Account receivables	410,439	243,013
Premium Deposits	58,759	56,499
Accruals	89,043	55,160
Other Payables	40,505	25,500
	728,974	476,937

Quarterly Analysis 2014 Group

Income Statement

	1 Quarter Jan - Mar 2014 Rs. ' 000	2 Quarter Apr - Jun 2014 Rs. ' 000	3 Quarter July - Sep 2014 Rs. ' 000	4 Quarter Oct - Dec 2014 Rs. ' 000	Total Rs. ' 000
Gross Written Premium	1,146,108	1,127,395	1,180,696	1,319,097	4,773,296
Net Change in Reserve for Unearned Premium	(29,770)	(28,376)	(16,520)	(34,333)	(108,999)
Gross Earned Premium	1,116,338	1,099,019	1,164,176	1,284,764	4,664,297
Premiums Ceded to Reinsurers	(93,050)	(106,487)	(157,510)	(195,516)	(552,563)
Net Change in Reserve for Unearned Reinsurance Premium	20,899	(1,545)	5,067	3,913	28,334
Net Earned Premium	1,044,187	990,986	1,011,733	1,093,161	4,140,068
Other Revenue					
Finance Income	328,062	145,475	134,395	218,159	826,091
Net Realized Gains	272	17,060	13,719	51,798	82,849
Net Fair value Gains	175,944	221,236	759,755	(115,233)	1,041,702
Other Operating revenue	12,157	952	1,342	1,187	15,638
	516,435	384,723	909,211	155,911	1,966,280
Total Net Income	1,560,622	1,375,709	1,920,944	1,249,072	6,106,348
Benefits, Claims & Expenses					
Net Insurance benefits and claims	(792,621)	(720,364)	(922,963)	(365,811)	(2,801,759)
Underwriting and net Acquisition Cost	(189,649)	(201,150)	(219,514)	(223,012)	(833,325)
Other Operating & Administration Expenses	(319,037)	(355,137)	(573,335)	(429,795)	(1,677,304)
Finance Cost	(4,064)	(5,933)	(7,683)	(8,160)	(25,840)
Other Expenses	(1,305,371)	(1,282,584)	(1,723,495)	(1,026,778)	(5,338,228)
Profit Before Tax	255,251	93,124	197,449	222,294	768,118
Income Tax Expense	(4,951)	(4,284)	(4,004)	402	(12,837)
Profit for the year	250,300	88,840	193,445	222,696	755,281

Quarterly Analysis 2014 Company

Income Statement

	1 Quarter Jan - Mar 2014 Rs. ' 000	2 Quarter Apr - Jun 2014 Rs. ' 000	3 Quarter July - Sep 2014 Rs. ' 000	4 Quarter Oct - Dec 2014 Rs. ' 000	Total Rs. ' 000
Gross Written Premium	1,146,108	1,127,395	1,180,696	1,319,097	4,773,296
Net Change in Reserve for Unearned Premium	(29,770)	(28,376)	(16,520)	(34,333)	(108,999)
Gross Earned Premium	1,116,338	1,099,019	1,164,176	1,284,764	4,664,297
Premiums ceded to Reinsurers	(93,050)	(106,487)	(157,510)	(195,516)	(552,563)
Net Change in Reserve for unearned Reinsurance premium	20,899	(1,545)	5,067	3,913	28,334
Net Earned Premium	1,044,187	990,986	1,011,733	1,093,161	4,140,068
Other Revenue					
Finance income	328,062	145,475	133,294	215,356	822,187
Net Realized Gains	272	17,060	13,719	51,798	82,849
Net Fair value Gains	175,944	221,236	759,755	(115,233)	1,041,702
Other operating revenue	12,157	952	1,342	1,187	15,638
	516,435	384,723	908,110	153,108	1,962,376
Total Net Income	1,560,622	1,375,709	1,919,843	1,246,269	6,102,443
Benefits, Claims & Expenses					
Net Insurance benefits and claims	(792,621)	(720,364)	(922,963)	(365,811)	(2,801,759)
Underwriting and net Acquisition Cost	(189,649)	(201,150)	(219,514)	(223,012)	(833,325)
Other Operating & Administration Expenses	(319,037)	(355,137)	(572,739)	(429,658)	(1,676,571)
Finance Cost	(4,064)	(5,933)	(7,758)	(8,084)	(25,839)
Other Expenses	(1,305,371)	(1,282,584)	(1,722,974)	(1,026,565)	(5,337,494)
Profit Before Tax	255,251	93,124	196,869	219,704	764,948
Income tax expense	(4,951)	(4,284)	(4,004)	402	(12,837)
Profit for the year	250,300	88,840	192,865	220,106	752,111

Quarterly Analysis 2013

Income Statement

	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					
Net 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/(Losses)	80,881	17,944	(52,019)	121,052	167,858
Other operating revenue	1,288	1,384	1,911	1,188	5,771
	296,888	132,899	94,555	472,222	996,564
Total Net Income	1,005,977	905,112	921,466	1,404,367	4,236,922
Benefits, Losses & 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 & 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

