

# Winovative

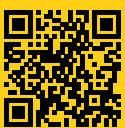
 Asian Alliance  
Insurance  
A Softlogic Company

Integrated Annual Report 2015

# winno

*Exploring. Experimenting. Advancing the boundaries of what insurance can do for you and your family. At Asian Alliance we believe that the future of insurance is an exciting one, where the ingenious and inventive use of new technologies will be what sets us apart. We're anticipating what contemporary Sri Lankans really want from their insurance products and we're making sure that we're the first to bring it to them.*

*We understand that a winning organisation leads to winning stakeholders. Every year, we win multiple local and international industry awards because we offer reliable, customised solutions that work in every context. Our strength is in how we live, how we think, how we work...as we build your company to be strong, sustainable, progressive and valuable.*



Read this Annual  
Report Online at  
<http://www.asianalliance.lk>

# winnovative

*We want to be creative and unique in our solutions and we want to win. We believe that we serve our customers and other stakeholders better because we don't do ordinary. We're different. We're winnovative.*



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

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# About *this report*

*We acknowledge that our duty is to prioritise our ongoing sustainability above short term maximisation of profits. The success of our customers and stakeholders underpins our commercial sustainability and our ability to deliver returns to our stakeholders over the long term. We appreciate that this requires mutually beneficial partnerships with key stakeholders. This forms the basis for the integrated thinking and integrated reporting of the Company.*



We are a very a customer-friendly company and we've created several online options to view this report.

[www.asianalliance.lk](http://www.asianalliance.lk)

# 2014

## "Drive Thru" Insurance

AAI launched "Drive Thru" Innovation for the first time in Sri Lanka with a guarantee of policy within 10 minutes

# 2015

## Innovation of the year

The Company won the 'Innovation of the Year' award at the 19th Asia Insurance Awards for its revolutionary 'Click2Claim' solution

# 2013

Asian Alliance jointly with DEG and FMO successfully hosted a seminar themed, 'The Future of Insurance in Sri Lanka'

### Introduction

We choose to report in an integrated manner because we believe that doing so can help our stakeholders make better informed decisions about our business, which reinforces the Company's commitment to the Triple Bottom Line of Prosperity, People, and Planet (3 Ps) and raises the bar on the quality of our reports presented thus far. Although our annual integrated report is aimed principally at the providers of capital, it is also considered to be of interest to a diverse range of stakeholders.

### Boundary and Scope

The integrated report for 2015, which is our third report to stakeholders, covers the performance of Asian Alliance Insurance PLC (AAI) and its subsidiary for the year ended 31st December 2015 and material events up to the approval of the report by the Company's Board of Director's on 16th February 2016.

Our annual integrated report aims to present a balanced and succinct analysis of our strategy, performance, governance

and prospects. In determining the content to be included in this report, we consider the pertinent developments and initiatives and the related performance indicators and future expectations that relate to our material issues. We report on our management of capital resources and our ability to replenish them through qualitative commentary, supported by assured key indicators. In this report, more emphasis is placed on AAI PLC operations as it accounts for 67% of the Group's revenue.

## About this Report

### Reporting Framework

Our integrated report conforms to the requirements of 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, conforms 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 Option" of Global Reporting Initiatives (GRI) G4 Guidelines.

In preparing this report, the Company was guided by the International Integrated Reporting (IIR) Framework issued by the International Integrated Reporting Council (IIRC) in December 2013 and also by the preparer guide to integrated corporate reporting in year 2015, issued by A Sri Lanka. We will continue to embrace the guiding principles and fundamental concepts contained in the IIR Framework to best serve the information needs of our stakeholders.

Outlook statements and management discussion 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 the same.

### Materiality

We focus our reporting on material aspects that impact our ability to be commercially viable and socially relevant in the communities in which we operate. Material aspects are defined as our material issues and any significant developments that would influence an

assessment of AAI's performance or opportunities. In achieving our vision, various capital resources are consumed. Based on our leadership engagement, governance processes, and our formal and informal stakeholder engagement initiatives, particularly with investors, we are confident that all material matters have been identified and disclosed in this report.

### Our Integrated Thinking

Our commercial sustainability depends on our effectiveness in assisting our people businesses and institutions to fulfil their economic potential by creating and preserving wealth and managing risk. We intermeditate between providers of capital and employers of capital, providing the

former with competitive returns on their investments, and the latter with access to the liquidity and capital they need to realise their objectives.

In effect, it corresponds to the 'capitals model' of value creation, adopted by the International IIRC in the IIR Framework. This report explains our dependence and impact on the forms of capital that are fundamental to our ability to create value over the long term. We have not structured this report using the capitals model, but have embedded them within each section to enable us to plot the interrelationships and trade-offs between them in relation to our Group and business unit strategies. The details of capitals are provided below:





The Company's ability to create value depends on certain forms of capitals and the method in which the Company 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 and intellectual capital is integrated into the human, financial and manufactured capitals as this better reflects the nature of our business as a financial services organisation.

### Assurance

The Company recognised the importance of obtaining an independent assurance 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 Sri Lanka, who have expressed an opinion on the true and fair view of the Annual Financial Statements as shown on page 241 in this report and reasonable assurance on the Financial Highlights on pages 14-16 and limited assurance on the Performance Summary on page 102.

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 recognised standard for sustainability reporting. This report was submitted to GRI for a Materiality disclosures services 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 and our sustainability assurance as provided on pages 158-159 to this report. For a comprehensive understanding of the assurance carried out and our sustainability performance, please refer the full sustainability report on pages 103-154.

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.

### Awards and Recognitions for the 2014 Integrated Report

Our most recent report, which was compiled under the Global Reporting Initiative (G4) guidelines, turned a golden page in our annals. Many awards and accolades were brought our way through this report, which includes:

- **The Bronze Awards for the Overall Excellence in Integrated Reporting and Insurance Sector** at the Annual Report Awards 2015, presented by the CA Sri Lanka.
- **The Gold Award for the 'Insurance Sector'** and Silver Award for 'Large Sector Category' at the National Business Excellence Awards 2015 organised by the National Chamber of Commerce of Sri Lanka.

- Excellence in Integrated Reporting Awards organised by the Chartered Management Accountants of Sri Lanka for ranked among the top ten Companies in Sri Lanka.

Each year consistently, we have been raising the bar with regard to the quality of our reports. We humbly acknowledge that these awards and accolades were granted to us due to our unwavering commitment to present relevant, reliable and balanced reports. We pledge that the same, if not greater commitment underscores each page of this report as well, and that this commitment will endure into the future as well.

### Commitment to Natural Resources

As part of our ongoing commitment to conserve our natural resources, we printed limited copies of this report which are available on request. However, all shareholders will receive this report in the form of a CD-ROM. The report will also be accessible on our website [www.asianalliance.lk](http://www.asianalliance.lk).



### Feedback

We welcome the views of our stakeholders on the Annual Integrated Report and the way in which we approach our strategic priorities. Please contact below with your feedback.

**Address** : Nuwan Pushpakumara  
Chief Manager - Finance  
Asian Alliance Insurance PLC  
Head Office  
No. 283  
R. A. De Mel Mawatha  
Colombo 03

**Contact** : +94 0112315769  
**Email** : [nuwanp@asianalliance.lk](mailto:nuwanp@asianalliance.lk)

A feedback form is attached with this report on page 385.

# Who We Are

*The Asian Alliance Insurance Group, a composite insurance solutions provider, has grown rapidly to become a force to be reckoned with in the insurance industry. It is a quoted company and listed on the Colombo Stock Exchange (CSE).*

*The secret of the Asian Alliance Insurance success story lies in its ability to offer tailor-made insurance solutions to its customers through its unique business model.*

*At AAI, we ensure quality service underscored by the theme, 'Rest Assured' coupled with an extraordinary and customised range of products and services to help customers build and protect their wealth and lifestyles, and to ensure financial support for them during their retirement.*

*AAI's advisers expertly equip customers with knowledge to make financial decisions that add value throughout their various life stages.*

*We are considered the fastest-growing and most innovative Insurance Company in the country and have reached 5th position in the Life Insurance industry within a short period of 16 years.*

*The Company further strengthened its credentials after a 59% stake was acquired in the Company 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. Further, 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 joint synergies have given rise to immense opportunities for AAI, especially in the healthcare sector, as the Softlogic Group accounts for 60% of the total private healthcare market in the country.*

# Vision

To be the  
**benchmark**  
**provider**  
of quality  
**financial**  
**solutions.**

# Mission

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

# Values

**INnovation:** Improving constantly, reinventing and evolving

**Secure:** Strong relationships through openness and trust

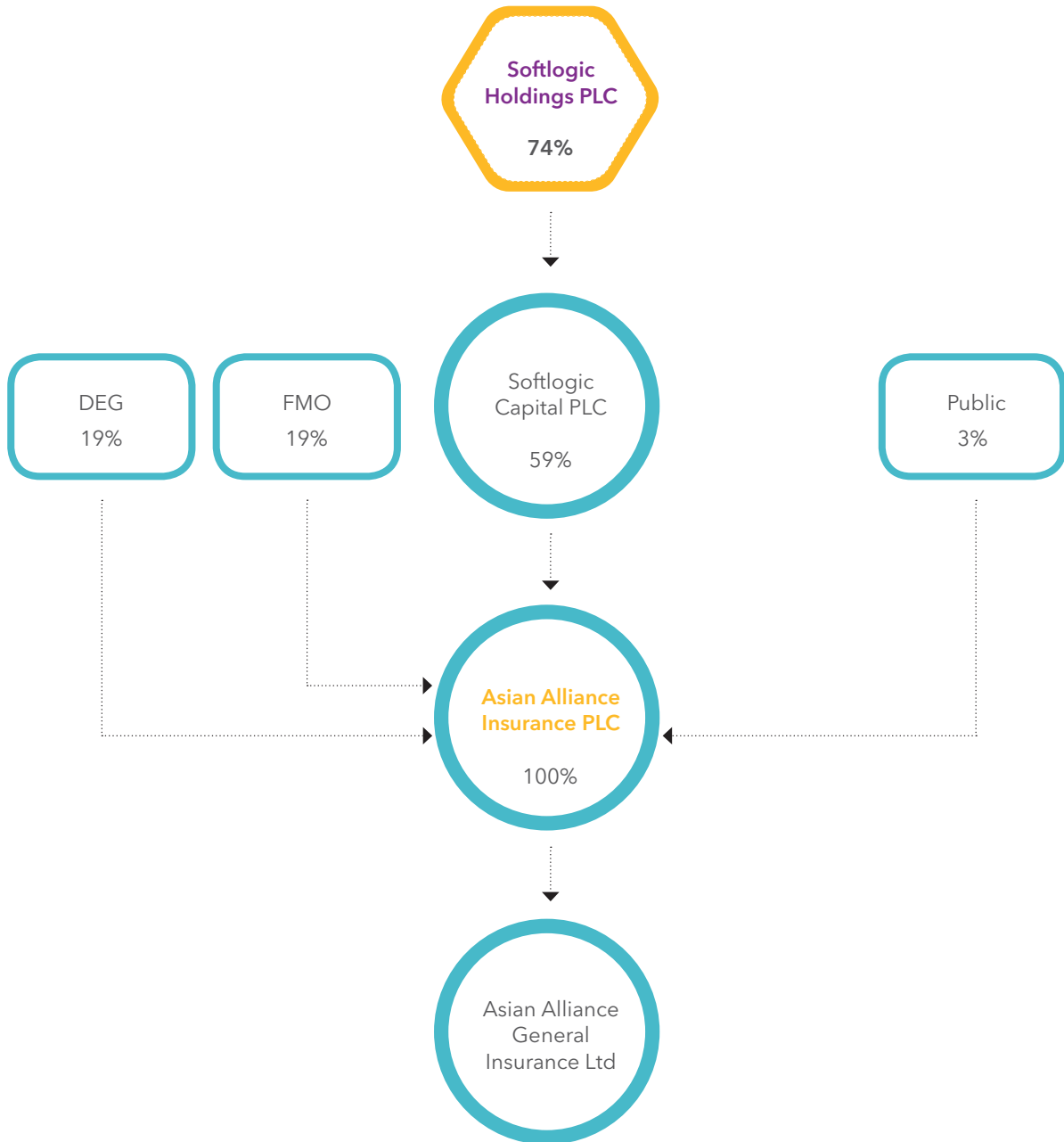
**Passionate:** Passion to create unparalleled value to our customers

**Integrity:** Ethics and transparency guide all our dealings

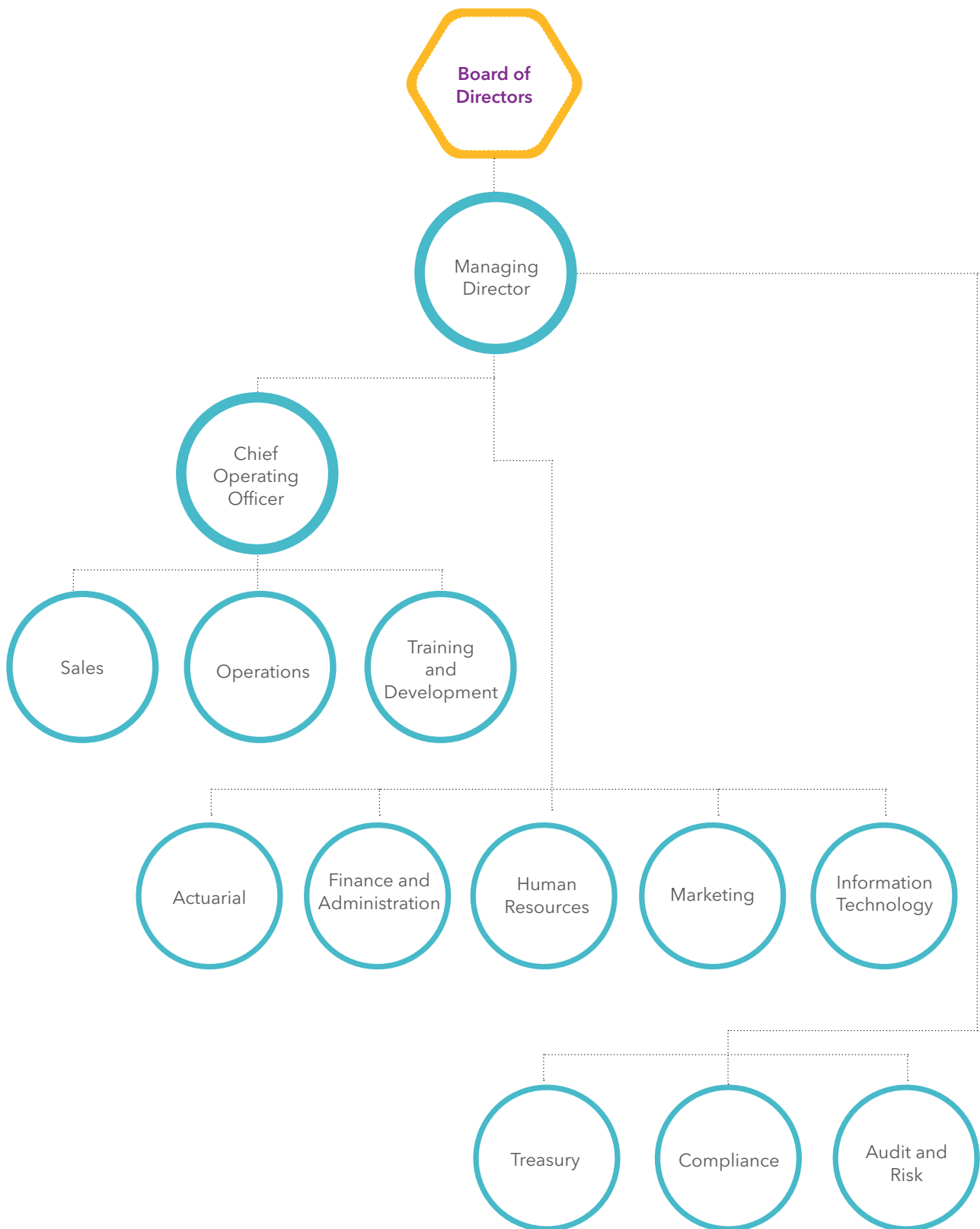
**Respect :** Treat people with dignity and caring to foster a great place to work

**Energise:** Courage to change, challenge and be different

# Ownership Structure



# The Organisational Chart - Asian Alliance Insurance PLC



# Winnovative *Year at a glance*

## January

### Successfully Completed the Segregation of the Business

Asian Alliance Insurance has successfully achieved the segregation of Life and General Insurance operation from 1st January 2015 by transferring General Insurance operations to the newly-formed, fully-owned subsidiary of AAI, Asian Alliance General Insurance Limited.

## April

### The 14th Annual Sales Convention of Asian Alliance Insurance

The Sales Convention was held under the theme, 'The Extraordinary 500'. The Company's outstanding performers from the sales team were lauded for their extraordinary achievements at this prestigious event.

## August

### Launch of Bundled Innovative Solutions

Motor insurance customers are now able to conveniently purchase Click2Claim / Motor insurance online 24X7 from mobile phones, iPads and other similar devices at any time of the day, from any location.

Further, the 'Click4Life' application, which gives life policyholders direct access to their records, fulfils many of their requirements through a mobile app, without manual intervention.

## March

### Opening the Life Corporate Office at its own premises

For better accessibility to customers and in line with its growth strategy, Asian Alliance Insurance PLC announced the relocation of their Life Corporate Office to its own premises at R. A. De Mel Mawatha, Colombo 3. The new office, completely refurbished to reflect the modern and dynamic brand personality was ceremonially opened by the Chairman of Softlogic Group Mr. Asoka Pathirage

## July

### CMA Award for Annual Report 2014

Asian Alliance Insurance PLC won an award for its 2014 Annual Report, in the "TEN BEST INTEGRATED REPORTS" category at the CMA Excellence in Integrated Reporting Awards 2015.

In addition, the launch of "Kiosk Solution" and "E Advisor" for Life were some of the key innovations for the year.

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 business strategy.

## September

### Launch of 2 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.

## October

### Opening of 12 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 convenience.

### Launch of "Life Max"

Re-branded our Life protection product portfolio as Asian Alliance "Life Max". This was done to build a strong brand with an identity of its own to further fuel our growth momentum

## November

### Award for Asia's Innovation of the Year

The Company won the 'Innovation of the Year' award at the 19th Asia Insurance Awards for its revolutionary 'Click2Claim' solution that 'eliminated the traditional accident claim process in Motor Insurance and brought revolutionary change to Sri Lanka's Motor Insurance industry'.

### Two Awards from National Business Excellence Awards including Gold Award for Insurance Sector

AAI won two prestigious awards including Gold in the Insurance category and a Silver in the Overall Large Companies category at the National Business Excellence Awards 2015, organised by the National Chamber of Commerce of Sri Lanka. Further, the Company won the Bronze award category as Service Brand of the Year at the SLIM Brand Excellence Awards.

## December

### Recorded Highest-ever Revenue and Profitability

The AAI Group recorded Gross Written Premium Income of Rs. 6 billion and Profitability of Rs. 924 million. 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.

# A truly Winnovative *performance*

GWP

**6 Rs.Bn**

GWP Growth

**27%** ↑

Total Net Income

**6.2 Rs.Bn**

Total Assets

**11.5 Rs.Bn**

Total Assets Growth

**11%** ↑

Market Capitalization

**6 Rs.Bn**

Profit

**924 Rs.Mn**

Profit Growth

**22%** ↑

EPS

**2.46 Rs.**

Figures are presented on a consolidated basis

*2015 has been one of AAI's most impressive year in terms of employee engagement, customer satisfaction, cashflow and performance enabling to win over the long run and greater heights.*





## Key Financial Highlights

	2015	2014	Growth
Gross Written Premium* - (Rs. Mn)	6,053	4,773	27%
Gross Written Premium - Life - (Rs. Mn)	4,091	3,048	34%
Gross Written Premium - General - (Rs. Mn)	1,977	1,725	15%
Profit After Tax* - (Rs. Mn)	924	755	22%
Total Assets - (Rs. Mn)	11,472	10,304	11%
Financial Investments* - (Rs. Mn)	9,265	8,568	8%
Life Insurance Fund - (Rs. Mn)	5,966	5,000	19%
General Insurance Fund - (Rs. Mn)	1,322	1,139	16%
Market Capitalisation - (Rs. Mn)	6,000	5,363	12%

\* Figures are presented on a consolidated basis

### Key Value Drivers - Industry Specific Ratios

	2015	2014
<b>Life Insurance</b>		
Claim Ratio	12%	11%
Expense Ratio	57%	61%
Combined Ratio	66%	69%
<b>General Insurance</b>		
Claim Ratio	75%	93%
Expense Ratio	42%	46%
Combined Ratio	117%	139%

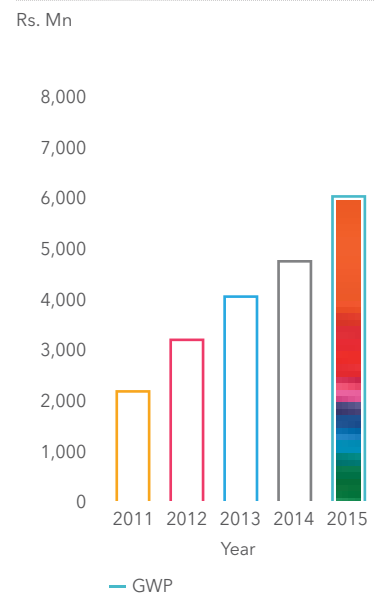
### Investor Ratios

	2015	2014
Earnings Per Share* - (Rs)	2.46	2.01
ROE* - (%)	41.57	31.81
Net Assets Per Share - (Rs)	5.93	6.32
Price to Book Value Per share - (Times)	2.70	2.26
PE Ratio Per share - (Times)	6.48	7.11

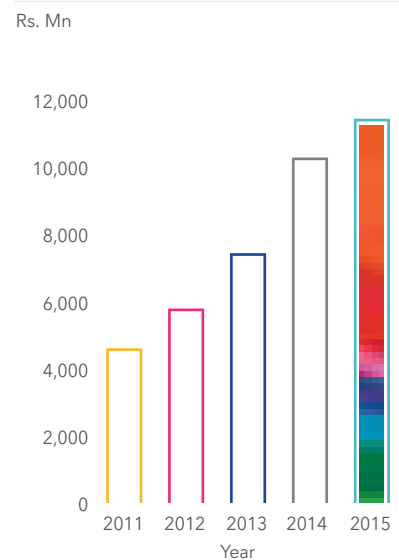
\* Figures are presented on a consolidated basis

Additional ratios are provided in page 359

### Gross Written Premium - Consolidated



### Total Assets - Group



## Key Non - Financial Highlights

### Employees

	2015	2014
Number of Staff*	782	730
Gross Written Premium per Employee - (Rs. Mn)	7,741	6,539
Profit per Employee - (Rs. Mn)	1,181	1,0304

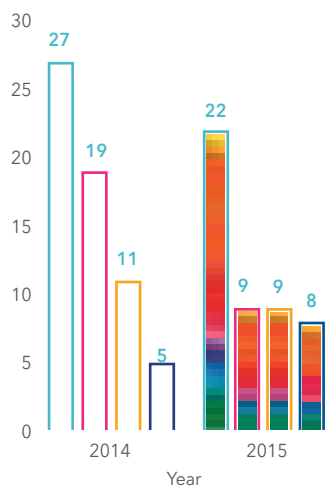
### Customers

	2015	2014
Total Claims and Benefits Paid* - (Rs. Mn)	1,594	1,403
Number of Branches	79	67
Number of New Products*	1	5
Annualised New Business Premium (ANBP) - (Rs. Mn)	1,725	1,246
Average premium per policy - (Rs)	86,667	81,639
Premium Persistency (First year)	82%	79%
Premium Persistency (Second year)	63%	58%

\* Figures are presented on a consolidated basis.

### Average Hours of Employee Training by Employment Category

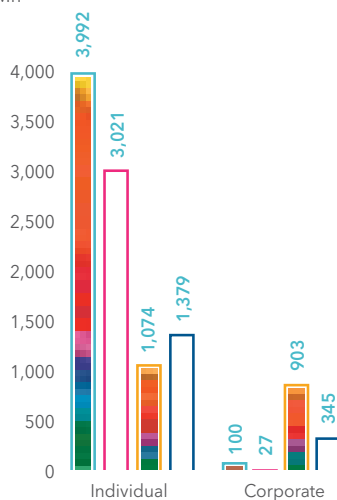
Hours



- AGM and above
- Asst Manager and above
- Executive
- Non - Executives

### Gross Written Premium by Sectors Served

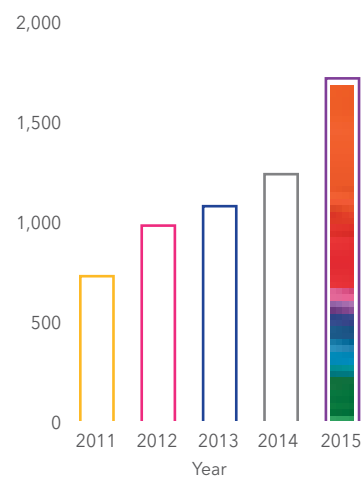
Rs. Mn



- Life Insurance 2015
- Life Insurance 2014
- General Insurance 2015
- General Insurance 2014

### Annualized New Business Premium

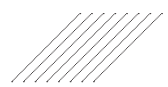
Rs. Mn



# We are proud of *Our Brands*



*Our greatest advantage is the extraordinary synergy we have achieved through our parent company Softlogic Holdings PLC. AAI is leveraging on these group synergies to enhance the value of the AAI brand even further.*



# Innovative, Reliable Technology

*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.*

## Information Technology

At Asian Alliance, we view innovation as a catalyst for our growth. Our quest to innovate was born out of the need to revolutionize our business from the inside up and outside in such that it hones the Company's infrastructure and delivers the most efficient outcomes. Every function in the organisation was evaluated in a way that satisfies our customer base while improving our operational performance. The main tool to achieve these efficiencies has been an advanced technology platform, from which we have then innovated products and services that play to our strengths and fill voids felt by customers. Close customer engagement and a dedicated IT team

that works closely with other functions in the enterprise resulted in some inspirational breakthrough innovations by the Company. All our innovative products and services are tightly linked to our organisational goals and objectives and have helped us achieve competitive positioning as a Company that is driven by innovation in technology. Our focus on 'Winnovation' has helped us surpass our growth objectives for the year.

## Introduction to Click2Claim

Motor insurance policies for years have been notorious for being time-consuming and inconvenient. In the case of an accident, the policyholder has to go jump through many hoops in order

to claim insurance cover. Realising this oft-repeated complaint by customers, the Company applied its resources to innovate a revolutionary Motor Insurance offering that prioritizes convenience and ease of use for customers.

67%

## Innovativeness

In order to measure the performance of Motor click to claim app "Breakthrough research Sri Lanka" has further evaluated the Brand values of AAI Motor Insurance product.


"I have worked with Asian Alliance Insurance and obtained claims twice with an unmatched level of professional attention and customer service, coupled with a strong expertise on the subject matter. Most importantly, I am greeted by friendly and service-oriented staff who are genuinely interested in addressing my questions, concerns and following up. The newly launched app is amazing and user friendly, taking care of my day-to-day issues faster. You guys have really made it a seamless experience no doubt!"

Mr. Oshan Ranatunga -  
British American Tobacco PLC

## CLICK2CLAIM

'Click2Claim', a ground breaking Motor Insurance policy, was launched by Asian Alliance Insurance - offering two of the most crucial factors in the 21st century: time and smartphone technology. The home-grown and purely in-house designed mobile app enhances 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 to upload through the app to be processed. The policyholder can then drive away without having to wait for an assessor to visit the scene of an accident in order to assess the claim. This unique app not only reduces waiting time for customers, but also eases traffic congestion that occurs invariably as a result of road accidents.





*We have chosen the path of “Winnovation” - to win through innovation that is aimed mostly at delivering convenient customer solutions through affordable technology while ensuring that competitive operational efficiencies are realised thereby creating a sustainable competitive advantage in the industry.*

# Chairman's *Statement*

**Ashok Pathirage**  
Chairman



Read Chairman's Statement online.  
[www.asianalliance.lk](http://www.asianalliance.lk)

## Chairman's Statement

*'Value Creation' has become an important part of our vocabulary and our employees are continually exploring how their decisions and actions can further enhance our value chain.*

I have pleasure in presenting the Annual Report for 2015 of Asian Alliance Insurance PLC and are pleased to report yet another remarkable year of strong financial results.

Your Company has embraced the ethos of "Winnovative" excellence to deliver strong results underscored by innovation and a winning spirit, which has inspired us to introduce many breakthrough products in the industry. This is the first year of a post-insurance-split. A robust performance is a clear indicator of our strength with strong systems and processes. We also possess the ability to cope with any regulatory changes and operational challenges stemming from our business excellence. More significantly, this year we have established innovation as the hallmark of our products and services.

### Our Integrated Journey

We embarked our integrated reporting journey two years ago and are delighted to see its progressive benefits help transform our business. Although the move required a new way to look at information and sourcing it, today we find that our decision making skills are enhanced at all levels. We are now able to leverage on management information and operate more effectively.

As a result, 'value creation' has become an important part of our vocabulary and our employees are continually exploring how their decisions and actions can further enhance our value chain. Our integrated report journey has further helped us place

stakeholders at the core strategy of our business, ensuring that our systems and processes are geared to add value.

### Economic Conditions

Sri Lanka's economy had slowed down as a result of two elections that took place in 2015.

GDP growth recorded 4.4% in Q1, a slight uptick to 6.7% in Q2 and reduced to 4.8% in Q3. The trade deficit for the first eleven months of 2015 marginally increased by 1% to USD 7,566 million with oil imports reducing by 43% compared with the previous year. BOP recorded a deficit of USD 1,274 million in November 2015 compared with a surplus of USD 1,628 million in 2014.

The cumulative inflow from workers' remittances increased marginally by 0.8% to USD 6,361 million during the first eleven months of 2015 in comparison to the corresponding period of 2014. The comparatively low growth in workers' remittances during this period is attributed to the drop in income in oil-exporting Middle Eastern countries. The ASPI lost 5.5% but foreign investments in the Colombo Stock Exchange (CSE) during 2015 recorded a net inflow of USD 4 million, reflecting net outflows from the secondary market amounting to USD 32.3 million and inflows to the primary market amounting to USD 36.3 million.

Sri Lanka's gross official reserves as at end November 2015 amounted to USD 7.3 billion, equivalent to 4.6 months of imports while total foreign assets

amounted to USD 9.1 billion, equivalent to 5.7 months of imports. The Sri Lankan Rupee depreciated by 9% during 2015 to close the year at USD/LKR 144.06 while interest rates trended upwards with benchmark 12month TB rate increasing to 7.11% and Bank Lending rates AWPR moving to 7.5% from 6.33% a year earlier.

### Industry Outlook

The Life Insurance industry delivered an overall Gross Written Premium of Rs. 53,585 million in the long term insurance business compared to the Rs. 44,652 million of year 2014, with a growth of 20% which is promising compared with growth rates of 7% and 11% in the past years. Life penetration is still very low at 0.46%, versus 0.48% last year and is below the regional average estimated at around 1.82%. The industry has tremendous opportunities over the medium term.

The total GWP generated by the insurance companies engaged in General Insurance business amounted to Rs. 67,381 million in 2015 compared to Rs. 58,439 million in 2014, marking a 15% growth. The splitting process that was mandated during the year is likely to drive consolidation with a couple of key transactions already executed. General Insurance premiums are considerably lower than the risk based rates with the consequential results quite evident across the industry.

### Regulatory Environment

We expect more stringent regulation in the upcoming year. The regulator is moving along a steady path with measures that have helped build resilience and faith in the insurance industry. The commencement of the Risk Based Capital regulations will be another milestone for the industry, with the test run undertaken in 2015 proving to be smooth. Asian Alliance is happy playing a catalytic role by organising an industry seminar to facilitate and understand the issues relevant to that splitting.

In the second year of performance the segregation of Life and General Insurance operations has proved its viability. We can now focus strongly on each segment and garner new business through innovative



methods. The General Insurance business of the Company strengthened last year and this growth momentum continues. The Insurance Board of Sri Lanka is commended for its strategic input to enhance the stability of the industry. Asian Alliance Insurance welcomes the introduction of Risk Based Capital (RBC) regulation that comes into effect from 1st January 2016. We are confident that this will further strengthen the sector and induce future growth.

### Winnovative Performance

It gives me immense pride to declare that Asian Alliance Insurance delivered a consolidated GWP of Rs 6.2 billion in 2015, which marks an increase of 27% compared with 2014. Life Insurance business posted a GWP of Rs 4.1 billion, reflecting an increasing of 34%, while General Insurance recorded a strong performance with GWP of Rs 2.0 billion, which is an increase of 15%. This robust financial performance is the result of a well-executed strategy and our shareholders will be pleased to note that we leave no stone unturned to ensure wealth creation. We have chosen the path of "Winnovation" - to win through innovation that is aimed mostly at delivering convenient customer solutions through affordable technology while ensuring that competitive operational efficiencies are realised; thereby creating a sustainable competitive advantage in the industry.

### Positive Group Synergies

Asian Alliance Insurance has garnered multiple benefits by leveraging on synergies from parent, Softlogic Holdings PLC. Since the Company's acquisition by Softlogic, total GWP has grown at a compounded rate of 30% to Rs. 6.2 billion in 2015 from Rs 1.6 billion in 2011. Our emphasis on technology driven innovation in product and service delivery has given us an edge in the industry, and we will continue to strengthen this platform further.

During the year, the Company launched technology oriented products and services with customer convenience being given priority. We were also able to

leverage on group healthcare synergies derived from the Asiri Hospital chain. Sri Lankans are increasingly seeking quality private healthcare and we are proud to be at the forefront as the preferred healthcare insurance provider.

Meanwhile, Asian Alliance Insurance has also boosted its risk and governance frameworks, to ensure transparency and safeguarding of shareholder wealth along with the well-being of our policyholders.

### Rewarding Year

The year proved fortuitous for the Company in many ways. We received many awards and accolades for our performance. We won Asia's most coveted "Innovation of the Year" award at the 19th Asian Insurance Awards held at Marina Bay Sands in Singapore. The award was on account of "innovation in eliminating the traditional accident claims process in Motor Insurance and for bringing revolutionary change to Sri Lanka's Motor Insurance Industry". This was followed by the Insurance Gold award at the 12th Annual Business Excellence Awards conducted by the National Chamber of Commerce of Sri Lanka. Asian Alliance Insurance was also the only insurer to receive two Awards from the Institute of Chartered Accountants of Sri Lanka at their Annual Report Awards 2015 including Bronze award for overall excellence in Integrated Reporting. We were also awarded the Bronze award at SLIM Brand Excellence.

### Sustainability Strategy

Our sustainability philosophy is an integral part of our business strategy, and as we are in the business of protection, we are executing our social responsibility activities under the pillars of sustainable environmental protection and development of knowledge platform to enable progressive growth for the country. We have refocused our energies on acquiring technically skilled human capital to ensure we have a workforce of talented people. We are beholden to our stakeholders DEG and FMO for having offered us technical insights into strengthening our operations.

### Future outlook

We are well-positioned and ready for the future. We have great momentum and believe that this will ensure an increase in market share for our company.

The strengths that are embedded in our company 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.

### Acknowledgements

I would like to place on record my appreciation to my colleagues on the Board and towards the Managing Director, Senior Management and staff for their commitment and dedication for the Company's continued success. We have established a winning team that is well-set to deliver better results in the future.

I would like to thank the IBSL Chairperson and staff for the contribution made towards the stability and sustainability of the industry. The Insurance Ombudsman is commended for building confidence among the insuring public by providing an efficient, independent grievance redress mechanism.

I am deeply grateful to our shareholders and customers for their support as we inexorably move forward.



**Ashok Pathirage**  
Chairman



Read Managing Director's Statement online.

[www.asianalliance.lk](http://www.asianalliance.lk)



*The most valuable insurance proposition that we have now branded as “LifeMax” this combines Life protection associated with valuable Health riders - all customised to suit our individual client requirements. LifeMax was brought to the living rooms*

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# **Managing Director's *Statement***

**Iftikar Ahamed**  
Managing Director

## Managing Director's Statement

### Winning through Innovation - "WINNOVATION"

2015 will probably go down in history as the most decorated year for Asian Alliance Insurance since its inception as a General Insurance Company in year 1999, with Life business commencing in year 2000.

Asian Alliance Insurance won Asia's most coveted "Innovation of the Year" award at the 19th Asian Insurance Awards held at Marina Bay Sands in Singapore. The award was on account of "innovation in eliminating the traditional accident claims process in Motor Insurance and for bringing revolutionary change to Sri Lanka's motor Insurance Industry".