Ten Year Performance - Company

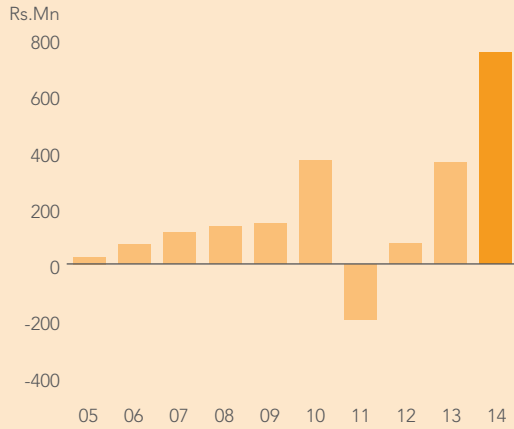
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000
General Insurance Statement of Comprehensive Income										
Gross Written Premium	1,725,147	1,556,386	1,190,392	628,163	430,666	496,749	459,771	383,590	417,679	353,281
Net Earned Premium	1,323,474	1,101,693	685,392	347,578	277,860	312,552	243,614	207,089	173,892	139,168
Other Revenue	485,055	287,293	118,742	(266,134)	288,690	87,279	59,214	33,630	21,473	23,864
Net Income	1,808,529	1,388,986	804,134	81,443	566,550	399,831	302,828	240,719	195,365	163,032
Net Insurance benefits & claims	(1,236,170)	(910,324)	(516,685)	(271,300)	(246,348)	(275,552)	(183,734)	(151,867)	(115,671)	(100,588)
Net Commission	(122,488)	(128,007)	(92,138)	(34,087)	(21,133)	(7,805)	5,604	30,621	25,132	34,940
Net Deferred Acquisition Cost	3,694	19,936	28,956	8,129	4,400	15,881	4,723	(1,827)	(4,387)	(2,375)
Expenses	(528,716)	(410,027)	(305,445)	(178,510)	(186,503)	(180,248)	(158,275)	(118,453)	(107,104)	(86,728)
Profit / (Loss) for the Year	(75,151)	(39,436)	(81,178)	(394,324)	116,966	(47,893)	(28,854)	(807)	(6,665)	8,281
Life Insurance Statement of Comprehensive Income										
Gross Written Premium	3,048,148	2,520,283	2,034,084	1,579,191	1,242,608	1,009,031	970,077	890,793	747,934	577,695
Net Earned Premium	2,816,593	2,138,666	1,707,103	1,321,556	1,037,936	843,499	811,449	742,835	631,386	468,317
Other Revenue	1,477,322	709,271	347,434	255,891	412,081	311,527	173,898	122,487	54,674	22,667
Net Income	4,293,915	2,847,937	2,054,537	1,577,447	1,450,017	1,155,026	985,347	865,322	686,060	490,984
Net Insurance										
Benefits & Claims	(312,491)	(214,101)	(143,116)	(123,547)	(103,076)	(87,529)	(48,902)	(38,942)	(32,730)	(9,443)
Net Acquisition Cost	(714,531)	(603,629)	(509,727)	(291,226)	(247,791)	(165,536)	(155,619)	(164,653)	(139,939)	(129,155)
Expenses	(1,173,696)	(754,513)	(694,476)	(539,018)	(476,583)	(350,534)	(305,249)	(233,125)	(182,334)	(156,957)
Operating Surplus before Transfer to Insurance Provision -Life	2,093,197	1,275,694	707,218	623,656	622,567	551,427	475,577	428,602	331,057	195,429
Transfer to Insurance Provision - Life	(1,253,098)	(842,119)	(551,339)	(423,656)	(368,957)	(356,427)	(315,577)	(313,361)	(264,966)	(175,429)
Transfer from \ (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	840,099	133,575	-	-	-	-	-	-	-	-
Statement of Comprehensive Income										
Gross Written Premium	4,773,295	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
Net Profit \ (Loss) Before Taxation	764,948	394,137	74,700	(194,509)	370,576	147,107	131,146	114,434	68,200	28,281
Taxation	(12,838)	(31,802)	(1,410)	(3,721)	(2,568)	(2,329)	4,258	(1,138)	2,568	(2,568)
Net Profit \ (Loss) After Taxation	752,110	362,335	73,290	(198,230)	368,008	144,778	135,404	113,296	70,768	25,713

Ten Year Balance Sheet Summary - Company

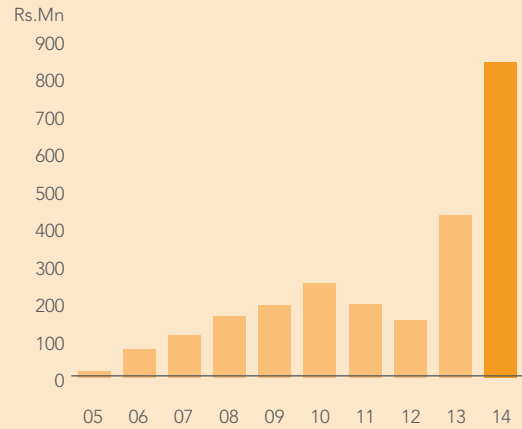
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000
Assets										
Intangible Assets	31,493	-	-	-	-	-	-	-	-	-
Property Plant & Equipment	377,875	158,041	116,104	96,365	79,818	65,564	54,136	33,948	30,249	34,458
Investments in Subsidiary	100,000									
Financial Investments	8,464,071	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
Investment Property	-	-	-	-	36,750					
Loans to Life Policy holders and Others	133,846	107,089	81,398	60,187	45,879	31,453	13,915	6,655	1,884	1,317
Reinsurance Receivables	159,712	144,058	110,070	64,593	99,937	41,041	45,940	283,975	485,915	93,305
Premium Receivables	460,196	464,453	379,720	189,998	102,611	74,517	105,926	78,078	96,267	58,555
Amounts due from Related Companies	2,044	259	-	-	-	-	-	-	-	-
Other Assets	341,022	166,855	138,951	155,201	139,089	152,872	103,291	57,251	52,627	36,119
Deferred Acquisition Costs	100,956	89,304	68,192	39,298	25,567	-	-	-	-	-
Cash & Cash Equivalents	130,255	102,228	103,637	55,192	62,438	52,140	30,507	21,713	26,272	20,414
Total Assets	10,301,470	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
Equity and Liabilities										
Equity & Reserves										
Stated Capital	1,062,500	1,062,500	1,062,500	1,062,500	1,062,500	250,000	250,000	250,000	250,000	250,000
Other Reserves	455,472	114,663	104,477	230,852	160,128	-	-	-	-	-
Retained Earnings	853,022	654,531	294,526	121,548	518,825	267,540	154,060	18,656	(82,140)	(152,908)
Total Equity & Reserves	2,370,994	1,831,694	1,461,503	1,414,900	1,741,453	517,540	404,060	268,656	167,860	97,092
Liabilities										
Insurance Contract										
Liabilities - Life	5,223,695	3,938,030	3,055,723	2,353,008	1,929,352	1,560,395	1,203,968	888,391	575,030	310,064
Insurance Contract										
Liabilities - General	1,138,694	921,221	681,514	392,777	275,668	275,602	246,139	431,004	611,062	167,855
Employee Benefits	53,028	46,154	34,398	27,863	22,738	14,653	10,871	9,213	7,201	5,092
Reinsurance Payables	131,308	137,583	77,974	98,273	81,695	87,192	55,654	91,923	59,620	82,275
Deferred Revenue	25,779	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
Other Liabilities	872,204	398,032	374,592	331,510	299,948	248,007	206,877	248,222	194,112	129,751
Current Tax Liabilities	11,980	15,537	-	-	-	-	-	-	-	-
Short Term Borrowings	154,483	50,000	-	-	-	-	-	-	-	-
Bank overdrafts	319,305	119,063	86,734	11,590	4,242	16,412	10,180	-	578	2,157
Total Liabilities	7,930,476	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
Total Equity and Liabilities	10,301,470	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

Ten Year Graphical Presentation

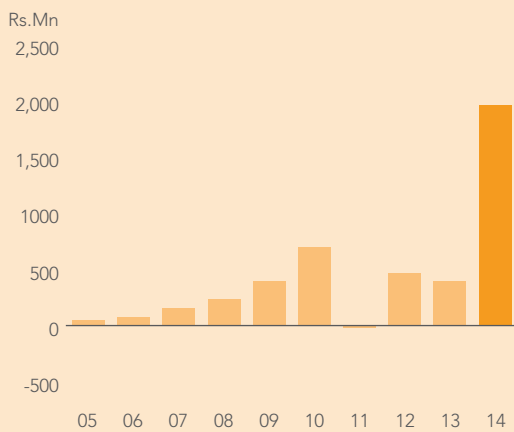
Profit After Tax - Company



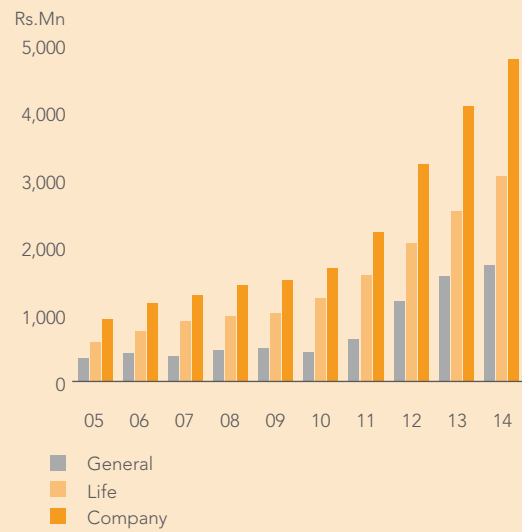
Profit After Tax - Life



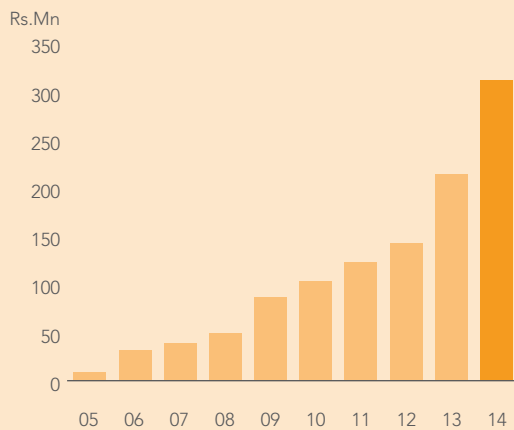
Investment and Other Income



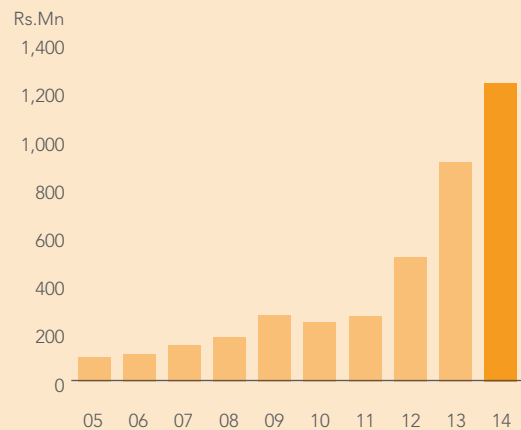
GWP Life & General



Net Claims - Life

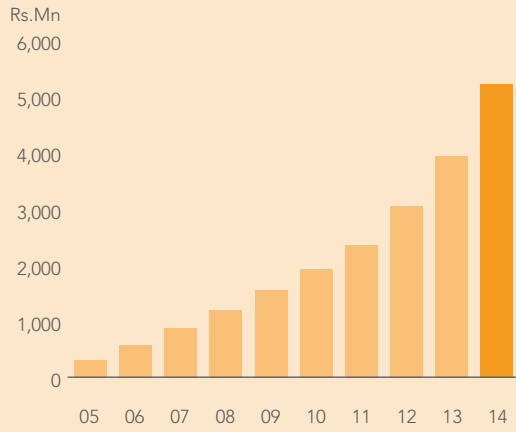


Net Claims - General

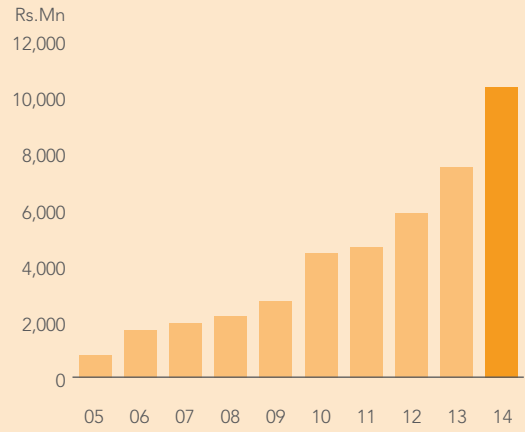


Ten Year Graphical Presentation

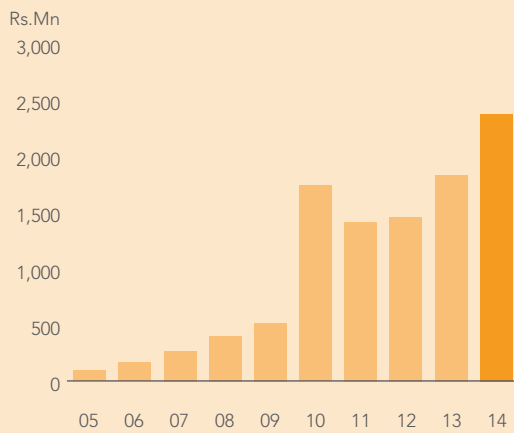
Life Fund



Total Assets



Net Assets - Company



GRI G4 - Index

The Global Reporting Initiative (GRI) is a non-profit organization that promotes economic, environmental and social sustainability. GRI's Sustainability Reporting Framework enables all companies and organisations to measure and report their sustainability performance. We have focused the content of this report on our most material CR issues and in doing so, we self-declare this report is in accordance with the Global Reporting Initiative G4 Sustainability Reporting Framework at Core level.



GENERAL STANDARD DISCLOSURES		Page Number	External Assurance
STRATEGY AND ANALYSIS			
G4-1	MD statement	Page 38-41	None
ORGANIZATIONAL PROFILE			
G4-3	Name of the organization	Page 7	None
G4-4	Brands, products, and services	Page 131-133/138-141	None
G4-5	Location of headquarters	Page 7	None
G4-6	Number of countries	Only in Sri Lanka	None
G4-7	Nature of ownership	Page 11/13	None
G4-8	Markets served	Page 403	None
G4-9	Scale of the organization	Page 404/167/144/260	None
G4-10	Employees by contract and gender	Page 404-405	None
G4-11	Employees with collective bargaining	We do not have any collective bargaining agreements	None
G4-12	Description of the supply chain	Page 51	None
G4-13	Significant changes in size	Page 20	None
G4-14	Precautionary approach	Page 191	None
G4-15	External charters	Page 193/127-129/136-137	None
G4-16	Memberships of associations	Page 83	None
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES			
G4-17	List of Entities	Page 80	None
G4-18	Aspect Boundaries	Page 81	None
G4-19	Material Aspects	Page 82	None
G4-20	Aspect Boundary within organization	Page 82	None
G4-21	Aspect Boundary outside organization	Page 82	None