In a previous message in year 2014, I had referred to the new team spirit and tonic that was fuelling Asian Alliance's growth momentum, and I am proud to say that one of the many superb outcomes that we have seen was this brilliant achievement to be crowned on the Asian stage.

We have now built a team and are creating a culture that is based on WINNOVATION - to win through Innovation. We have clearly identified our business objectives and what needs to be done to get there. We feel that the insurance industry in Sri Lanka is ripe for a wave of innovation where practical and convenient insurance products and solutions can be crafted and delivered through modern technology in a short period of time. Asian Alliance will trail-blaze that path and is hoping to establish leadership in this sphere and a new era of digital insurance.

We are in the process of developing a multitude of other similar such "innovations" that will be rolled out in 2016 and are very excited about their prospects and the gains that they would enable Our Company to make.

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.

### Engaging strategic and highly skilled actuarial talent to advice us on both the Life and General Insurance portfolios and business.

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 Option" - the generally accepted guideline for sustainability reporting.

#### A Remarkable 2015

During the year under review, Asian Alliance Insurance delivered a combined GWP of Rs. 6.1 Billion in 2015, which is an increase of 27% compared with the previous year, outpacing the industry by far. Life Insurance GWP was a spectacular Rs. 4.1 Billion, increasing by 34%, whilst General Insurance turned in a strong performance with GWP that was Rs. 2.0 Billion, increasing by 15%. When adjusted for the Health business in Life, the growth for Life is 32% and General Insurance 25%.

We are extremely happy to note that total GWP has grown at a compounded rate of 30% since the entry of Softlogic in September 2011, from a combined GWP of LKR 1.6 Billion to 6.1 Billion in 2015.

Asian Alliance Life recorded first year premiums of Rs 1.3 Billion, growing by 42% with an absolute growth of Rs 390 Million, that is probably within the Top 3 in the industry. Typically, first year premium growth is a leading indicator of an Insurance Company's near term potential and augurs well for us as we move forward with great momentum. Whilst accelerating in Life, on our General Insurance business Asian Alliance Motor hit a top line of Rs. 1.2 Billion, growing 41%, which is amongst the highest for our peer group and more than doubling industry growth of 19%. With these

numbers we have established that there is no challenge and no task that cannot be achieved if we set our minds to it.

A key challenge for management is to manage stakeholder engagement and business goals to achieve integrated growth for the organisation; and we feel that we have pressed hard on all the buttons that deliver relevance. Our foray into technology-driven innovations is driving solid business growth whilst delivering huge improvements in customer service and product delivery. The cost efficiencies that will follow in processing and operations of the Company will improve profitability margins and positively impact the bottom line of the Company.

#### LifeMax now Branded

Our Life Protection business continues to be the mainstay of our portfolio, where we have once again done exceptionally well, with a brilliant sales team performance, executing what is probably the most valuable insurance proposition that we have now branded as "LifeMax" this combines Life protection associated with valuable Health riders - all customised to suit our individual client requirements. LifeMax was brought to the living rooms of all Sri Lankans through a creative advertising campaign for the first time this year.

Our unique business model orientated towards Sri Lanka's fast-growing mass, affluent sector recorded average premium value of Rs. 86,667 that is far ahead of the industry. Further, persistency in our business is the best in the industry with first, second and third

year persistency at 82%, 63% and 52% respectively. We continue to develop our Advisors so that they are at the top of their game, and being in this premium client segment allows us to invest and service our customers with great intensity.

A whole host of operating parameters are tracked in order to process and maintain the Life policies of our customers with key service level standards being meticulously monitored and followed by management on a weekly basis. We are proud to state that the average time taken for policy issuance at Our Company is one day, whilst standard vanilla policies are issued immediately. There is a whole host of initiatives slated for delivery in 2016 that almost entirely comprise of IT-enabled delivery, that are set to deliver absolute convenience and value to our customers.

### General Insurance Revived

In the area of General Insurance, we re-engineered the entire business with a retail focus with emphasis on Motor, a move that required tremendous effort, courage and dedication. Our General Insurance business had suffered for years due to the lack of proper focus and the inability to attract the necessary staff and talent to drive the business. We are proud to say that we probably have one of the most enthusiastic, talented and hard working teams in General Insurance at present; and the results that they have achieved speak for themselves. We probably performed one of the greatest turnarounds in the industry by growing the business and building market share, whilst increasing margins at the same time.

We placed emphasis on retail products, delivering Asian Alliance "Click2Claim" for Motor, whilst strategically focusing on Health, where synergies with our group Healthcare Sector - Asiri Hospitals - we believe will be of tremendous importance in the future. We have also targeted some attractive niches like Travel policies that are bringing in nice numbers devoid of high claims volatility.

### An Exciting Forward Thrust

We have big plans for our Life business, where we will now start to diversify distribution while setting up four different pillars: Protection, Investment, Health and Group Life. We have charted our course for the period of 2016 to 2018 and we hope to arrive with a top line in excess of Rs. 10 billion at the end of this 3-year plan. On this exciting journey we are looking to attract the best talent there is in the market and will be tapping international expertise available through our international stakeholders to devise the most appropriate and best suited strategies for success.

The General Insurance Industry seems set for a round of consolidation in the first year after the split and reveals the true operating dynamics of each company on a stand-alone basis. Whilst growing the top line is important, we are also focusing on other operating parameters and have aggressively trimmed costs including our re-insurance arrangements that are now turned into a retail portfolio rather than corporate business with little or no margins.

We are now looking at our businesses and portfolios with greater clarity that has been enabled by engaging strategic and highly skilled actuarial talent to advise us on both the Life and General Insurance portfolios and business. We are extremely thankful to our stakeholders DEG and FMO who have most kindly sponsored the majority of these costs. The idea is to build up these actuarial skills in-house and develop our own team, so that we can assess market opportunities and optimise our portfolios in a timely manner.

We are most grateful to our regulator, the Insurance Board of Sri Lanka, that has guided the industry in a diligent manner, with a focus on the stability and sustained growth of the industry. We welcome the introduction of Risk Based Capital (RBC) framework that is in effect from 1st January 2016 and congratulate the IBSL for effectively following through on the splitting process that was undertaken at

the beginning of 2015. These significant moves address critical issues of performance and stability for our industry.

### We are Building a Great Team

We strive day after day to build our customer base and acquire new relationships whilst continuing with the very valuable current ones. In a previous Annual Report message, I had mentioned that the best is yet to come, and to our customers we assure you that your requirements are foremost in our minds as we grow and develop insurance solutions that will be of most value to you.

Team Asian Alliance should now have the confidence that they are second to none and that in each and every area of our operations, we have the staff and resources that can deliver on an outstanding basis. This was epitomised when Asian Alliance won the top Insurance Gold award at the 12th National Business Excellence Awards conducted by the National Chamber of Commerce of Sri Lanka.

My sincere thanks go out to Team Asian Alliance for a fantastic performance during 2015. I am greatly honoured to lead a team that is making waves in the industry where their "can do" attitude is a harbinger of greater things to come.

Our Board of Directors combine strengths and experience that are unique and invaluable in managing our business. We greatly appreciate the guidance and whole hearted support that has always been forthcoming from our Chairman and Board of Directors.

As we move forward to another year, I look to your unstinted support and cooperation, so that we may continue with our growth momentum towards making Asian Alliance the most valuable Insurer in the country.



**Iftikar Ahamed**  
Managing Director

A large, lush green indoor plant with broad, heart-shaped leaves is the central focus of the image. It is situated in a modern office environment, with a person's hand and part of a dark blue jacket visible in the lower right foreground. The background shows a bright, well-lit office space with white walls and a window. The overall atmosphere is professional and vibrant.

# COO's *Statement*

**Chula Hettiarachchi**  
Chief Operating Officer - Life



*The two themes we followed are; “protect our beautiful world”, an environment protection approach to save the world for future generations and; “molding future professionals”, contributing to uplift the future generation as professionals.*





## Chief Operating Officer's Statement - Life Insurance

*We have honoured 98.9% of our claims during the year which displays our prudent client selection process and client service process.*

I am proud to state that yet again Asian Alliance - Life has had an exceptional year of excellence across the value chain. We believe this success stems from our unique business model, which has at its core our key pillars: shareholders, customers, employees, and the society at large. By carrying out our duties towards all these stakeholder groups and meeting and exceeding their expectations, we are able to better our outstanding performance repeatedly each year.

Our unique business model is driven by rapid top line growth with all our KPIs are embedded within our business model. Our sales model is driven by 4 key ingredients which constitute our profit formula that delivers best value to the four stakeholders. Firstly, our premium value per customers is pegged at over Rs. 86,000, which demonstrates how meticulously we select our clients; secondly, we have a high client retention rate of 83% in the first year, the foundation that builds healthiest renewal premium inflow in the industry; thirdly, we comply with fundamentals of insurance to promote risk based sales and lastly, we ensure high productivity. All these factors work together to deliver record profitability ratios year over year that deliver all the expectations of our stakeholders. Profit, stability, and growth to the organisation promises perfectly met on claims; maturity values and superior service to policyholders; high income, professional development and career opportunities to our valued team.

Our unique sales process ensures that we retain the highest industry productivity. The Sales Advisors are continuously trained to sell products tailor-made to suit individual client needs in the upper market segment with a superior client service, while making sure they address clients' risks precisely. Through this advanced sales process our Advisors enjoy the industry best in closing ratio at a success rate of 25% and boast an average annualised premium of Rs. 1.5 million per Advisor.

Our business performance and the stable GWP inflow is superbly backed by the operations and optimum treasury management to get maximum returns for the benefit of all our stakeholders.

### Shareholders

Shareholders expect profitability of the business, stability of the organisation in the market and a sustainable growth exceeding industry standards.

Asian Alliance Life recorded the highest profitability in its history in the year 2015, by channelling a net 25% of revenue as profits to shareholders. Further, the market positioning too displayed strong stability; for the last five years, we have posted a double digit top line growth rate, much above the growth in the Life industry. In 2015, we have recorded an excellent GWP growth of 34% and new business growth of 38%. These are precisely the two factors that shareholders expect; and we met and exceeded their expectations yet again.

The in-house actuarial team, backed by international consultants on a regular basis, constantly evaluate the product performance, business behaviour and compliance requirements adding value to the business operations, in addition to the finance, risk management, compliance and audit departments' mission, which has made the shareholder comfortable on the stability of the business in the market and in the strict regulatory environment.

Our compliance levels declared in this report are much above stipulated requirements by the regulators.

### Customers

Customers expect us to accept risk with responsibility and value for their money as promised.

We have honoured 98.9% of our claims during the year which displays our prudent client selection process and client service process. Moreover, all policy maturities within the year were granted at the illustrated values declared at the point of sale, obviously much above the guaranteed values stated in the policies.

We have an exclusive client service team consisting of over one hundred staff members, to cater to the demanding needs of our elite client base; premium collection to claims management, visiting them frequently in the field, in addition to the regular services provided by the respective sales advisors.

### Employees

Staff mainly look for income, professional development, career growth and superior work culture.

The Company has a unique development scheme for head office and regional support service staff, where direct financial and structural support for employees' higher education is borne by the Company. Special training programmes and engagement in frequent social and cultural events has built a friendly and open-door atmosphere across the organisation.



Our Sales Advisors are in the highest income bracket in the industry and are reputed for demonstrating the highest professionalism in the industry. Their productivity on average first year premium is above Rs. 1 million on average per person. In return for their tremendous contribution, we provide them with the best income, career and rewards structure in the industry. The testimonial for this claim is that they join us with confidence from all giants knowing that we will fulfil our promise to them, and we are proud of our active Advisor retention rate of over 90%.

### Society

Society expects us to contribute to the welfare of public at large, which we accomplish through various Corporate Social Responsibility (CSR) activities.

Mindful of our commitment to society at large, we conducted CSR projects during the year.

The two themes we followed are; "protect our beautiful world" an environment protection approach to save the world for future generations and "moulding future professionals", contributing to uplift the future generation as professionals. Details on our two key projects are provided on page 144 - 154 of this report.

### Future Outlook

We continue to fine-tune and strengthen our business model which has already proved to truly be successful. The implementation of a CRM model supported by strong technical capability should propelled us as the innovators in the industry. Our in-house IT team is one of our main strengths for the future, as we forge ahead in our ambition to become a paperless firm in 2016.

We are proud to have done away with repetitive and duplicating tasks such as data entry in our operational departments. OCR technology and auto underwriting applications and by workflow implementation backed by advanced technology through IT capabilities have replaced most manual

operations. As a result, we are able to handle increased business volumes with the same staff numbers while delivering higher productivity.

We have implemented high-end technological applications over the last couple of years for the convenience of customers and our sales force. Our "Click4Life" application is expected to reduce operational aspect by half. It puts control back in the hands of customers, who can now easily get update on their own policy with a click of a button. "Click4Life" was launched in 2015 and is the ultimate convenience tool for our clientele.

Our sales force is already being empowered towards this goal and by the end of the first quarter in the new financial year, operations will be completely digitalised.

In order to set our sales force apart from the rest of the industry, we launched the E Advisor revolutionary platform where our sales staff is empowered to handle all sales process management functions through their palmtop tablet. These devices will help them to work remotely and canvas business effectively without losing time reporting to office to carry our paperwork which is now entirely digitised. We expect these technological innovations to help us record strong profitability in the future.

Organisations' stability and the growth through the expansion of product portfolio and distribution network is well supported by the marketing, human resources, administration and legal departments with their invaluable contribution to the task.

We assure our stakeholders that they can expect greater performance, year over year as our slogan explains, "The diamond in the life industry". The diamond, the hardest substance known to mankind, indestructible, and our solid operational structures represent the assembly of the diamond. Though

the hardest, the diamond reflects the utmost sentiments of love, here at AAI it is presented by a friendly work atmosphere. It's allure, attracts the whole word, and it is the precious above all. We, at AAI always represent the value for stakeholders, with our motto "The most professional and most profitable Life insurer".



**Chula Hettiarachchi**  
Chief Operating Officer - Life





*Looking ahead, we foresee a more tightly regulated industry with emphasis on stricter implementation of the Fit and Proper manpower requirements and greater focus on Compliance.*

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# **AAGI CEO's** *Statement*

**Ramal Jasinghe**  
Director / CEO

## Chief Executive Officer's Statement

### General Insurance

The period under review marks the first year since the segregation of insurance companies into legally separate Life and General operations. At Asian Alliance, this has augured well for both our companies. The strategic approach we adopted in General Insurance has served to strengthen our business and today I am proud to state that we are ahead of the curve in terms of strategic progress. Spurred on by 'Winnovation', a harmonious blend of innovation and a winning attitude, the General Insurance operations recorded remarkable progress during the year.

The contributing factor to our profitability during the year is our in-house technical expertise in IT and underwriting, coupled with our capacity to adapt and assimilate changes, both regulatory and strategic. These strengths have enabled us to market Our Company distinctly in the Motor Insurance landscape.

I am proud to state that Asian Alliance General delivered its best-ever performance by recording Rs. 2 billion in Gross Written Premium (GWP).

### Technology and Innovation

We are keenly aware of growth potential beyond the big cities and in other far flung provinces, and we have addressed this growth avenue by leveraging on technology to gain wider reach and net a wider customer base. By leveraging on technology, we have been able to enhance our distribution network and we plan to complement traditional distribution channels with more cost effective technical innovations. Our "Click2Claim" service, explained in detail elsewhere in this report, clearly demonstrates how this innovation helps us reach customers island-wide.

We introduced the "Drive Thru Insurance" concept which enables our customers to access all services including fresh motor policies, renewal of revenue licenses as well as renewing their Motor Insurance policies, seven days a week. This service caters to the rapidly growing customer

*The Click2Claim product successfully competed against larger companies in Asia and won Innovation of the Year award at the Asia Review awards at Singapore in November 2015.*

need for greater convenience and speed in accessing insurance services.

Moreover, our "Click2Claim" policy enables policyholders to save time and trouble by clicking the app on their smart phone to get direct access to a team of engineers who merely require 5 photographs and a maximum of 10 minutes to offer an estimate for repairs. This policy is very effective and useful especially for lady drivers, who otherwise could be placed in a vulnerable position when their vehicles meet with an accident.

We plan to leverage further on this platform by offering similar technical conveniences and ease-of-use products and services. We look forward to extending this winning formula to other personal line products, particularly in the Health Insurance space. Our Group synergies with Asiri Hospitals further enhances our capability for innovation in the field of Health Insurance.

### Innovation of the Year

During the year under review, we successfully launched an entirely new concept to the Sri Lankan market and perhaps even on the international platform, by automating claims through the click of a button. The "Click2Claim" product successfully competed against larger companies in Asia and won the Innovation of the Year award at the Asia Review Awards held in Singapore during November 2015. Wining this coveted

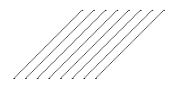
award despite severe competition from more established and experienced Multinational players demonstrates our "Winnovative" spirit.

We are focused on expanding our innovation platform and acknowledging recognition and rewards as we grow. Asian Alliance was further recognised at the National Business Excellence Awards in two categories, which is an endorsement of the quality of our products and superior service that secures our policyholders.

### Strengthening our Portfolio

During the third quarter of the previous year, the management took a bold decision to rationalise our product portfolio. We consciously took steps to shed non profitable classes of insurance and focus on retail and personal line portfolios. We are gratified to observe that this decision is resulting in a rapid growth in GWP, as well as having a very positive impact on the operations of the General Insurance operations.

We believe that the pillars of Motor and Medical Insurance are potential growth areas which demand innovation, inimitable service standards, and trust. The Company is confident that we can exceed expectations on the strength of our talented staff and the strong backing of the Softlogic Group.



Our journey to success during the year, was also made possible by technical inputs provided by our international directors, who have certainly widened our thinking and have exposed us to updates on Best practices and technology, which drives innovation in the international and regional insurance businesses. Their contribution has added value to the fruits of our success, which we are proud to present in this report.

We will not rest on our laurels, but intend to build on our success and continue to trailblaze in the newly revived General Insurance industry post segregation.

### Future Outlook

As per regulations, the Risk Based Capital (RBC) regime will be enforced in 2016 after a successful trial run in 2015. We are hopeful that rationality will prevail in the General Insurance market with regard to accurate risk rating, premium pricing, and credit control in order to meet a company's risk appetite and consequently the regulatory Capital Adequacy Ratio (CAR) requirements.

We envisage mergers and acquisitions or even consolidation within the industry in the prevailing environment. The situation will no doubt cause fresh challenges for both Life and General Insurance companies. We welcome these changes as a professional Insurance Company and look forward to playing a leading role in delivering enhanced stakeholder value and professional performance.

The General Insurance industry experienced a growth of 15% y.o.y with an enhancement of the Motor to Non Motor mix at 63.7%, during the period under consideration from 61.7 % in the previous year.

The Industry has seen keener interest in the local insurance market by overseas insurance companies as a result of the potential for market penetration which currently stands below 10.5% in both Life and General Insurance. Considering the growing economy and ambitious public infrastructure development plans, we envisage that there will be growing

insurance needs, particularly in the Personal Lines Insurance market space.

Looking ahead, we foresee a more tightly regulated industry with emphasis on stricter implementation of the Fit and Proper manpower requirements and greater focus on compliance. The most important factor for the industry growth is knowledgeable staff who have received technical training. The Regulator is concerned about the professionalism of sales distribution staff, in order to protect the policyholder from mis-selling. Hence, we expect tighter regulations and greater vigilance from the part of the Regulator.

Asian Alliance continues to maintain cordial and progressive relations with the Regulator, the Insurance Board of Sri Lanka (IBSL), the Insurance Association of Sri Lanka (IASL), and Sri Lanka Insurance Brokers Association (SLIBA) other stakeholders of the industry.

We are cognizant of changes by way of taxes and leasing conditions that could impact the growth of the Motor Industry. We believe that our value proposition to the Motor Industry is unique in that it will power our growth strategy despite challenging industry conditions.

Since the Softlogic Group acquired Asian Alliance in 2011, the Company has grown substantially year-on-year in GWP terms. The strength of the Group has elevated our capabilities of attracting top level talent to enhance our management team. This has no doubt been a vital ingredient in our journey to the forefront of the sector.

### Acknowledgements

I would like to place on record the support and encouragement extended by our Chairman and eminent Board of Directors. I also take this opportunity to recognise the contribution made by our General Insurance operations team and IT team who developed ideas into innovations and into winning accolades. The Motor team was at the forefront with unbeatable passion and commitment that made these innovations possible and executed them to perfection.

In the arena of distribution, the lifeblood of our success, we successfully adapted to the strategic changes to enhance our distribution strategies and the quality of our business portfolio even further. We extended distribution expertise to ensure island-wide success by driving the strategic changes adopted by the Company. We are proud, happy and privileged to possess a team of exceptional and committed members who will hold the Company in good stead into our progressive future.

The Insurance Ombudsman is commended for building confidence among the insuring public by providing an efficient, independent grievance redress mechanism.

We believe that favourable macroeconomic developments and economic conditions, coupled with our creed of "Winnovation" will place us at a pole position in the race to excellence in the General Insurance industry.



**Ramal Jasinghe**  
Director/ CEO



# Our Business *and Strategy*



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# Our Sustainable Business

## How we Define our Business

Asian Alliance Insurance (AAI) is positioned on the platform of "Protection" as our key priority. 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 Life style 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. We cater to a clientele that consists of corporates and individuals, both in Life and General business, through an extensive network of Regional Distribution Offices located strategically throughout Sri Lanka.

The Company is trailblazing a wave of innovation and technology that is expected to deliver widespread convenience and creation of new business avenues, which have appeal as unique customer value propositions and demonstrate capability to set the platform for huge organisational efficiencies.

The Life business of the Company is currently ranked 5th in the market and provides its customers with a level of service and attention that is unmatched in the industry. Its focus remains undivided and it is always aimed at providing the best protection plans that are perfectly customised to meet specific requirements of a diverse clientele.

The General Insurance business is coming back strongly with novel concepts and innovation that is completely oriented towards customer convenience. With the new "Click2Claim" solution that 'eliminated the traditional accident claim process in Motor Insurance and brought revolutionary change to Sri Lanka's Motor Insurance Industry' and also many more new solutions such as "Drive Thru" and "365 Day Insurance" that will primarily target Motor Insurance customers.

## Our Sustainable Business Model

AAI's business model describes the method or means by which Our Company sustainably utilises and renews its various capital resources to craft value by providing insurance solutions to individuals or group of individuals in relation to their financial risk and investments requirements. In return, we either charge appropriate revenue or derive underwriting profits through pooling similar insurable risks, enhanced by optimising offsetting risks.

We maximise our ability to generate revenue through extensive research, identifying customer needs, and producing innovative product solutions, and effective distribution and servicing. We believe in strong governance and the ability to adapt to the ever-changing regulatory environment. Our Bbalance Sheet management capabilities assist us to efficiently manage our financial capital within our board approved risk appetite.

A graphical presentation of our business model is shown on pages 40 to 41 and value drivers of the business model is provided in page 39 to this report. Further our value creation activities are summarised in page 42 to this report.

## We Link our Profitability to Socially Beneficial Outcomes Wealth

We help our customers build and protect their wealth through short

and long term insurance, investment products and advisory services. Asian Alliance also offers medical aid, life assurance and retirement products, which assists individuals to remain productive members of society and protect themselves and their dependants against loss of income due to illness or at retirement.

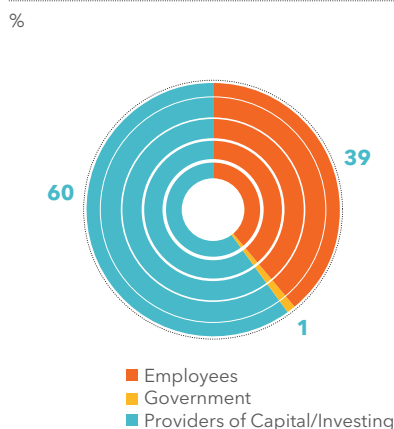
## Employer

We aim to hire locally whenever possible as we believe that employees who reflect the diversity of communities within which we operate enables us to better meet the needs of our customers and clients. Through our training and development programmes we enhance the level of financial services of the country. The employment multiplier effect means that for each job that we create, we sustain, directly and indirectly, a number of other jobs in the economy. As active consumers and taxpayers, our employees make a significant contribution to their local economies.

## Investment in Our Business

Our ongoing investment in our business ensures that we remain competitive and sustainable, and thus able to continue to make a positive contribution to our countries. Our substantial investments in transforming our core banking platforms positions us to serve our customers and clients effectively, and also to innovate, while strengthening our competitive position.

## Distribution of Wealth - 2015



## Distribution of Wealth 2014





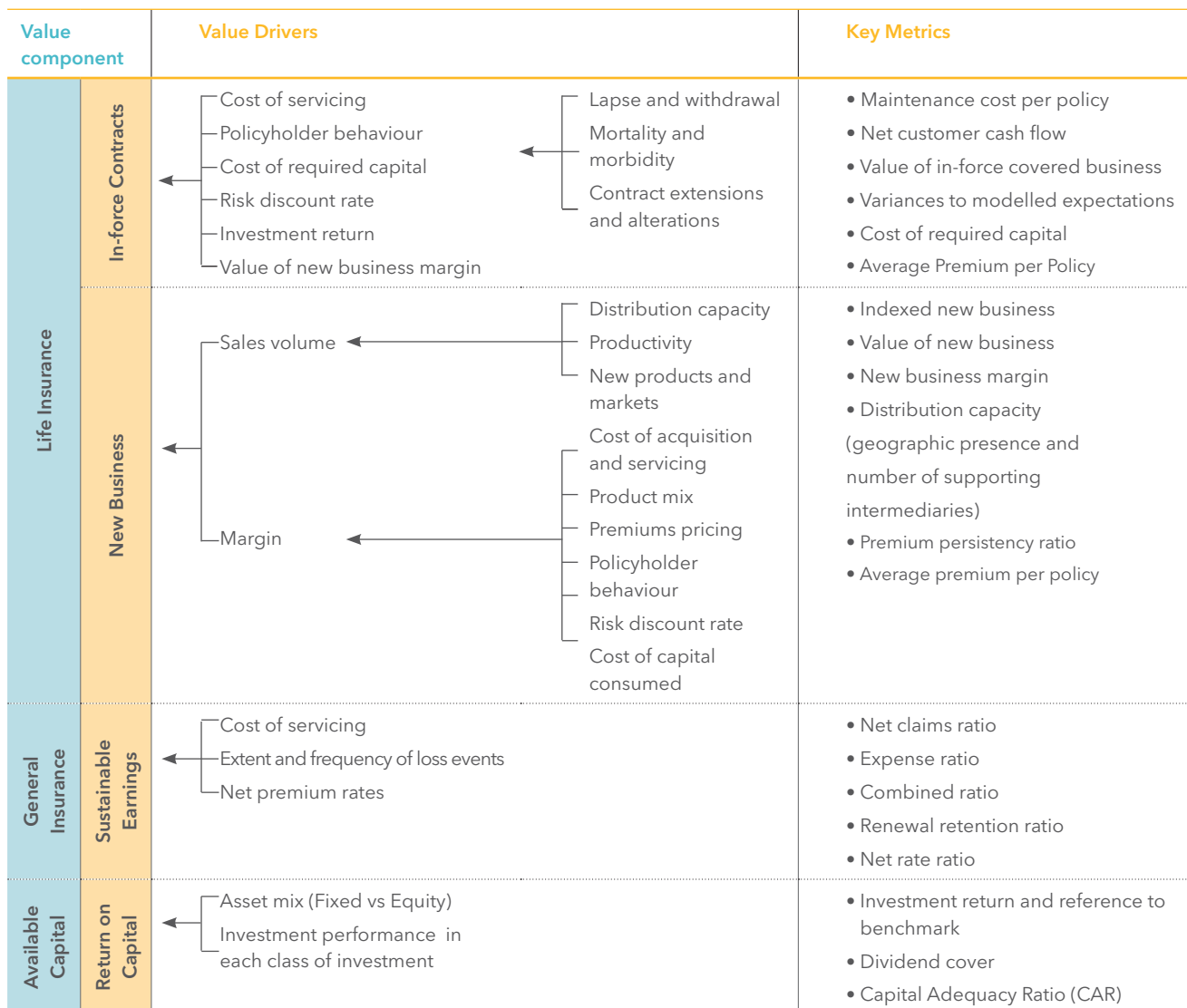
Table: Our Wealth Creation last two years

Rs. Mn	2015	2014
Life Insurance Revenue	3,590	2,816
General Insurance Revenue	1,598	1,323
Investment Income	958	1,946
Other Income	106	15
Net Claims paid with Actuarial Reserve	(2,596)	(2,801)
Suppliers and Services	(2,197)	(1,906)
Wealth Created	1,459	1,393

For specific examples of how our business activities contribute to broader value creation please refer pages 122 to 125

### Business Model Value Drivers

The diagram below depicts the drivers of shareholder value by each significant business segment and the key metrics used to measure value driver components.



## Our Sustainable Business

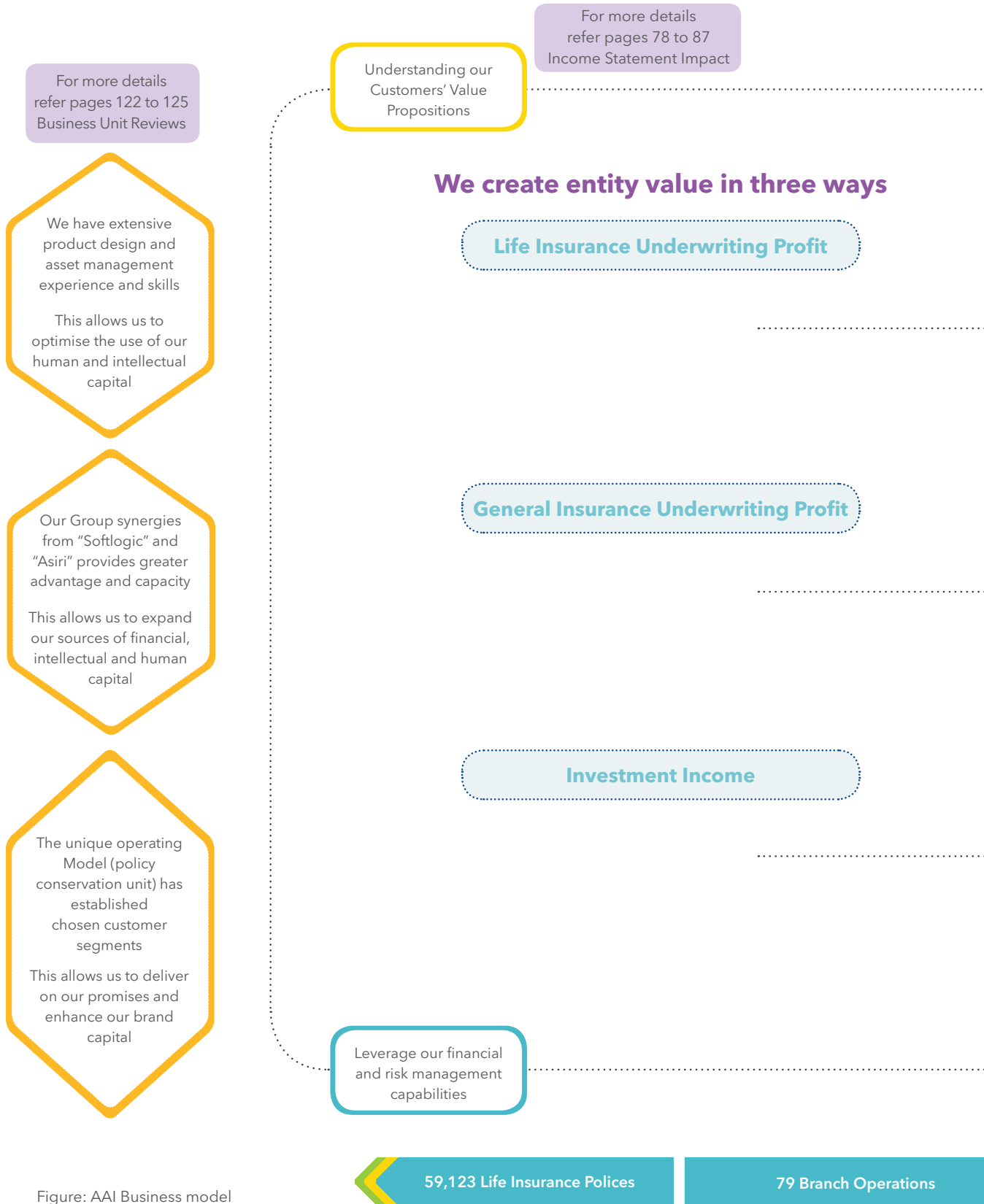
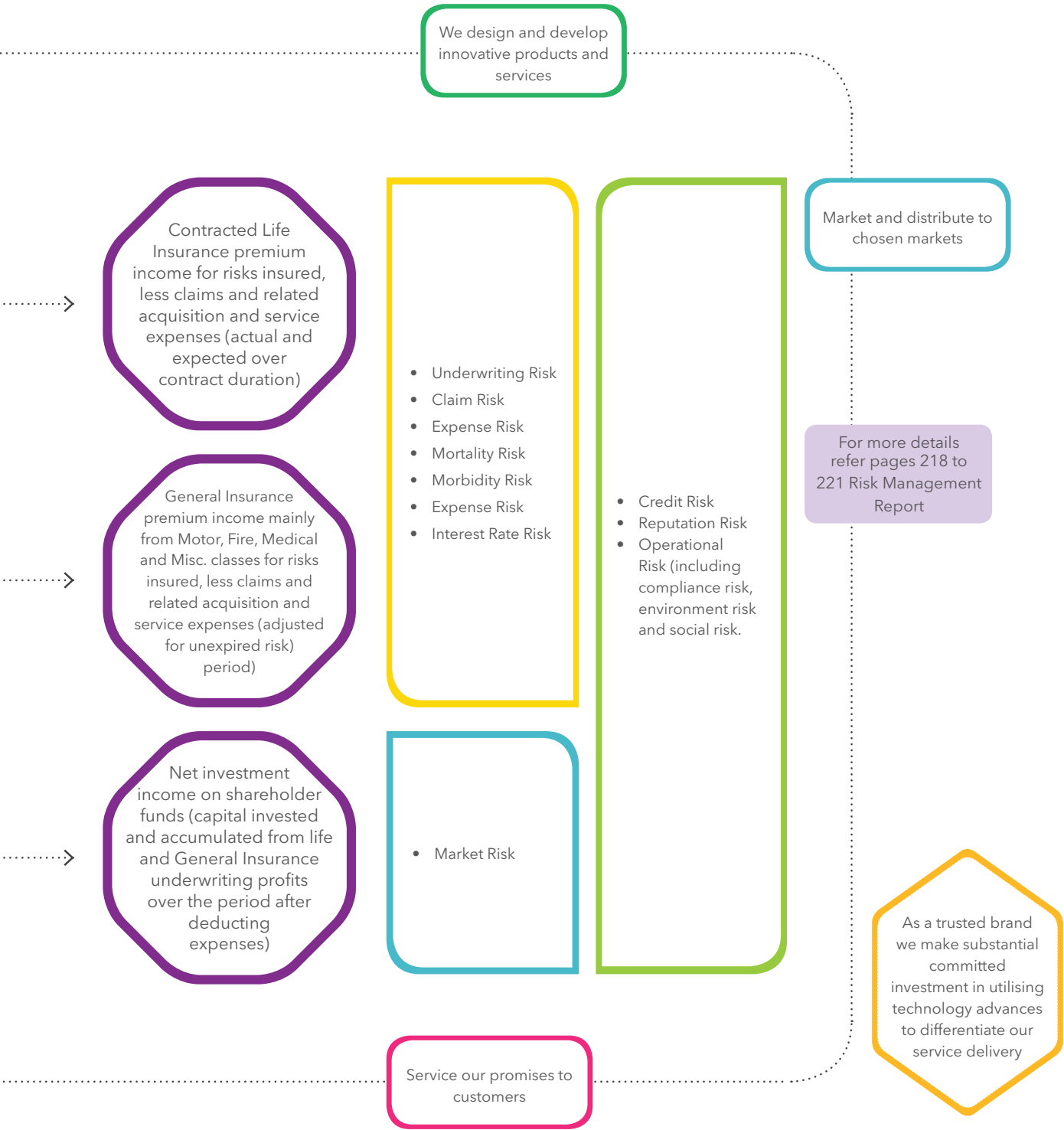


Figure: AAI Business model



Recognition for the "Innovation of the Year" at Asia Insurance Review 2015

Details of Business Model Value Drivers are provided in page 39

**We link our profitability to socially beneficial outcomes**

- Wealth
- Employer
- Investment in our Business

## Our Sustainable Business

As a responsible corporate entity, the outcome 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.