G4-22	Restatements	Page 81	None
G4-23	Significant changes	Page 81	None
STAKEHOLDER ENGAGEMENT			
G4-24	Stakeholder groups	Page 76	None
G4-25	Selection of stakeholders	Page 75	None
G4-26	Stakeholder engagement	Page 78-79	None
G4-27	Key topics raised by stakeholders	Page 78-79	None
REPORT PROFILE			
G4-28	Reporting period	Page 04	None
G4-29	Previous report	Page 04	None
G4-30	Reporting cycle	Annually	None
G4-31	Contact point	Page 07	None
G4-32	The 'in accordance' option	Page 06/194-195	None
G4-33	External assurance	Page 06/247	None

GENERAL STANDARD DISCLOSURES		Page Number	External Assurance
GOVERNANCE			
G4-34	Governance structure	Page 192	None
ETHICS AND INTEGRITY			
G4-56	Values and Code of Ethics	Page 165	None
SPECIFIC STANDARD DISCLOSURES			
CATEGORY: ECONOMIC			
MATERIAL ASPECT: ECONOMIC PERFORMANCE			
G4-DMA		Page 182-183	Yes
G4-EC1	Direct economic value generated and distributed	Page 403	Yes
MATERIAL ASPECT: INDIRECT ECONOMIC IMPACTS			
G4-DMA		Page 50-52/178-183	Yes
G4-EC8	Significant indirect economic impacts	Page 410	Yes
CATEGORY: ENVIRONMENTAL			
MATERIAL ASPECT: ENERGY			
G4-DMA		Page 176-178	Yes
G4-EN3	Energy consumption	Page 413	Yes
MATERIAL ASPECT: OVERALL			
G4-DMA		Page 170-175	Yes
G4-EN31	Total environmental protection	Page 413	Yes
CATEGORY: SOCIAL			
SUB-CATEGORY: LABOUR PRACTICES AND DECENT WORK			
MATERIAL ASPECT: EMPLOYMENT			
G4-DMA		Page 147-160	Yes
G4-LA1	New employee hires and employee turnover	Page 406-407	Yes
G4-LA3	Return to work	Page 408	Yes
MATERIAL ASPECT: TRAINING AND EDUCATION			
G4-DMA		Page 147-160	Yes
G4-LA9	Average hours of training	Page 408	Yes
G4-LA10	Programs for skills management	Page 411-412	Yes
G4-LA11	Percentage of employees receiving regular performance	Page 408	Yes
MATERIAL ASPECT: DIVERSITY AND EQUAL OPPORTUNITY			
G4-DMA		Page 147-160	Yes
G4-LA12	Composition of governance bodies and employees	Page 405	Yes
MATERIAL ASPECT: EQUAL REMUNERATION FOR WOMEN AND MEN			
G4-DMA		Page 147-160	Yes
G4-LA13	Ratio of basic salary and remuneration of women to men	Page 407	Yes
SUB-CATEGORY: HUMAN RIGHTS			
MATERIAL ASPECT: NON-DISCRIMINATION			
G4-DMA		Page 154	Yes
G4-HR3	Incidents of discrimination	Page 409	Yes

GRI G4 - Index

GENERAL STANDARD DISCLOSURES		Page Number	External Assurance
MATERIAL ASPECT: CHILD LABOUR			
G4-DMA		Page 148	Yes
G4-HR5	Incidents of child labour	Page 409	Yes
SUB-CATEGORY: SOCIETY			
MATERIAL ASPECT: LOCAL COMMUNITIES			
G4-DMA		Page 177/178-183	Yes
G4-SO1	Local community engagement, impact assessments, and development programs	Page 177/178-183	Yes
MATERIAL ASPECT: ANTI-CORRUPTION			
G4-DMA		Page 178	Yes
G4-SO4	Anti-corruption policies and procedures	Page 409	Yes
G4-SO5	Incidents of corruption	Page 409-410	Yes
MATERIAL ASPECT: PUBLIC POLICY			
G4-DMA		Page 178	Yes
G4-SO6	Value of political contributions	Page 410	Yes
MATERIAL ASPECT: COMPLIANCE			
G4-DMA		Page 178	Yes
G4-SO8	Compliance with laws and regulations	Page 410	Yes
SUB-CATEGORY: PRODUCT RESPONSIBILITY			
MATERIAL ASPECT: CUSTOMER HEALTH AND SAFETY			
G4-DMA		Page 162-165	Yes
G4-PR2	Incidents of non-compliance	Page 413	Yes
MATERIAL ASPECT: MARKETING COMMUNICATIONS			
G4-DMA		Page 181	Yes
G4-PR6	Sale of banned products	Page 413	Yes
MATERIAL ASPECT: CUSTOMER PRIVACY			
G4-DMA		Page 169	Yes
G4-PR8	Breaches of customer privacy	Page 413	Yes
MATERIAL ASPECT: COMPLIANCE			
G4-DMA		Page 169	Yes
G4-PR9	Non-compliance with laws and regulations	Page 414	Yes

Performance Summary

Financial Indicators

Key Facts About Our Customers & Market

G4-8	Market Served by region	Life		General	
		2014	2013	2014	2013
	Rs 000'				
	Central Province	133,093	201,386	68,299	58,613
	Eastern Province	22,951	61,631	5,940	10,780
	North Central Province	50,379	78,939	4,436	1,910
	North Western Province	287,812	76,663	37,367	2,099
	Northern Province	44,853	336,746	12	40,731
	Sabaragamuwa Province	252,135	210,853	31,671	8,340
	Southern Province	324,925	72,855	25,972	32,821
	Uva Province	26,342	108,407	3,429	789
	Western Province	1,905,653	1,372,801	1,548,017	1,400,303
	Total	3,048,148	2,520,283	1,725,147	1,556,386

	Market Served by Customers and Beneficiaries Rs 000'	Life	General
G4-8	Individuals	3,021,011	1,379,383
	Corporate	27,136	345,764
	total	3,048,148	1,725,147

Direct economic value generated		2014	2013
G4-EC1	Revenues	3,953,785	2,513,540
	Economic value distributed		
	Operating costs	974,279	855,829
	Employee wages and benefits	603,009	412,291
	Payments to providers of capital	367,500	0
	Payments to government (by country)	3,787	3,355
	Community investments	1,253,098	842,119
	Economic value retained	752,111	362,335

Performance Summary

Non Financial Indicators Key Facts About Our Employees

		2014			2013		
G4-10 (a)	Employees by gender and contract type	Male Headcount	Female Headcount	Total Headcount	Male Headcount	Female Headcount	Total Headcount
	Permanent Employment	335	219	554	287	156	443
	Probation Employment	106	60	166	93	59	152
	Contract Employment	9	1	10	11	12	23
	Total	450	280	730	391	227	618

		2014			2013		
G4-10 (b)	Permanent Employees by gender and category	Male Headcount	Female Headcount	Total Headcount	Male Headcount	Female Headcount	Total Headcount
	AGM and above	15	0	15	12		12
	Asst Manager and above	123	34	157	153	33	186
	Executives	109	107	216	109	111	220
	Non-Executives	88	78	166	117	83	200
	Total	335	219	554	391	227	618

G4-10(c)	Employees by gender and supervision	Male	Female	Total
	Employees	213	228	441
	Supervised Workers	237	52	289
	Total	450	280	730

G4-10 (d)	Employees by gender and region	2014			2013		
		Male Headcount	Female Headcount	Total Headcount	Male Headcount	Female Headcount	Total Headcount
	Central Province	14	8	22	30		12
	Eastern Province	7	5	12	11	33	186
	North Central Province	9	6	15	11	111	220
	North Western Province	11	10	21	8	83	200
	Northern Province	8	6	14		227	618
	Sabaragamuwa Province	15	6	21	22		
	Southern Province	12	9	21	26		
	Uva Province	11	5	16	10		
	Western Province	363	225	588	500		
	Total	450	280	730	618		
G4-10(e)	Substantial portion of AAI's work is not performed by workers who are legally recognized as self-employed, or by individuals other than employees or supervised workers						
G4-10(f)	There are no significant variations in employment numbers						

G4-LA 12	Employment by gender and age	Male Headcount	Female Headcount	Total Headcount
	Age below 30	143	195	338
	Above ages of 30 and less than 50	280	83	363
	Above age of 50	27	2	29
	Total	450	280	730

G4-LA 12	Governance bodies by gender and age	Male Headcount	Female Headcount	Total Headcount
	Age below 30	0	0	0
	Above ages of 30 and less than 50	2	0	2
	Above age of 50	6	0	6
	Total	8	0	8