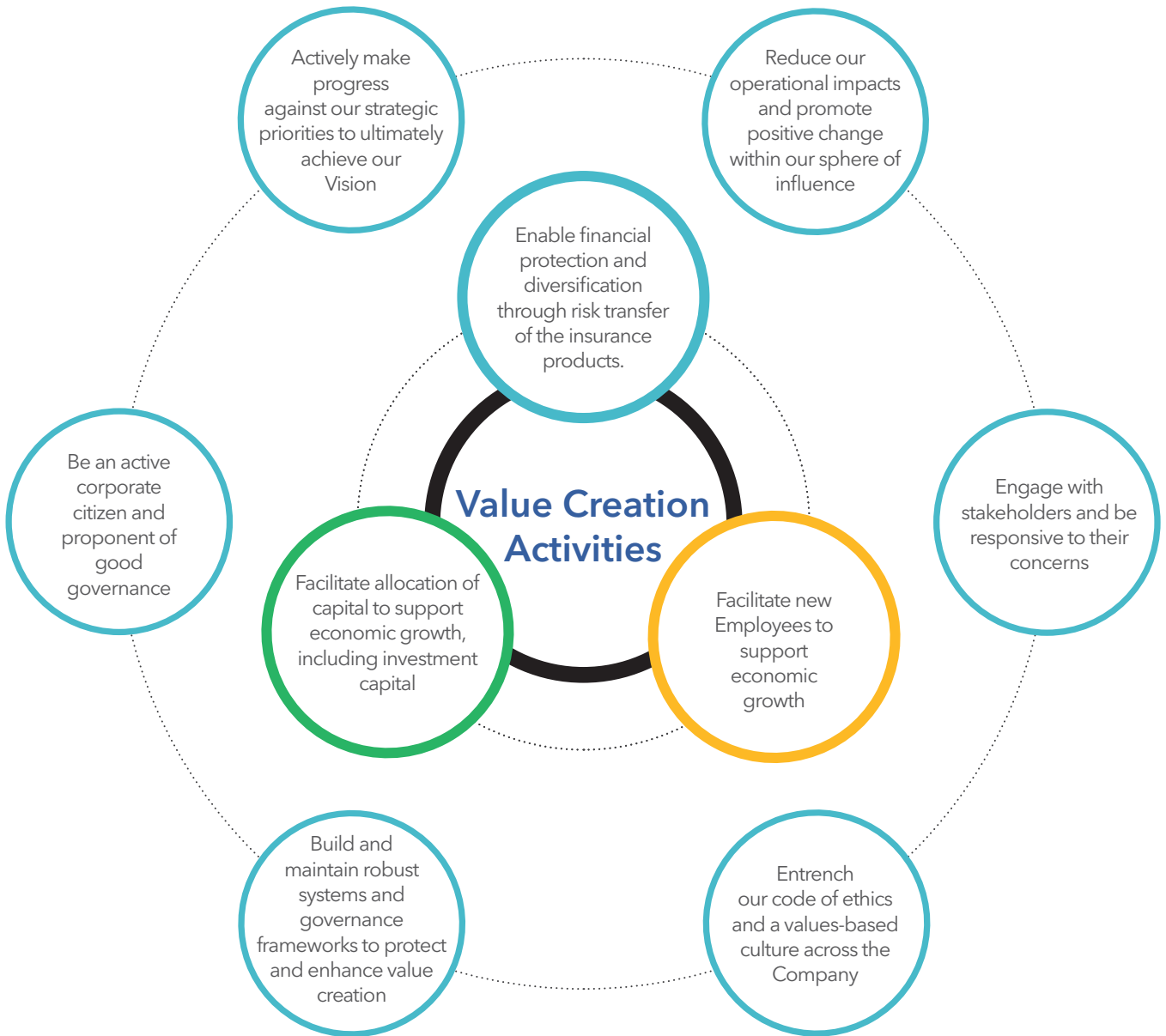


Figure: AAI Value Creation Activities

# Stakeholder Engagement

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 resolve issues faced by 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.

## Engagement Process

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 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.

The key questions that we considered were as follows;

- What financial or emotional interest have they in the outcome of our operations? Is it positive or negative?

- What motivates them most?
- What information do they require 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 operations? Is it based on good information?
- Who influences their opinions, 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 convince them to support our project?
- Who else might be influenced by their opinion and do these people become stakeholders in their own right?

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

**Investors** - who provide financial capital

**Customers** - who purchase our insurance products to protect themselves against a possible eventuality

**Employees** - who supply the necessary skills and expertise to deliver on our promises to stakeholders

**Environment** - which provides resources indirectly to continue the business

**Government and Regulatory Authorities** - who govern financial stability and market conduct of our industry

**Suppliers** - Who make favourable contributions to new product developments

**Communities** - who provide us with our social relevance as well as our future customers and employees

## Stakeholder Engagement

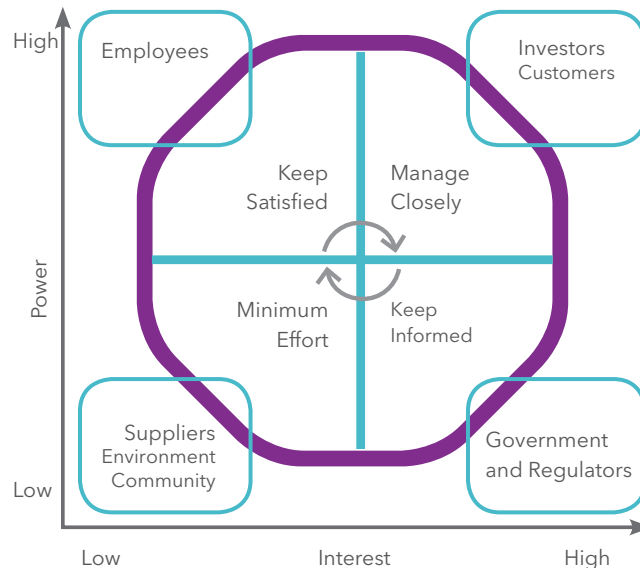
### Prioritising of Stakeholders

While we impact and are impacted by numerous stakeholders, we believe that a comprehensive process of prioritising is necessary for a 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 organisational decision making.

Based on the assessment carried out using the Mendelow Matrix given above, we identified our key stakeholders that materially contribute to our value drivers.

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.

Mandelow Matrix



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 our performance on external reporting.

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

Table: AAI responses to Stakeholder Issues

Investors	Customers	Employees
<b>Key Expectations/Commitments</b>		
<ol style="list-style-type: none"> <li>1. Increased return on investment.</li> <li>2. Better interaction</li> <li>3. Protect and facilitate rights and ensure fairness and transparency</li> <li>4. Complying with all statutory and regulatory requirements</li> <li>5. Ensuring adequate and timely communication</li> </ol>	<ol style="list-style-type: none"> <li>1. Enhancing accessibility to our services to all segments in society in all districts and provinces</li> <li>2. Adequate lead time between placing order for goods /services and delivery date</li> <li>3. Satisfaction</li> <li>4. New products to meet the evolving value propositions</li> </ol>	<ol style="list-style-type: none"> <li>1. Ensure a healthy work life balance</li> <li>2. Provide a rewarding career path</li> <li>3. Build ownership by engaging employees in our business</li> </ol>
<b>Method of Engagement and Frequency</b>		
<ol style="list-style-type: none"> <li>1. Annual reports, disclosures and reviews [Annually]</li> <li>2. Quarterly Reports [Quarterly]</li> <li>3. Corporate website and email access to management team [Ongoing]</li> </ol>	<ol style="list-style-type: none"> <li>1. Customer satisfaction survey [Annually]</li> <li>2. Daily interactions at customer Centers [Regularly]</li> <li>3. Corporate website, complaint box, customer forums, meetings [Ongoing]</li> <li>4. Product development forum [Ongoing]</li> </ol>	<ol style="list-style-type: none"> <li>1. Evaluation based on balance scorecard, external evaluation "Great Place to Work" a global research, consulting and training firm [Annually]</li> <li>2. Branch managers conference [Quarterly]</li> <li>3. HR ISYS system provides end-to-end solution, open door policy for communication throughout the organisation [Regularly]</li> <li>4. Emails, Intranet, staff gatherings, facebook [Ongoing]</li> </ol>

Investors	Customers	Employees
<b>Response Strategies</b>		
<ul style="list-style-type: none"> <li>1. Regular email feedback of performance to investors who request same</li> <li>2. Improved website which captures the required information content</li> </ul>	<ul style="list-style-type: none"> <li>1. Customer call center</li> <li>2. Systematic upgrading of customer centers to provide better service</li> <li>3. Introduce Click2Claim/ClickforLife smart app.</li> <li>4. Self-service insurance as such "Kiosks"</li> <li>5. Operational dashboard</li> <li>6. "365 Days" insurance</li> <li>7. "Drive Thru Insurance"</li> <li>8. M-cash and Z-cash payment facilitation</li> </ul>	<ul style="list-style-type: none"> <li>1. The Infinity system was introduced to allow access through the internet on a 24x7 basis from any location at the users convenience</li> <li>2. Maintaining diversity and providing equal opportunity</li> <li>3. Introducing whistleblower policy</li> <li>4. Form a crisis management structure</li> </ul>
<b>Government and Regulatory Authorities</b>		
<b>Key Expectations / Commitments</b>		
<ul style="list-style-type: none"> <li>1. Legal and regulatory compliance</li> <li>2. Good corporate governance and business ethics</li> <li>3. Support for government policy</li> </ul>	<p>Improve the welfare of the community by supporting health and safety related community activities which vary based on geographic location/priorities in the area</p>	<ul style="list-style-type: none"> <li>1. Improving Carbon footprint</li> <li>2. Waste management</li> <li>3. Energy use and efficiency</li> <li>4. Wild life &amp; Marine biodiversity awareness</li> </ul>
<b>Method of Engagement and Frequency</b>		
<ul style="list-style-type: none"> <li>1. The senior management are members of chambers and industry associations who meet at least on a quarterly basis [Quarterly]</li> <li>2. Engagement with the government is carried out on an on-going basis through meetings [Ongoing]</li> </ul>	<ul style="list-style-type: none"> <li>1. Identify community needs through Customer Care Centres.</li> <li>2. Sponsorships and employee involvement in local community projects. [Ongoing]</li> </ul>	<ul style="list-style-type: none"> <li>1. Environmental projects [Ongoing]</li> <li>2. Educating employees on energy conservation</li> </ul>
<b>Response Strategies</b>		
<ul style="list-style-type: none"> <li>1. Submission of regulatory and statutory returns on a timely basis</li> </ul>	<ul style="list-style-type: none"> <li>1. Leverage IT to minimise impact on environment (paperless office) [Ongoing]</li> <li>2. School Certificate Sponsorships Project</li> <li>3. Sponsorships for various events [Ongoing]</li> </ul>	<ul style="list-style-type: none"> <li>1. Recycling of used items</li> <li>2. Green buildings and eco-friendly practices</li> <li>3. Funding for Horton Plains and distributing eco-friendly bags</li> <li>4. Nuwara Eliya visitor guide book</li> <li>5. Setting up awareness board project</li> </ul>

G4 - 17	G4 - 18 (a), (b)	G4 - 22	G4 - 23 (a)	G4 - 29	G4 - 32 (a)
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# Material Aspects Impacting Our Business

## What Matters the Most

Our sustainability framework defines the sustainability vision, policies and strategies or management approach towards priority issues as discussed under “the Stewardship” section. 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, the GRI-G4 has a significant focus on materiality, enabling us to report on what matters most to our business and our stakeholders.

## Defining the Report Boundary

We aspire to present a balanced and comprehensive overview of our financial and non-financial performance. We disclose data on our economic performance as well as the impact of our organisation on society and the environment. We report performance data on areas of our business and operations where we can have a material impact both inside the organisation and externally.

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 of AAGI Ltd.

This report covers the operations of both companies 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 recognises 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 stakeholders' interest.

## 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, which means they can support us actively when necessary.
- We can anticipate what stakeholders' reactions may be, and build into our plan the actions that will win stakeholder support.

The report details economic, environmental and social performance that would significantly influence the assessment and decisions of our stakeholders.

## Stakeholder Inclusiveness:

The Company recognises 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 recognised 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, Social and Environment. Inherent in the triple bottom line 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 sustainability 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 2015 was also based on GRI-G4. The report presents key performance indicators with comparative information for the previous year which was reported for the period ended 31st December 2014.

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 2014.

## 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. This 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. A graphical representation of how and with whom we engaged to inform this year's strategy is shown on page 47.



### Stakeholder Engagement Summary Chart

Face to Face Discussions	Documentation	Survey
		
<ul style="list-style-type: none"> <li>Product Development Forum</li> <li>AAI Board Members</li> <li>Executive Management</li> <li>Employees</li> <li>Customers and Suppliers</li> <li>Regulators</li> </ul>	<ul style="list-style-type: none"> <li>Internal and External Audit Reports</li> <li>Audit Committee Reports</li> <li>Risk Committee Reports</li> <li>Board Report</li> <li>Meeting Minutes of weekly review meeting</li> <li>Global Reporting Initiatives' (GRI) principles - G4s</li> </ul>	<ul style="list-style-type: none"> <li>Customer Surveys</li> <li>Employee Suggestions</li> </ul>

### Prioritising Issues

The outcome of this engagement process enabled us to prioritise 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 prioritisation of issues in the materiality matrix to guide the content of this report and to determine the applicable GRI-G4 material aspects.

### Our Materiality Matrix

The matrix 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 issues can be found.

### Priority Issues Matrix



## Material Aspects Impacting Our Business

Table: Material Issues against GRI-G4 Material Aspects

Key Stakeholder	Material Issue	GRI-G4 Material Aspect	Boundary*
Economic Performance	Sustainable return	Economic performance	External (investor)
		Indirect economic impacts	
Customer	Customer satisfaction	Customers health and safety	External (customers)
		Product and service labelling	
People	Data privacy and security	Customer privacy	External (customers)
	Gender diversity and inclusion	Diversity and equal opportunity	Internal (employees)
		Equal remuneration for women and men	
	Career development and employability	Training and education	Internal (employees)
Employment			
Community	Meeting our employees' needs	Non Discrimination	Internal (employees)
	Being a responsible business	Anti corruption	External (customers, communities)
		Compliance	
		Public policy	
Child labour	Internal (employees)		
Community impacts		Local communities	
Environment	Protect Wildlife	Overall environmental performance	External (communities, environment)
		Energy efficiency	Internal (employees)

### Association Memberships

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

The National Chamber of Commerce Sri Lanka

Institute of Chartered Accountants of Sri Lanka

Insurance Board of Sri Lanka (IBSL)

Insurance Association of Sri Lanka (IASL)

Sri Lanka Insurance Institute (SLII)

Colombo Stock Exchange (CSE)

Financial Intelligence Unit of Central Bank of Sri Lanka (CBSL)

# Economic Context

## Review of Macroeconomic Environment

“Global and regional challenges underscore the complexity and interconnectedness of the economic and societal factors that shape our operating context.”

## Global Economy and Outlook

In 2015, global economic activity remained subdued. Growth in emerging markets and developing economies, while still accounting for over 70% of global growth, declined for the fifth consecutive year, as modest recovery continued in advanced economies.

The Eurozone benefited from strong private consumption supported by low oil prices, and favourable financing conditions remained solid and continued to be the engine that has propelled the Eurozone economy. The conditions for the recovery observed in 2015 remained in place: low oil prices, a weak Euro, ultra-loose monetary policy and fiscal policy no longer acting as a drag on growth.

However, the key uncertainties in 2016 for the region will continue in the form of very low inflation and continued high unemployment. The impact from slower economic growth in key emerging

Sri Lanka has surpassed most of the Millennium Development Goal (MDG) targets set for 2015, outperforming nearby country comparators on most MDGs.

Improving the quality of human capital through effective education and skills development is central to Sri Lanka’s economic growth and competitiveness. Continued growth will also depend largely on fostering private sector development and private investment, especially increased Foreign Direct Investment (FDI). Sri Lanka’s economy depends on FDI to bring in innovation.

Economic Growth % YOY	2015	Projections	
		2016	2017
World	3.1	3.4	3.6
Advanced Economies	1.9	2.1	2.1
Emerging Market and Developing Economies	4.0	4.3	4.7
Emerging and Developing Asia	6.6	6.3	6.2
United States of America	2.5	2.6	2.6
Euro Area	1.5	1.7	1.7

Source : IMF - World Economic Outlook

- Growth in advanced economies remained moderate and a modest and uneven recovery is expected to continue, with a further narrowing of output gaps.
- The slowdown and rebalancing of the Chinese economy, lower commodity prices, and strains in some large emerging market economies will continue to weigh on growth prospects in 2016-17.
- It is also expected that the tightening of monetary policy within the US in the context of a resilient US recovery and easing of monetary policy by Central Banks in other major advanced economies will impact global growth in 2016.

The Central Bank believes the US economy is now strong and no longer needs crutches and that the move “marks the end of an extraordinary period” of low rates designed to boost the recovery from the Great Recession.

economies as well as the possibility of the United Kingdom’s referendum on whether to exit the European Union weigh negatively on the region.

## Sri Lankan Economy Overview

Sri Lanka is focusing on long term strategic and structural development challenges as it strives to transition to an upper middle-income country. Key challenges include boosting investment, realigning public spending and policy with the needs of a middle-income country, enhancing the role of the private sector, including the provision of an appropriate environment for increasing productivity and exports, and ensuring that growth is inclusive.

For most of the past decade, growth has been pro-poor, with consumption per capita of the bottom 40% growing at 3.3% a year, compared to 2.8% for the total population. Other human development indicators are also impressive by regional and lower middle income standards.

The import of FDI is further underscored by the country’s limited domestic savings rate, brought about largely by its demographic trends. Contrary to most economies in South Asia, Sri Lanka does not have a demographic dividend: by 2036, more than 22% of the population will be over 60, and there will be 61 dependants per 100 adults. Increases in the labour force, employment rates and productivity will be central to growth. Against the background of an ageing society, efficient and well-targeted social assistance will also become more important. A summary of the key economic indicators are provided in the table;

Indicator	2016 (F)	2015
GDP Growth	6.0%	5.5% (F)
Per Capita Income \$	4,061	3,768 (F)
Inflation	3.6%	4.2%
Interest Rates (1 Year T-Bill)	10.50%	7.11%
Unemployment Rate	76.27%	76.71% (F)
Current Account Balance	-2.02%	-1.97% (F)

The Sri Lankan economy grew by 5.2% during the first three quarters of 2015. The highest contribution towards GDP as in previous quarters, was mainly via the service sector accounting for 57% with the industry sector and agriculture sectors recording 27% and 7.0% respectively.

## Economic context

### Sectorial Performance

Sub-sectoral growth for the quarter stood at 6.9% for the agricultural sector, 6.16% for industrial sector and 3.43% for the services sector. The major contributors to sub sector growth were paddy cultivation which grew by 61%, manufacture of wood and products of wood, which grew by 35%, Telecommunication, financial service activities, insurance, reinsurance and pension funding, and wholesale and retail trade have experienced a significant increase in the growth rates by 18.9%, 11.1%, 16.1% and 5.6% respectively.

### Interest Rates

Interest rates are showing signs of slowly increasing since September 2015. AWPLR stood at 7.5%, AWDR at 6.2% and 1 Year T-Bill at 7.1% as at 31st December 2015.

In order to arrest the possible build-up of demand pressures on inflation through excessive credit creation, the Central Bank increased the Statutory Reserve Ratio (SRR) applicable on all rupee deposit liabilities of commercial banks by 1.5 percentage points to 7.5% with effect from 16th January 2016. Accordingly,

excess rupee liquidity in the domestic money market, which averaged around Rs. 90 billion in December 2015 and in the first two weeks of January 2016, declined to around Rs. 42 billion on average thereafter. The increase in SRR also induced an upward adjustment in market interest rates and the growth of credit extended to the private sector by commercial banks is expected to decelerate in the period ahead, albeit with a time lag.

### Sector Performance

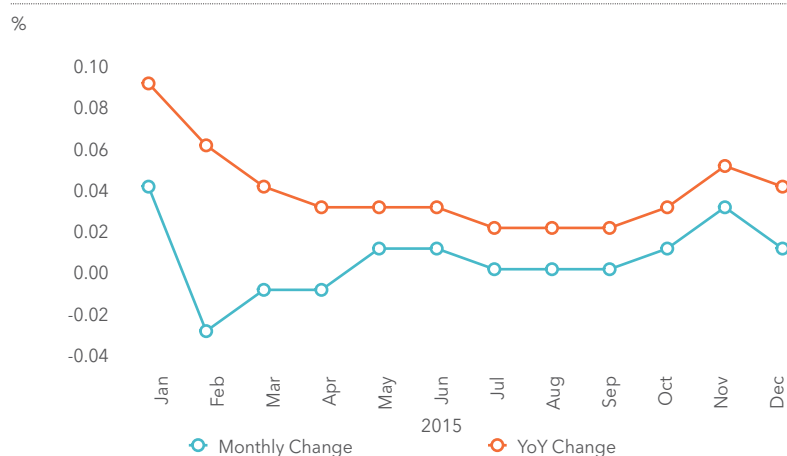


### Inflation

Headline inflation based on the National Consumer Price Index (NCPI, 2013=100) decelerated to 4.2 per cent, on a year-on-year basis in December 2015 from 4.8 per cent in the previous month, and registered a value of 3.8 per cent on an annual average basis.

In spite of the high growth of broad money, inflation remained subdued, supported by low international commodity prices and broadly favourable domestic supply conditions.

### Inflation - Last 12 Months



Imports declined 2.1% on a cumulative basis to USD 17,244 million during the first 11 months of 2015. The drop in international oil prices in November 2015 resulted in a 27.9% decline in the fuel import bill despite the increases in import volumes of both crude oil and refined petroleum. The average import price of crude oil declined to USD 45.46 per barrel in November 2015 compared to USD 76.82 per barrel recorded in November 2014. The decline

in fertilizer, diamonds and precious stones also had a large impact on the overall drop in imports.

Despite the decline in imports, the trade deficit increased by 1% to US dollars 7,566 million for the period concerned. This situation is expected to improve given the steps taken by the GOSL to curb vehicle imports.

### Exchange Rate Movements

The Sri Lankan rupee has depreciated by 6.64%, resulting in an overall depreciation of 9.03% against the USD during the year up to 31st December 2015, subsequent to the decision of the Central Bank to accommodate greater flexibility in the determination of the exchange rate. The exchange rate remains under pressure owing to an increase in demand for USD by importers whilst exporters remain reluctant to convert their positions.

Over the year, based on cross currency exchange rate movements, the Sri Lankan Rupee has appreciated against the Australian Dollar by 2.42% and the Euro by 1.30%, while depreciating against the Japanese Yen by 8.20%, the Pound Sterling by 4.46% and the Indian Rupee by 4.62% during this period.

### The Share Market

The beginning of 2015 saw a decline in the market mainly owing 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 Super Gain Tax.

The market closed at 6,895 as at 31st December 2015, a decline of 6.18% since January 2015. Market volatility is expected in the short term due to increasing interest rates and strong earnings.

### Key Performance Indicators - Impact on Asian Alliance Insurance

Economic Indicator	Cause of Movement	Impact on AAI
GDP and per capita income	Growth in GDP and increase in per capita	It will attract high demand for protection-based products
Inflation	Increasing inflation which causes rise in costs	Negative impact on administration cost
Interest rates	Increase in interest rates	<ul style="list-style-type: none"> <li>• Decline in value of the bond portfolio as interest sensitive investments amounts to 68% of the Company's total investment</li> <li>• However this has positive impact on surplus due to lowering the insurance contract liabilities.</li> <li>• Lower reinvestment risk</li> </ul>
Imports - vehicle imports	Restriction of vehicle imports	The motor portfolio is approximately 60% of the total portfolio, as a result, price competition amongst insurers on its existing business portfolio is likely to be high in the coming year as they strive to maintain their positions and acquire new business from the existing pool of vehicles.
The share market performance	Volatility in equity market	Equity investments accounted for 30% of AAI's investment portfolio, hence it creates volatility over earnings

# Insurance Industry Overview and Attractiveness

## Global Insurance Industry

The macroeconomic environment across the world showed a significant improvement in year 2015, with a GDP escalation in many countries and both the middle class and high net worth populations expanding in number and financial resources. These factors bode well for international property-casualty and life-annuity insurance companies.

Rising competition, generally soft pricing conditions and tight profit margins are the key challenges faced in the year 2015. To effectively overcome these problems, many insurers are investing in technological solutions that improve front-end sales, distribution and customer service, and enhance back-end operational efficiency and expense management. Many insurers are investing in digital platforms that strengthen their relationships with customers across all product classifications and geographies. Their goal is to empower both businesses and consumers to better shop for insurance, making products more transparent, easier to understand and compare.

## The Challenges and Opportunities in the Asia-Pacific Region

- Although insurers in Asia-Pacific are likely to confront deteriorating economic conditions in 2015, growth prospects remain solid for life and non-Life Insurance products, with GDP projected to be 5.5%.
- Rising real estate and financial asset values are enabling insurers throughout the region to produce higher premium volume from the increased protection levels.
- The growth of the middle class and high net worth population in Asia-Pacific presents the opportunity for insurers to increase their sales of personal lines insurance products, as well as health insurance.
- Commercial lines insurance prospects remain strong, given the region's elevated catastrophe risk, the rise in

infrastructure and home building across much of Asia-Pacific, and a low insurance penetration rate.

- Insurers are challenged to invest in data analytics and modelling capabilities, as well as internet and mobile digital sales, distribution and customer service solutions, given an increasingly technologically sophisticated population.
- Regulations addressing insurer solvency, capital and risk management are moving to the front burner, in addition to consumer protections in the areas of data privacy and security.

Source: 2015 Global Insurance Outlook E&Y

## Overview of the Insurance Industry in Sri Lanka

The Sri Lankan insurance industry depicts a highly dynamic atmosphere with escalated tension existing amongst 29 industry players. Out of these Insurance Companies (Insurers) registered with the Insurance Board of Sri Lanka (IBSL), 04 are composite companies (dealing in both Long Term and General Insurance Businesses), 11 are registered to carry on Long Term (Life) Insurance business and 14 companies are registered to carry on only General Insurance business.

There are 57 insurance brokering companies which registered with IBSL which mainly concentrate on General Insurance business. Details are summarised as follows;

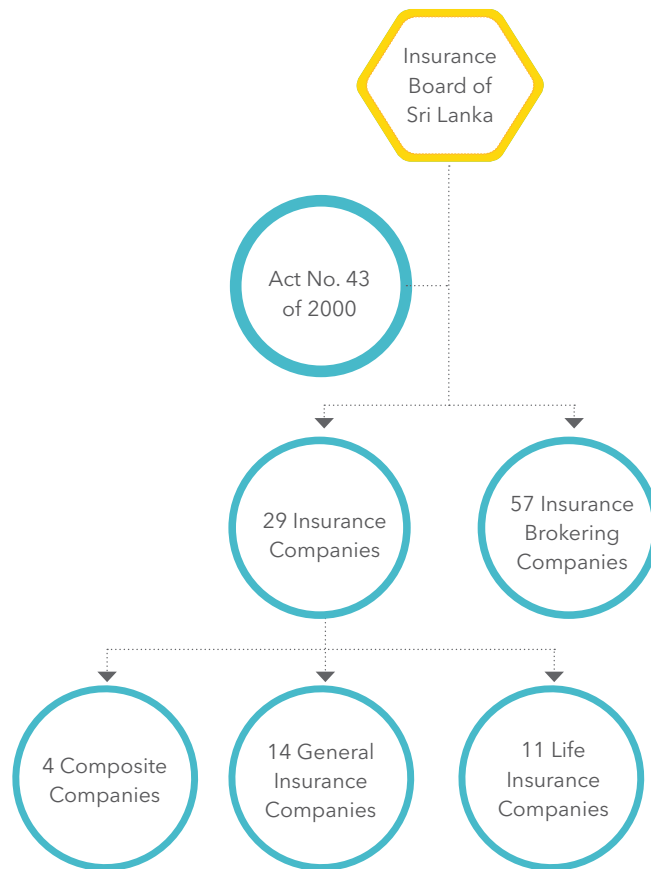


Figure 01: Composition of Insurance Industry in Sri Lanka

## Insurance Industry Accelerates its Growth Momentum

# 121

### Rs. Bn Consolidated GWP

Sri Lanka's insurance industry continued its growth momentum with industry Gross Written Premium (GWP) growing 17% year-on-year (yoy) to Rs.121 billion. The Life Insurance GWP during the year grew by 20% yoy to Rs.54 billion while the General Insurance GWP rose by 15% yoy to Rs.67 billion. (Source: IBSL)

Total assets of insurance companies reflect a growth of 8% to Rs. 439 billion as at 30th September 2015 when compared to Rs. 407 billion recorded in the same period of last year.

The total investment in government debt securities during the first half of the year represent 46.5% of the total assets of Long Term Insurance business which amounted to Rs. 121 billion whereas the General Insurance business amounted to Rs.29 billion, representing 22%.

## Life Insurance Industry

# 54

### Rs. Bn GWP

# 439

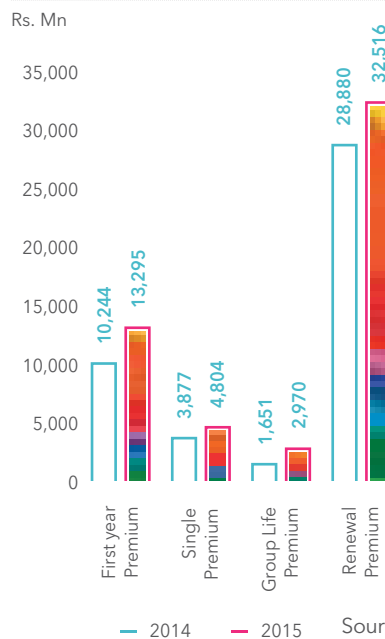
### Rs. Bn Total Assets

The industry delivered overall GWP of Rs. 54 billion in the Life Insurance business compared to the Rs. 45 billion 2014 showing an impressive growth of 20% compared to 9% reported in 2014. The main contributor for the GWP is the premium income generated from the renewal GWP which is Rs. 33 billion, and

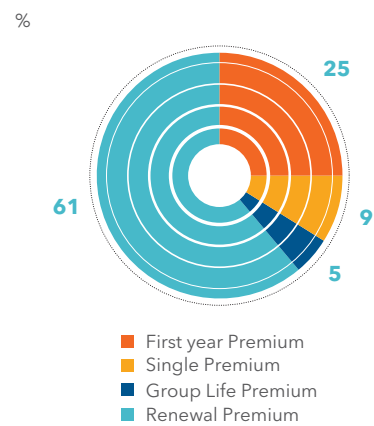
first-year new business GWP of Rs. 13 billion, which accounts of 86% of GWP of the Life Insurance industry and recorded a growth of 13% and 30% respectively. The growth of new business was mainly driven by different underwriting and product strategies, where companies focused on products coupled with investments, savings, and retirements.

The renewal premium has continued to maintain its dominance by contributing 61% to the total life premium while First Year GWP contributed 25%. Details of the GWP composition are shown below;

## Industry Life GWP



## Industry Life GWP Composition - 2015



Source : Industry GWP Data Circulation 2015

In 2015, the five insurance companies which claimed the top five positions in terms of market share in the Long Term Insurance business collectively accounted for 81% of the total industry GWP (2014: 82%) which indicates a marginal decrease.

## General Insurance Industry

General Insurance recorded a GWP amounting to Rs. 67 billion in 2015, which is a 15% growth rate compared to GWP Rs. 58 billion in 2014. This high growth rate was mainly driven by the Motor Insurance industry, which recorded an impressive growth of 19% due to growth in vehicle imports. Non-motor market segment reported a 9% growth mainly from increase in demand for Medical Insurance. This was further strengthened with the expansion in the branch network of insurance companies.

Details of class-wise GWP and growth is provided in the following table:

Figures are In Rs. Mn

Class	2015	2014	Growth
Motor	42,940	36,060	19%
Fire and Engineering	8,817	8,512	4%
Medical	6,872	6,344	8%
Accident	6,677	5,690	17%
Marine	2,576	1,833	41%
Total GWP	67,382	58,439	15%

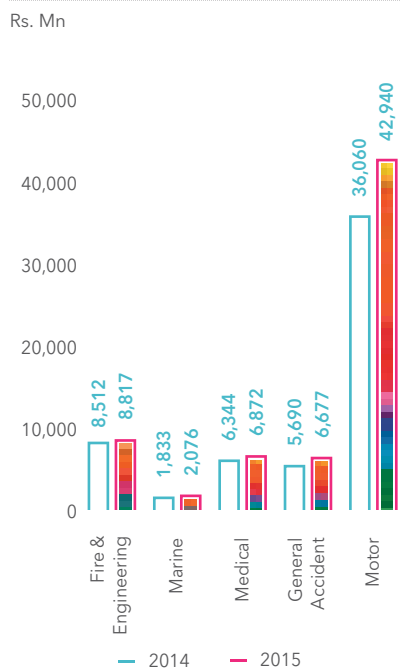
Table 01: Class-wise GWP General Insurance  
Source: Industry GWP Data Circulation 2015

## Insurance Industry Overview and Attractiveness

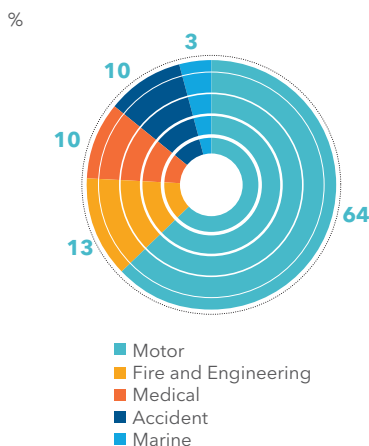
### Performance of Motor Insurance GWP

Motor Insurance class is considered as the driving force of the General Insurance industry, which accounts for 64% of the contribution for the industry GWP and recorded GWP of Rs. 43 Billion for the year ended 31st Dec 2015, against the Rs. 36 billion in year 2014. Details of class-wise GWP contribution is provided below.