Performance Summary

G4-LA1(a)	New Employment Hires by gender and age	2014						2013	
		Male		Female		Total		Male	Female
		Headcount	Rate	Headcount	Rate	Headcount	Rate	Headcount	Headcount
	New Employment Hires who are aged below 30	59	8%	101	14%	160	22%	81	82
	New Employment Hires who are above ages of 30 and less than 50	111	15%	11	21%	122	17%	70	12
	New Employment Hires who are above age of 50	5	1%	0	0%	5	1%	3	0
	Total	175	24%	112	16%	287	39%	154	94

G4-LA1(a)	New Employment Hires by gender and region	Male		Female		Total	
		Headcount	Rate	Headcount	Rate	Headcount	Rate
	Central Province	3	0.4%	2	0.3%	5	1%
	Eastern Province	2	0.3%	2	0.3%	4	1%
	North Central Province	5	0.7%	2	0.3%	7	1%
	North Western Province	1	0.1%	1	0.1%	2	0%
	Northern Province	2	0.3%	2	0.3%	4	1%
	Sabaragamuwa Province	7	1%	2	0.3%	9	1%
	Southern Province	3	0.4%	3	1%	6	1%
	Uva Province	5	0.7%	2	0.3%	7	1%
	Western Province	147	20%	96	13%	243	33%
	Total	175	24%	112	15%	287	39%

G4-LA1(b)	Employment Turnover by gender and age	2014						2013	
		Male		Female		Total		Male	Female
		Headcount	Rate	Headcount	Rate	Headcount	Rate	Headcount	Headcount
	Turnover who are aged below 30	45	6%	48	7%	93	13%	63	66
	Turnover who are above 22 ages of 30 and less than 50	53	7%	12	2%	65	9%	48	8
	Turnover who are above age of 50	3	0%	0	0%	3	0%	2	0
	Total	101	14%	60	8%	161	22%	113	74

G4-LA1(b)	Employment Turnover by gender and age	Male		Female		Total	
		Headcount	Rate	Headcount	Rate	Headcount	Rate
	Central Province	3	0.4%	0	0%	3	0.4%
	Eastern Province	0	0%	0	0%	0	0%
	North Central Province	1	0.1%	2	0.3%	3	0.4%
	North Western Province	2	0.3%	2	0.3%	4	0.5%
	Northern Province	4	0.5%	1	0.1%	5	0.7%
	Sabaragamuwa Province	1	0.1%	1	0.1%	2	0.3%
	Southern Province	2	0.3%	0	0%	2	0.3%
	Uva Province	3	0.4%	1	0.1%	4	0.5%
	Western Province	85	11.6%	53	7.3%	138	18.9%
	Total	101	13.8%	60	8.2%	161	22%

G4-LA13(a)	Ratio of the basic salary and remuneration of women to men for each employee category, by significant locations of operation.	The company's salary scale does not discriminate in terms of gender. Annual pay is based on performance
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Performance Summary

G4-LA11(a)	FY2014 employees who received a regular performance and Career development review	Male	Female	Total
	AGM and above	16	0	16
	Asst Manager and above	129	34	163
	Executives	109	108	217
	Non-Executives	90	78	168
	Total	344	220	564

G4-LA3(a)	Total number of employees that were entitled to parental leave, by gender.	All female employees are entitle for parental leave		
G4-LA3(b)	Employees that took parental leave during the period	Male	Female	Total
	Total	0	12	12

G4-LA3(c)	FY2014 parental leave return to work rate	Male	Female	Total
	Total	0	0	0
G4-LA3(d)	FY2014 employees returning to work (after parental leave) in the period	Male	Female	Total
	Total	0	8	8
G4-LA3(e)	FY2014 Return to work and retention rates of employees who took parental leave, by gender.		67%	67%

G4-LA9	FY2014 Average hours of Training per employee by gender	Male	Female
	Total hours	2,328	3,158
	No of employees	219	336
	Average hours	10.63	9.4

G4-LA9	FY2014 Average hours of Training per employee by Employee category	Total Hours	No of employees	Average hours
	AGM and above	245	9	27
	Asst Manager and above	1,725	90	19
	Executives	2,509	227	11
	Non-Executives	1,007	229	5
	Total	5,486	555	10

Key Facts About Human Rights

Non- Discrimination		
G4-HR3	FY2014 total number of incidents of discrimination and corrective actions taken	No incidents were reported during the year
G4-HR5	FY2014 Operations and suppliers identified as having significant risk for incidents of child labour, and measures taken to contribute to the effective abolition of child labour	AAI does not hire anyone below 18 years of age and also does not engage in any form of child activities as a company policy

Key Facts About Community Impacts

Anti- Corruption			
G4-SO4	FY2014 total number and percentage of governance body members that the organization's anti-corruption policies and procedures have been communicated	All members	
	FY2014 total number and percentage of employees that the organization's anti-corruption policies and procedures have been communicated	All employees	
	FY2014 total number and percentage of business partners that the organization's anti-corruption policies and procedures have been communicated	N/A	We do not have business partners with material relationships
	FY2014 total number and percentage of governance body members that have received training on anti-corruption	All employees	

G4-SO4	FY2014 total number and percentage of employees that have received training on anti-corruption	Employee category	Rate	Region
		AGM and above	0%	Western Province
		Asst Manager and above	0%	Western Province
		Executives	2%	Western Province
		Non-Executives	1%	Western Province
		Total	3%	Western Province

G4-SO5	FY2014 total number and nature of confirmed incidents of corruption.	
	Non compliance with company procedure	3 instances
	Misappropriation of funds	2 instances
	Total	5 instances

G4-SO5	FY2014 total number of confirmed incidents in which employees were dismissed or disciplined for corruption.	
	Misappropriation of funds	2 instances
	Total	2 instances

Performance Summary

G4-SO5	FY2014 total number of confirmed incidents when contracts with business partners were terminated or not renewed due to violations related to corruption	N/A	We do not have business partners with material relationships
	FY2014 public legal cases regarding corruption brought against the organisation or its employees during the reporting period	There are no cases	
Public Policy			
G4-SO6	FY2014 total monetary value of financial and in-kind political contributions made directly and indirectly by the organisation by country and recipient/beneficiary	No such incidents were reported to us during the period	
Compliance			
G4-SO8	FY2014 total monetary value of significant fines	No such incidents were reported during the period	
	FY2014 total number of non-monetary sanction	No such incidents were reported during the period	

Indirect economic impacts		
G4-EC8	Examples of the significant identified positive and negative indirect economic impacts the organization has.	
	Changing the productivity of organizations, sectors, or the whole economy	Market leader for Life new business premium
	Economic development in areas of high poverty	New branch opening in rural areas as Batticaloa, Vavuniya
	Economic impact of improving or deteriorating social or environmental conditions	Horton plains Recycle bag project
	Enhancing skills and knowledge amongst a professional community or in a geographical region	Launching Digital Academy page
	Stimulating, enabling, or limiting foreign direct investment	FMO and DEG Foreign investors
	Economic impact of change in location of operations or activities	Life and General insurance split
	Economic impact of the use of products and services	Introduce a "Buhuman" pension plan for retired Government servants

Type and scope of programs implemented and assistance provided to upgrade employee skills		
G4-LA10(a)	type	scope
	Induction	Overall
	Pawn Brokering	Operations
	HR Strategies for Employee Engagement and Staff Retention	Compliance
	Regulatory Compliance Symposium	Compliance
	Proposed Consolidation of Financial Institutions	Financial reporting
	Legal Aspects, withdrawal conditions & benefits of "EPF & ETF"	Compliance
	Best Practice for Loss Adjusting in South Asia	Operations
	International Forum for Mathematical Modelling	Operations
	Consumer Protection Law	Compliance
	Particulars of VAT on Financial Services	Financial reporting
	Medical Terms & Conditions	Operations
	How to Read a Lab Report	Operations
	Strategic Thinking for Sustainable Growth	Strategy
	1st national Business Excellence Summit 2014	Overall
	Risk Based IT Auditing	IT
	Taxation	Compliance
	Customer Service Excellence	Operations
	2014 National Labour Law Symposium	Overall
	Managing Time and Priorities	Overall
	Business Leaders Summit 2014	Overall
	MS Advanced Excel	Overall
	Debentures: Capital without Collateral	Financial reporting
	Colombo Agile Conference	Overall
	Life Technical Aspects	Operations
	National HR Conference	Overall
	Administrating SQL Server	IT
	General Average & It's Implications	Overall
	Actuarial Seminar	Operations
	CPD Seminar	Operations
	Mastering Financial Modelling	Financial reporting
	GRI 4 Reporting	Financial reporting
	Labour Law and Industrial Relations 2014	Compliance
	National Information Technology Conference 2014	IT
	Micro Insurance	Operations
	International Commercial Contracts	Compliance
	Fixed Income Securities	Financial reporting
	Sri Lanka Accounting Standards Seminar Series 2014	Financial reporting
	Use of GIS for Professionals	Overall

Performance Summary

Type and scope of programs implemented and assistance provided to upgrade employee skills		
G4-LA10(a)	type	scope
	Stress Testing Techniques for Risk Management	Compliance
	The 9th Corporate Law Conference	Compliance
	CPD Seminar on Actuarial Basics for Non-Actuarial	Operations
	OBT Programme	Overall
	The 35th National Conference of Chartered Accountants	Overall
	Workshop on Anti-Money Laundering and Countering the Financial Terrorism for the Insurance Sector	Compliance
	Call Centre Professionalism	Operations
	Business Etiquette	Operations
	Seminar for Middle Management Staff Handling Life Insurance	Operations
	Professional Development for Senior Managers to Effectively Engage in Strategic Decision Making Process	Strategy
	Business Impact of the 2015 national Budget	Overall
	Motor Claims Process	Operations
	Regional Business Unit Technical Training	Operations
	Programme on Whistle-blower Policy	Compliance
	Risk Management Seminar	Compliance
	Reinsurance Plus Seminar	Operations
	Waves of Change Risk Seminar	Compliance
	Marine Hull Insurance Seminar	Overall
	Risk Management Course	Compliance
	Asia Insurance CIO Technology Summit	IT
	Online Insurance Product Training	Operations
	Asia Pacific Health Living Benefits Seminar	Operations
G4-LA10(b)	FY 2014 The transition assistance programs provided to facilitate continued employability and the management of career endings resulting from retirement or termination of employment.	
	Transition assistance	2 employees

G4-PR2	Customer Health and Safety	
G4-PR2	FY2014 Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services	No such incidents were reported to us during the period
	Customer Privacy	
G4-PR8	The total number of substantiated complaints received concerning breaches of customer privacy	No such incidents were reported to us during the period
G4-PR6(a)	Marketing Communication	
	Banned in certain markets	No such incidents were reported to us during the period
	The subject of stakeholder questions or public debate	No such incidents were reported to us during the period
G4-PR6(b)	How the organization has responded to questions or concerns regarding these products.	AAI has a separate product forum which evaluates the product before it is exposed to public. At the time of product launch a separate press conference is held and Q&A session is conducted for each new product

Compliance		
G4-PR9	Total monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	No such incidents were reported to us during the period

Key Facts About Our Environment Impacts

Energy		
G4-EN3	FY2014 total fuel consumption from non-renewable sources in joules	
	Diesel	130,096.57 joules
	Petrol	530,735.13joules
	Total	660,831.70joules
	FY2014 total fuel consumption from renewable fuel sources	We do not use energy for the related purpose
	FY2014 Electricity consumption (Only for significant branches Colombo 03,Nawam Mawatha,Wardplace, St Michel's)	292,118 watt-hours
	FY2014 Heating consumption	We do not use energy for the related purpose
	FY2014 Cooling consumption	
	FY2014 Steam consumption	
	FY2014 Electricity sold	
	FY2014 Heating sold	
	FY2014 Cooling sold	
	FY2014 Steam sold	
	FY2014 total energy consumption	

Overall		
G4-EN31	Prevention and environmental management costs	Rs.
	Minneriya Project	711,960
	Manampitiya Project	1,003,578
	Habarana Project	613,081
	Waste disposal, emissions treatment, and remediation costs	We do not incur cost regarding Waste disposal, emissions treatment, and remediation costs since none of the third parties charge a fee for the services provided mentioned.