### Industry General GWP



### Composition - 2015



### Industry Attractiveness and Competitiveness

When considering the micro environmental factors which impact on AAI's business, we considered 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. We have used the Five Forces Model in order to evaluate the impacts on these factors for the life and General Businesses. In conclusion Life Insurance industry is considered as a more attractive industry as shown in figure 01 and General Insurance industry is less attractive as per figure 02.; Detailed analysis of Figure 01 and 02 are provided in Table 01:

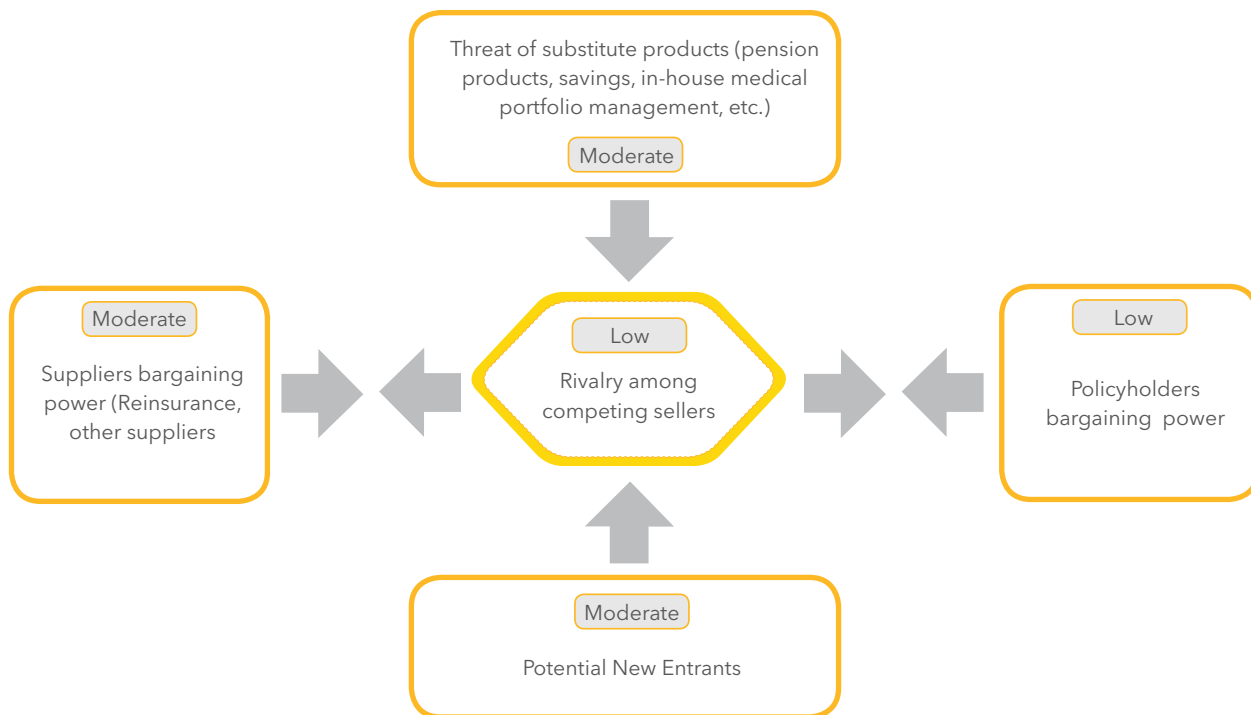


Figure 01 : Analysis of Industry Competition: Life Insurance Industry Sri Lanka



Figure 02 : Analysis of Industry Competition: General Insurance Industry Sri Lanka

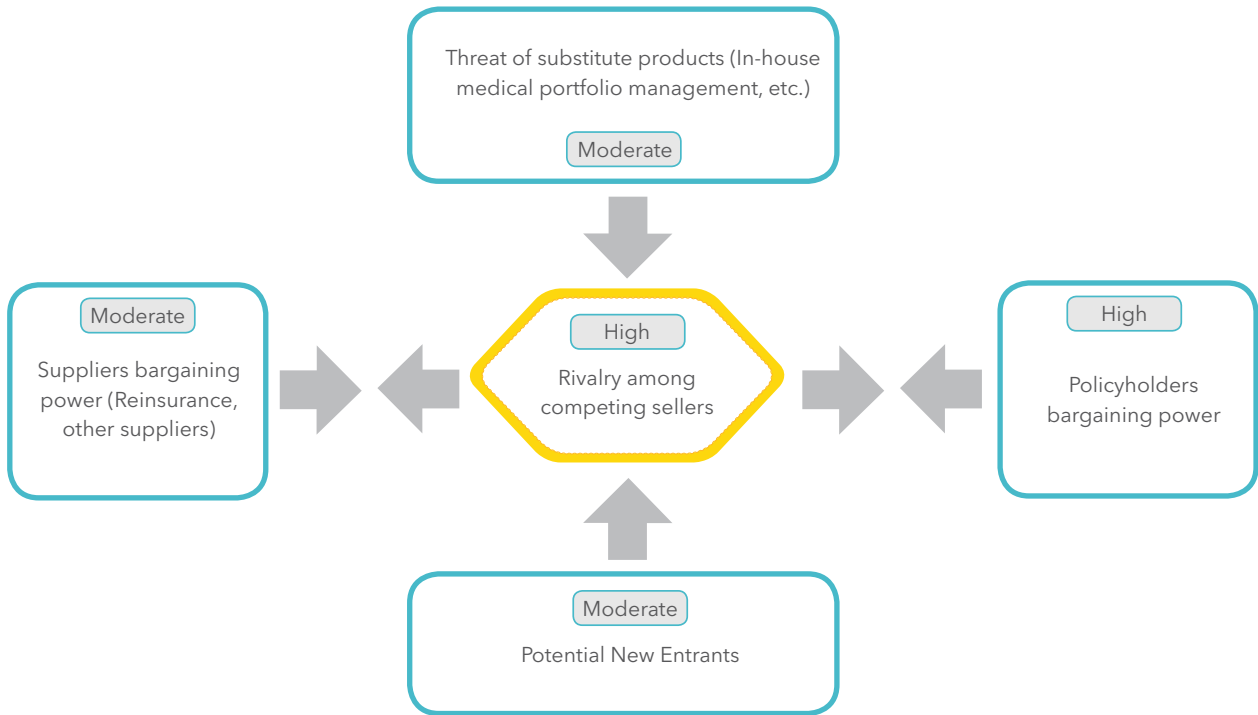


Table 01: Detailed Analysis of the Insurance Industry in Sri Lanka

Forces	Details	Life Insurance Industry	General Insurance Industry
		Strength	
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>Moderate</p> <p>Increase in the ageing population (% from retirement age of 55 years) provides greater demand for Life Insurance.</p> <p>Entry barriers are moderate with the exception of the requirement of the minimum capital (Rs. 500 Mn) and registration from IBSL, Hence, multinationals are interested in the market; however, the Life Insurance market only accounts for Rs. 44 Bn (USD 330 Mn).</p> <p>Lower product differentiation leads customers to shift with lower switching cost.</p> <p>Opportunities for moving to online insurance solutions.</p>	<p>Moderate</p> <p>Lower product differentiation leads customers to shift with lower switching cost (General Insurance products - as they are competing mainly on pricing factor).</p> <p>Entry barriers are moderate except the requirement of minimum capital and IBSL registration.</p> <p>Increase in the ageing population (% from retirement age of 55 years) provides greater demand for medical related products.</p>

## Insurance Industry Overview and Attractiveness

Forces	Details	Life Insurance Industry	General Insurance Industry
		Strength	
Threat of Substitute Products	<p>Substitute products are the natural result of industry competition, but they place a limit on profitability within the industry.</p> <p>A substitute product involves the search for a product that can do the same function as the product the industry already produces.</p> <p>In the insurance industry, this could be seen as pension, savings products and in-house management of health insurance funds etc, as an alternative to Life Insurance products.</p>	<p>Moderate</p> <p>There are less substitution options available i.e. pension products and savings.</p> <p>Expect Life GWP to escalate due to the lower interest rates in the economy.</p> <p>Lower interest rates in the economy further reduce the competitiveness and profitability of substitute products.</p> <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> <p>Banks provide insurance services as a supplementary for depositors.</p>	<p>Low</p> <p>No substitute products for motor, fire, burglary and personal accident insurance.</p> <p>Purchase of Motor Insurance (3rd party cover) is a regulatory requirement in Sri Lanka.</p>
Bargaining power of suppliers	<p>Suppliers have a great deal of influence over an industry as they affect price increases and product quality.</p> <p>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>	<p>Moderate</p> <p>Reinsurance partners play a key role in the insurance industry and they have significant power as most of the reinsurers are multinational firms, as well as the fact that the Sri Lankan market is not significant for them. However, at present, there are many reinsurers who are willing to enter the Sri Lankan market and provide opportunities; hence, bargaining power of reinsurers could reduce to some extent.</p> <p>Industry does not have an alternative solution for reinsurance</p> <p>In terms of other vendors/suppliers are having lower bargaining power as companies are having various options to bargain.</p>	<p>Moderate</p> <p>Reinsurance partners play a key role in the insurance industry and they have significant power as most of the reinsurers are multinational firms, as well as the fact that the Sri Lankan market is not significant for them. However, at present, there are many reinsurers who are willing to enter the Sri Lankan market and provide opportunities; hence, bargaining power of re-insurers could reduce to some extent.</p> <p>Industry does not have an alternative solution for reinsurance.</p> <p>In terms of other vendors/suppliers are having lower bargaining power as companies are having various options to bargain</p>

Forces	Details	Life Insurance Industry	General Insurance Industry
		Strength	
Bargaining Power of 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 a 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.</p> <p>The bargaining position of buyers changes with time and a company's (and industry's) competitive strategy.</p>	<p>Low</p> <p>Unlike other companies the switching cost is high as there is no surrender value for the first three years and surrender charges are significant.</p> <p>Availability of differentiated products.</p> <p>Individual customers; hence, their capacity to purchase is low.</p> <p>Price sensitivity is low.</p>	<p>High</p> <p>Low switching cost because policyholder can easily switch the policy as this is annually renewable.</p> <p>Differentiation is lower among products.</p> <p>Key corporate / leasing / broker companies control the market; hence, they have significant power.</p> <p>High price sensitivity.</p> <p>Choices available to customers are high.</p>
Rivalry Among Competition	<p>Rivalries naturally develop between companies competing in the same market. Competitors use methods such as advertising, introducing new products, more attractive customer servicing and warranties, in order leading to enhance their market share in the industry.</p> <p>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> <p>Demand grows as much as the disposal income and ageing population.</p> <p>Fairly differentiated product.</p> <p>High margins.</p> <p>High exit barrier due to a regulated industry.</p>	<p>High</p> <p>Industry is growing at a slow pace; however, growth in the economy and increase in the ageing population creates demand for insurance related products.</p> <p>Low product differentiation.</p> <p>Low margins.</p> <p>Exit barriers are low since short term nature of the business.</p>

# Regulatory Environment

## Segregation of Composite Company

The year 2015 ushered in many regulatory milestones for the AAI Group. The foremost being the segregation of the Life and General Insurance business brought on by the Regulation of Insurance Industry (Amendment) Act No. 3 of 2011. From 1st January 2015, the General Insurance business of AAI was transferred to the wholly owned subsidiary, AAGI. The management obtained all regulatory and legal approvals in advance to ensure a seamless transfer of the General business to the new company without any disruptions to the business whatsoever. As at 31st December 2015, the General business completed a year under the new corporate identity.

## Risk Based Capital (RBC)

The other important regulatory milestone relates to the framework for capital adequacy. The year 2015 is the last year in which insurance companies will report capital adequacy under the Solvency Regime. From 1st January 2016, the Solvency framework will be replaced by the Risk Based Capital (RBC) framework. The AAI Group took part in a parallel run since 2014, where capital adequacy was reported to the IBSL under both frameworks. The Group's proactive engagement with the regulator regarding the implementation of the RBC framework has ensured that the Group is in a position to meet all requirements of the RBC framework, which comes into mandatory effect from 1st January 2016.

## Listing of Insurance Companies

The above Regulation of Insurance Industry (Amendment) Act No. 3 of 2011 also mandated the compulsory listing of insurance companies. Accordingly, existing insurance companies were required to list on the CSE within five years of the Act coming into operation

and any new Insurance Company within three years of registrations. The IBSL provided clarification stating that any new Insurance Company created as a result of the segregation would have a period of three years from segregation to comply with this requirement. Accordingly, AAGI has until 2018 to list on the CSE.

## Other IBSL Regulations

During the period under review the IBSL issued several other regulations. The annual fee paid to the IBSL was revised by Extraordinary Gazette No. 1907/07 and accordingly an Insurance Company is required to pay rupees two hundred thousand or 0.10% of GWP, whichever is higher (AAI Group paid 0.10% of GWP).

The IBSL issued Direction # 6 (A), which relates to claim settlement. This Direction requires insurance companies to settle all claims within 14 days of the quantum being established and receipt of discharge documents from the claimant. The AAI Group has processes in place to settle claims satisfying these conditions well in advance of this period.

Circular # 36 was issued in respect of overseas health insurance, and requires any person to place such insurance through an Insurance Broker registered with the IBSL. The Broker must obtain specific authorisation from the IBSL to sell such overseas health insurance products. To obtain authorisation the Broker must satisfy several criteria, including a confirmation that a similar product is not available in the local market. This regulation is seen as a progressive step towards the development of the Health Insurance industry, whilst minimising any detrimental effect to the public.

The IBSL issued two further important regulations; Circular # 37 and Direction # 7. The former requires insurer/brokers

to inform the IBSL of any proposed name change of the insurer/broker and the latter requires the insurer/broker to obtain IBSL approval of any proposed change in ownership and control of an insurer/broker. Change in ownership and control is defined as 50% of the issued shares and the IBSL shall grant approval only if the proposed shareholder is fit and proper in terms of financial soundness and integrity.

## CSE Rules on Minimum Public Holding

The CSE Rule on minimum public holding requires companies listed on the Diri Savi Board to increase the public holding to 10% of shares carrying voting rights. However, for companies listed prior to the Rule coming into effect, a concession was granted by allowing the increase of the public float piecemeal i.e. increase the float to 7.5% by 31st December 2015 and to 10% by 31st December 2016. However, given the segregation of the Life and General Insurance business this year the AAI Group thought it fit to seek an extension on the first deadline of 31st December 2015. Accordingly, the AAI Group obtained an extension of time from the SEC until 31st December 2016 to increase its public float to 10%.

## Related Party Transactions

The CSE Rule on related party transactions require listed companies to establish a Related Party Transactions Review Committee to review all non-recurrent related party transactions. The Rule further stipulates that related party transactions exceeding certain threshold limits must obtain shareholder approval and/or be immediately disclosed to the CSE. The AAI Group having set-up the Related Party Transactions Review Committee in order to comply with this Rule, which comes into mandatory effect from 1st January 2016.

## 2016 Budget Proposals

The 2016 budget incorporated several pertinent proposals in respect to the insurance industry. The budget proposed that the maximum age for medical insurance should be increased to 75 years for the benefit of senior citizens. While from a welfare standpoint this proposal is well received, it will pose challenges for Medical Insurance providers with corresponding increases in claims.

The most significant proposal in the budget with respect to the insurance industry is the proposed amendment to the taxing section for Life Insurance companies in the Inland Revenue Act. The budget proposal seeks to amend the taxing provisions by defining management expenses.

## Approach to Changes in the Regulatory Environment

The AAI Group prides itself as an insurer that is fully compliant with its regulatory environment. The Group on an on-going basis monitors changes in the regulatory environment and takes prompt action regarding any changes affecting the Group.

In the year under review the regulator, the IBSL, initiated a very progressive step of submitting proposed regulation to the industry body (IASL) to elicit industry views. During this period many proposed regulations were submitted to the IASL for feedback, giving the industry players an opportunity to share with the IBSL any concerns they may have regarding such regulations. This constructive approach adopted by the IBSL is praiseworthy and minimises the resistance from the industry and other stakeholders to the implementation of new regulations. The AAI Group has taken an active role in this process by submitting its views on proposed regulation as a member of the IASL.

## Risks and Challenges

*We must be responsive to the market and the risks and opportunities we face. We continue to monitor and assess the impacts of global, regional and local change, and we have grouped these into the most pressing areas of focus.*

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 external environment and the internal 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 Board 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.

The macro factors impacting our business can be subdivided into political, economic, social, technological, environmental and legal aspects. These factors need to be carefully analysed in order to determine how we can identify risks and respond to them.

	Risks and Uncertainties	Impact on Products and Services / Operations	AAI Response
Economic	GDP growth and increase in per capita income will attract new entrants to the industry.	Increase in per capita income will increase the demand for protection based products as well as savings related insurance products.  Emerge in manufacturing and service sectors seek more protection from the uncertainties which arise in the business environment. Hence, positively impacting the General Insurance business.	Improve customer loyalty by promoting more customised services and products.  Customer attraction and retention through strategic positioning and strong corporate brand image.  Market development by moving into new local markets.
	Volatility in Interest rates.	Negative impact on yield of fixed income securities. Hence, lower investment income from fixed income securities.  Positive impact on equity related investment due to the shift from savings to equity related investments, and lower cost of borrowing.  Continuous decrease in interest rates will have a negative impact on the profitability of Life Insurance business as a result of increase in the liability of Life Insurance fund.	AAI maintains a well-diversified investment portfolio to mitigate this risk and conducts an active management of its investment portfolio.
Social	Increase in ageing population in Sri Lanka.	The demand for specific insurance products increases (Eg: Health related and Life Insurance related)	Launch of "USD 1 Million Health Cover" and "Alliance Protected Savings Plan"
Technological	Increase in the digital transformation of the businesses.	Emerging new distribution channels and customer value propositions.	Introduce technology based products such as a self-service insurance "kiosk", "Click2Claim" and "Click4Life" by AAI.  Use IT as an enabler of new avenues and IT as an integral part to our business model.

	Risks and Uncertainties	Impact on Products and Services / Operations	AAI Response
	Increase in technology driven frauds, cyber threats and misappropriations will have a negative impact on profitability levels and customer satisfaction levels.	Increase in costs for providing services to implement new controls to safeguard IT systems.	The Company has strengthened IT security by establishing an IT security unit.
Regulatory/ Legal	Changes in regulatory framework brings uncertainties on operations, expansions, top-line and bottom-line results and future plans.	Flexibility of development of products may reduce high complexity and cost of managing compliance.	Investment is required in resources such as human, technological, etc.

### 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

#### S Curve Relationship between Per Capita GDP and Penetration

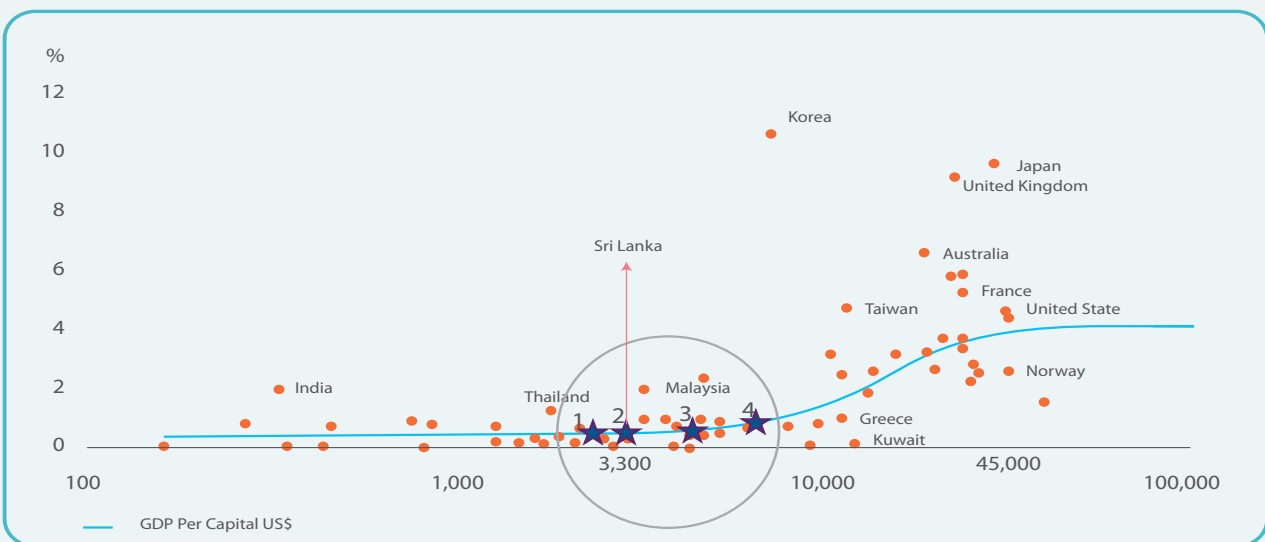
The S-curve provides some insight into the relationship between per capita income and insurance premiums. There seem to be upper and lower limits to the portion of income that is spent on

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.