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 General 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)

Net claims incurred

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.

Glossary of Insurance Terms

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 - General

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 General insurance Asset and Liability.

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.

Net Profit after Tax

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 ejection 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 - General 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 - General 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 - General

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.

Glossary of Insurance Terms

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

L

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.

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)

$$\frac{\text{Net Claims Incurred} + \text{Other Expenses}}{\text{Net Earned Premium}}$$

Net Combined Ratio-General

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-General

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-General

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.

General Insurance Business

Insurance (including reinsurance) business falling within the classes of insurance specified as General Insurance Business, under the Regulation of Insurance Industry Act No. 43 of 2000

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.

Glossary of Insurance Terms

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.

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 General insurers as follows;

$$\text{RCAR} = (\text{Total Available Capital} / \text{Risk Based Capital Required}) * 100$$

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 - General

The solvency margin is the difference between the value of the admissible assets and the value of the liabilities, required to be maintained by any insurer who carries on General insurance business. The minimum required solvency margin shall not be less than highest of the following:

- (a) Rs. 50 Mn; or
- (b) A sum equivalent to 20 % of net written premium; or
- (c) A sum equivalent to 40% of the average net outstanding claims for the three years immediately preceding the current year.

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 General 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 - General Insurance Business

Premiums which an insurer is contractually entitled to receive from the insured in relation to contracts of insurance. Under the annual basis of accounting, these are premiums on contracts entered into during the accounting period and adjustments arising in the accounting period to premiums receivable in respect of contracts entered into in prior accounting periods.

Notice of Meeting

NOTICE IS HEREBY GIVEN that the 16th Annual General Meeting of ASIAN ALLIANCE INSURANCE PLC (the Company) will be held on 31st March 2015 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 2014 and the Report of the Auditors thereon.
 2. To re-elect Mr. Ramal Jasinghe 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
- 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.

BY ORDER OF THE BOARD
ASIAN ALLIANCE INSURANCE PLC

(Sgd.)
P.R. SECRETARIAL SERVICES (PRIVATE) LIMITED
Secretaries

At Colombo, this 13th February 2015

Notes:

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. T. M. Ifthikar Ahamed | or failing him |
| 4. Mr. Ramal G.Jasinghe | or failing him |
| 5. Mr. Sujeewa Rajapakse | or failing him |
| 7. Mr. M. Ray Abeywardena | or failing him |
| 8. Mr. J. W. H. Richters | or failing him |
| 9. 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 16th Annual General Meeting of the Company to be held on 31st March 2015 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 2014 and the Report of the Auditors thereon.		
2.	To re-elect Mr. Ramal Jasinghe 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		

Signed this day of 2015.

.....
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-

Chief Financial Officer
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)
:

<p>Queries / Comments</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p>

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
- Shareholder
- Investor
- Customer
- Community

Does the report address issues of greatest interest to you?

- Comprehensively
- Partially
- Not at all

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

Senior Manager - Finance
Asian Alliance Insurance PLC
Address: 7th Floor,
Millennium House,
46/58, Nawam Mawatha,
Colombo 02, Sri Lanka.
Tel: +94 11 2315555
Email: nuwanp@asianalliance.lk

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

Accounting Year-End

31st December

Principal Activities

Carrying on Life and General Insurance business

Registered Office and Principle Place of Business

7th Floor, Millennium House, 46/58, Nawam Mawatha, Colombo 02.
Telephone +94 11 2315555
Fax +94 11 2314407
E-mail: info@asianalliance.lk
Website: www.asianalliance.lk

Board of Directors

Ashok Pathirage - Chairman
Non-Executive Director

J. H. Paul Ratnayake - Deputy Chairman
Independent Non-Executive Director

T. M. Iftikar Ahamed
- Managing Director

Ramal G. Jasinghe-Non-Executive
Director

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. Iftikar Ahamed
- Managing Director
Chula Hettiarachchi
- Chief Operating Officer - Life
Saliya Wickramasinghe
- General Manager Finance

Board Sub Committees

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 Ratnayake
Sujeewa Rajapakse

Investment Committee

Ashok Pathirage - Chairman
T. M. Iftikar Ahamed
Ramal G. Jasinghe
Sujeewa Rajapakse
Jatinder K. Mukhi
Johannes W. H. Richters

Risk Committee

Jatinder K. Mukhi - Chairman
T. M. Iftikar Ahamed
Ramal G. Jasinghe
Johannes W. H. Richters

Nomination Committee

Ashok Pathirage - Chairman
J.H Paul Ratnayake
Mohan Ray Abeywardena

Related Party Transactions Review Committee

Sujeewa Rajapakse-Chairman
Jatinder K. Mukhi
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 Lumpur.

The Pinnacle Consulting Group Limited
Hong Kong

Subsidiary Companies

Asian Alliance General Insurance
Limited

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

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

For any clarification on this report please write to;

The Chief Financial Officer
7th Floor, Millennium House, 46/58,
Nawam Mawatha, Colombo 02.
Telephone +94 11 2315565
Fax +94 11 2314407
E-mail: saliya@asianalliance.lk