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



# Realising Opportunities

*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 a leading insurance solutions provider in the industry.*

Sri Lanka is focusing on long term strategic and structural development challenges as it strives to become an upper middle-income country. Key challenges include boosts in investments including human capital, realigning public spending and policy with the needs of a middle-income country, enhancing the role of the private sector including a provision for an appropriate environment for increasing productivity and exports, and ensuring that growth is inclusive. Economic growth in Sri Lanka has been

one of the fastest among South Asia in recent years.

Carrying out business in Sri Lanka can often be challenging. However, we are able to navigate unique environments by employing and developing local skills, together with our Group synergies and extensive footprint, setting us in a prime position to turn challenges into market opportunities. Our unique competitive position will enable us to benefit from and support Sri Lanka's growth story

as we create effective solutions for our clients and sustain improvements in our financial performance. While we remain firmly aware of the challenges of doing business in our country and in growing our branch network in line with our strategy, we believe these are outweighed by the opportunities open to us, given our unique competitive position on the island.

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

Key Areas	Presentation	Description / Impact	AAI Response																
Low Life Insurance penetration	<p><b>Life Insurance Penetration</b></p> <table border="1"> <caption>Life Insurance Penetration (%)</caption> <thead> <tr> <th>Country</th> <th>Penetration (%)</th> </tr> </thead> <tbody> <tr> <td>India</td> <td>3.4</td> </tr> <tr> <td>Malaysia</td> <td>3.3</td> </tr> <tr> <td>Thailand</td> <td>2.9</td> </tr> <tr> <td>Indonesia</td> <td>1.1</td> </tr> <tr> <td>Philippines</td> <td>0.8</td> </tr> <tr> <td>Vietnam</td> <td>0.7</td> </tr> <tr> <td>Sri Lanka</td> <td>0.5</td> </tr> </tbody> </table> <p>Refer Case Study 1 Page No. 58</p>	Country	Penetration (%)	India	3.4	Malaysia	3.3	Thailand	2.9	Indonesia	1.1	Philippines	0.8	Vietnam	0.7	Sri Lanka	0.5	Sri Lanka remains heavily under-penetrated with total premiums / GDP ratios much lower in comparison to other Asian countries.	AAI aggressively expanded its footprint during 2015 by opening 12 locations to realise opportunities. The expansion target set for 2016 is 13 new branches.
Country	Penetration (%)																		
India	3.4																		
Malaysia	3.3																		
Thailand	2.9																		
Indonesia	1.1																		
Philippines	0.8																		
Vietnam	0.7																		
Sri Lanka	0.5																		



Key Areas	Presentation	Description / Impact	AAI Response												
Lower exposure to investment and annuity related products	<p><b>Investment and Annuity Related Products</b></p> <table border="1"> <caption>Investment and Annuity Related Products (%)</caption> <thead> <tr> <th>Country</th> <th>Investment and Annuity (%)</th> <th>Endowment and Other (%)</th> </tr> </thead> <tbody> <tr> <td>Sri Lanka</td> <td>17</td> <td>83</td> </tr> <tr> <td>Malaysia</td> <td>41</td> <td>59</td> </tr> <tr> <td>Singapore</td> <td>72</td> <td>28</td> </tr> </tbody> </table>	Country	Investment and Annuity (%)	Endowment and Other (%)	Sri Lanka	17	83	Malaysia	41	59	Singapore	72	28	Lower exposure to investment and annuity products in Sri Lanka.	The Company launched another investment related insurance products during the year and intend to expand operation further in 2016.
Country	Investment and Annuity (%)	Endowment and Other (%)													
Sri Lanka	17	83													
Malaysia	41	59													
Singapore	72	28													
Growing Sri Lanka's ageing population	<p><b>Retirement Age Growth</b></p> <table border="1"> <caption>Retirement Age Growth (%)</caption> <thead> <tr> <th>Year</th> <th>Percentage (%)</th> </tr> </thead> <tbody> <tr> <td>2015</td> <td>19</td> </tr> <tr> <td>2020</td> <td>21</td> </tr> <tr> <td>2025</td> <td>24</td> </tr> <tr> <td>2030</td> <td>25</td> </tr> </tbody> </table>	Year	Percentage (%)	2015	19	2020	21	2025	24	2030	25	Life expectancy increases to 75 years while birth rate reduces to 17.5 per 1000 - thus the ageing population increase in Sri Lanka offers an opportunity for health related products.	Focus to enhance health related riders and emphasise on introducing standalone new health products via Asiri customer base.		
Year	Percentage (%)														
2015	19														
2020	21														
2025	24														
2030	25														
Low bank assurance market exposure	<p><b>Global Bancassurance Contribution to GWP</b></p> <table border="1"> <caption>Global Bancassurance Contribution to GWP (%)</caption> <thead> <tr> <th>Region</th> <th>Percentage (%)</th> </tr> </thead> <tbody> <tr> <td>Asia</td> <td>46</td> </tr> <tr> <td>Europe</td> <td>32</td> </tr> <tr> <td>America</td> <td>25</td> </tr> <tr> <td>Sri Lanka</td> <td>12</td> </tr> </tbody> </table>	Region	Percentage (%)	Asia	46	Europe	32	America	25	Sri Lanka	12	Bancassurance in Sri Lanka is under utilised as the industry runs on an agent based model. But with over 5,600 licensed commercial bank branches island-wide, it could be used to optimise the channels to boost premiums and reduce acquisition expenses.	Focus on development of Bancassurance channels.		
Region	Percentage (%)														
Asia	46														
Europe	32														
America	25														
Sri Lanka	12														

## Realising Opportunities

Key Areas	Presentation	Description / Impact	AAI Response												
Growth in per capita income	<p><b>Per Capita Income</b></p> <table border="1"> <caption>Per Capita Income (USD)</caption> <thead> <tr> <th>Year</th> <th>Per Capita Income (USD)</th> </tr> </thead> <tbody> <tr> <td>2012</td> <td>2,922</td> </tr> <tr> <td>2013</td> <td>3,240</td> </tr> <tr> <td>2014</td> <td>3,505</td> </tr> <tr> <td>2015</td> <td>4,000</td> </tr> <tr> <td>2020</td> <td>7,500</td> </tr> </tbody> </table>	Year	Per Capita Income (USD)	2012	2,922	2013	3,240	2014	3,505	2015	4,000	2020	7,500	The country expects to reach USD 4,000 per capita income in year 2015 and forecasts USD 7,500 by 2020, which provides a great opportunity for insurance products.	Focus to expand its product and distribution chain.
Year	Per Capita Income (USD)														
2012	2,922														
2013	3,240														
2014	3,505														
2015	4,000														
2020	7,500														
Major trends which drive the digital transformation of the business	<p><b>Mobility</b>      <b>Cloud</b>      <b>Big data</b>      <b>Social Channels</b></p>	Many corporates are adopting technological trends such as Big Data, telematics, social channels and growing trends in mobile penetration opening up new avenues / business models for the General Insurance business.	The Company launched bundled innovation such as "Click2Claim" and "Click4Life".												
Health and Motor Insurance act as the driving forces of industry growth		Motor and Health contributes more than 85% of the GWP to the General Insurance industry and expects motor and health based insurance products to be the driving force in the General Insurance industry growth in future.	The Group continue to focus further develop Health and Motor Insurance products.												

# Our Sustainable Strategy

## Our Strategic Thinking

The Company's strategic thinking and business strategy consists of strategies and initiatives to achieve three basic objectives:

- Compete successfully
- Improve performance
- Grow business

During this period of delivery, the markets in which the Group operates have been changing dramatically, with policy makers driving increased consumer protection and financial stability safeguards. The emergence of consumer-led economies aided by the social communication revolution which is allowing individuals to empower themselves, are rapidly redefining the customer value

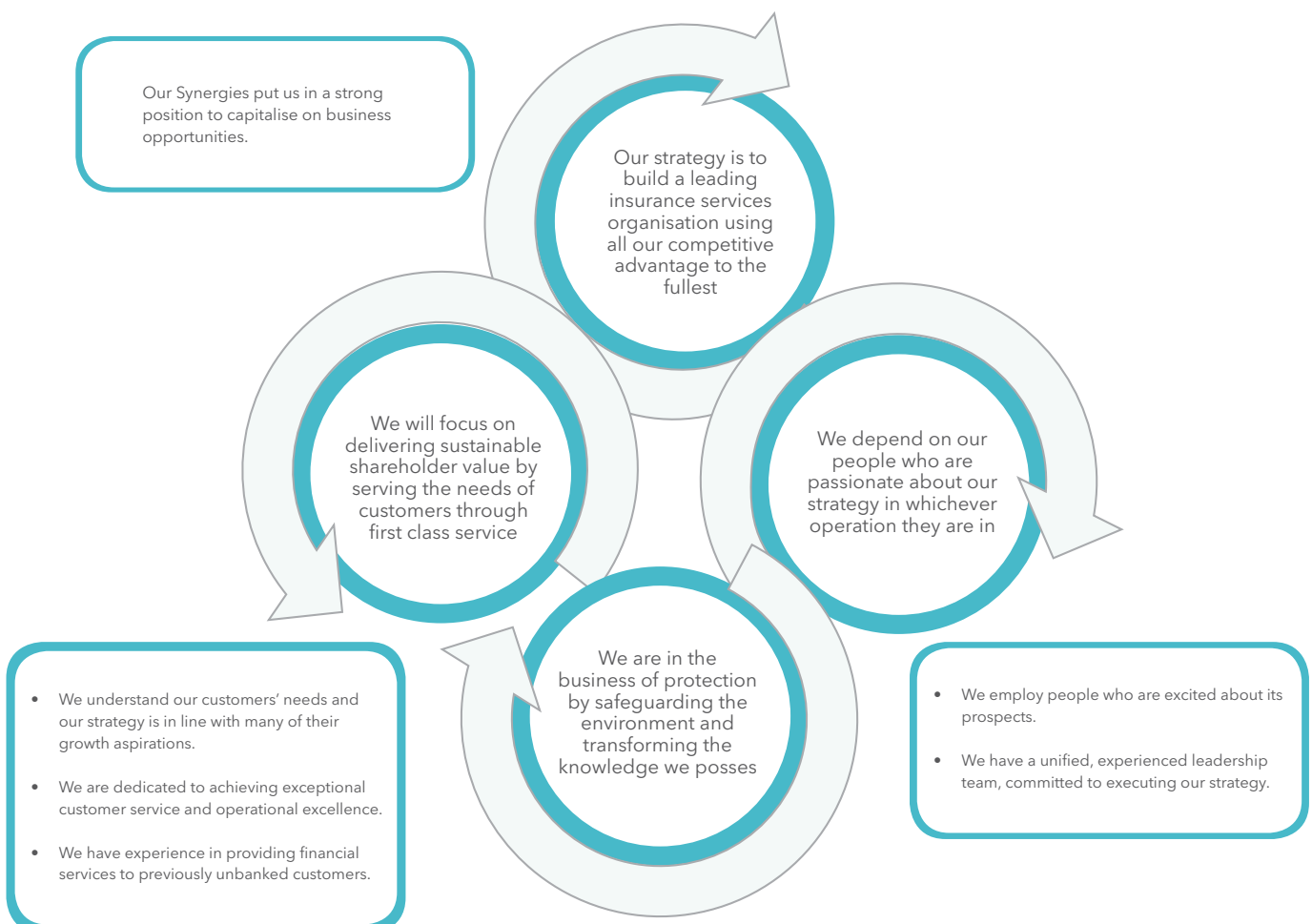
propositions offered by insurers. The management of AAI therefore, deemed it necessary to embark upon an extensive strategy process during 2015 to focus on setting objectives to 2018. The key objective is to transition and grow AAI to be a leading customer-centric financial services organisation, servicing customers throughout the country by 2018.

In November 2015, the Company's Directors and Management concluded the strategic plan as part of the formal strategic review process. This review consists of business unit review sessions, performance updates at each Board Meeting. Life and General Insurance business units and the group formulate its three-year plan with the investigation of short and long term external factors driving or inhibiting business success.

Considerable time and effort has been invested by management researching proposed and potential regulatory and legislative changes, competitor activities, changes in customer behaviour, and technological disrupters. Particular consideration was given to how these issues, together with economic volatility, would impact on the Sri Lankan market.

The Management team met on several occasions specifically to focus on these issues up until the Board Strategy session. The Board was kept updated and provided input throughout the process. The opportunity landscape and target markets were confirmed, customer segments to be focused on were agreed on, and the required business model to support the Group going forward in a rapidly changing environment was developed.

Figure: Our Competitive Strategic Direction



## Our Sustainable Strategy

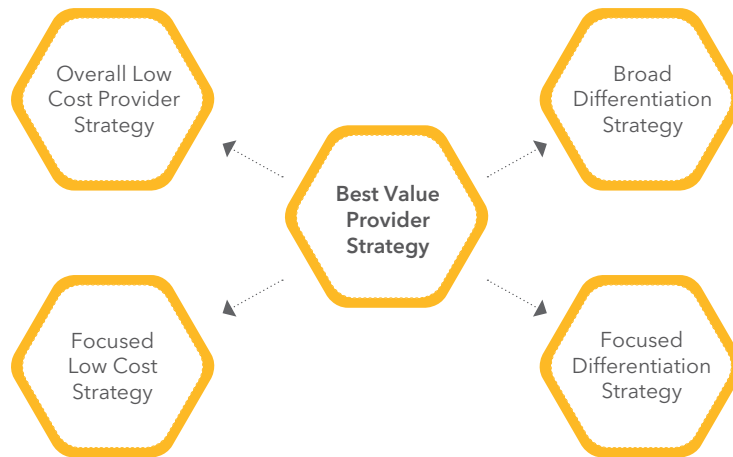
The Company's business model predominately operates in a protection-based market where unique skills are required to sell its products which are difficult to sell but which have a high margin.

The Company continues to operate its competitive strategy as "Best Value Provider Strategy" as depicted below, 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 synergising the Group advantage, and personalising customer engagement at a reasonable price (value for money).

### Sustainability as an Integral part of Our Business Strategy

We proactively embed sustainability thinking and sustainable business practices within every level of our business. We believe that our most important contribution to sustainable

Figure: AAI competitive strategy



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.

### Management of Strategic Risks

The risks which prevent strategy being achieved as well as the wide range of mitigating actions and strategies which are deployed are incorporated in various sections of this integrated report as well as in the risk management disclosures. The most recent strategic risks are summarised below.

Table: Key Strategic Risk and AAI Responses

Risk	Actions
Optimal leveraging of the businesses due to inefficient business processes and inappropriate IT architecture	<ul style="list-style-type: none"> <li>Investments in IT enabled multi-channel and customer flexibility solutions.</li> <li>Management of risk management processes and business continuity.</li> <li>Strengthen IT governance processes.</li> </ul>
Ability to sustain innovative and cost effective product development and distribution capabilities	<ul style="list-style-type: none"> <li>Continued focus on innovative product and service design - significant investment in design capability.</li> <li>The Group is able to draw insights that directly benefit our customers through improved data management.</li> </ul> <p style="text-align: right;">Refer Business Review on pages 122 to 125</p>
Ability to retain and attract staff in critical leadership and technical positions	<ul style="list-style-type: none"> <li>Various initiatives to be the employer of choice for scarce talent.</li> <li>Succession planning is a specific requirement of the Executive Committee.</li> </ul>
Meeting of investment return objectives	<ul style="list-style-type: none"> <li>Performance governance structure place to monitor performance and take corrective action as necessary.</li> </ul>
Ability to adopt innovative techniques and to pursue new ideas	<ul style="list-style-type: none"> <li>Various initiatives are planned, some of which are referred to in our 2016 strategic objectives.</li> </ul>
Appropriately responding to regulatory and environmental changes	<ul style="list-style-type: none"> <li>The Company strategy has been formulated to ensure the alignment to the changing regulatory environment. Regulatory compliance is committee to by the Board and Executive Committee.</li> </ul>
Realisation of growth initiatives and supporting business plans	<ul style="list-style-type: none"> <li>Strategy focuses on growth supported by a new operating model which is designed to increase focus and improve alignment of opportunities to be leveraged.</li> </ul> <p style="text-align: right;">Refer Realising opportunities on pages 62 to 67</p>

## Our Strategy Delivery

We continued to make steady progress against strategies and priorities for 2016.

Strategic Objective	Key Initiatives for 2015	Progress in 2015	2016 Priorities
Embed customer and client centricity	<ul style="list-style-type: none"> <li>Expand our footprint to increase convenience and accessibility</li> <li>Conduct comprehensive research to identify customer perceptions</li> <li>Launch of new products to fulfil customer needs effectively</li> </ul>	<ul style="list-style-type: none"> <li>Expanded branch network by adding 12 new branches</li> <li>"Breakthrough Business Intelligence" research agency commissioned to conduct research on the overall business process</li> <li>Introduced two new products</li> <li>Launch of 'Digital Care Center' and many more mobile apps such as "Click4Life", etc.</li> <li>Continue to train employees to provide first-class services</li> </ul>	<ul style="list-style-type: none"> <li>Expand branch network by another 13 locations</li> <li>Continue to engage with research activities to find more value propositions</li> <li>Facilitate and improve product development capabilities to serve customer needs effectively</li> <li>Provide personalised service to customers</li> <li>Enhance employee skills by continuous training</li> </ul>
Inspire and motivate our people	<ul style="list-style-type: none"> <li>Building an engaging and performance-driven culture across the business.</li> <li>Encourage employees to sit for Insurance professional exams</li> <li>Encourage employees' participation in corporate strategy and planning process</li> <li>Encourage employees to participate in fun activities beyond work</li> </ul>	<ul style="list-style-type: none"> <li>Introduced a Group-wide employee value proposition programme</li> <li>Sales and service champions awards to recognise, motivate and reward high achievers of both sales and non-sales employees at all levels</li> <li>The Company provided financial assistance to employees by providing opportunity for reimbursement</li> <li>Employees were provided opportunities to participate in planning and strategy sessions</li> <li>Sports Club of the Company organised several activities such as Wesak Bakthi Gee, 'Got Talent' competition, Annual Dinner Dance and other CSR initiatives.</li> </ul>	<ul style="list-style-type: none"> <li>Continue to engage with our employees</li> <li>Continue to recognise people who performed exceptionally</li> <li>Create a learning and development culture by encouraging engagement with insurance and other qualifications</li> <li>Further encourage employees to participate in the Company's strategy and planning process.</li> <li>Inspire employees in attaining work-life balance</li> </ul>

## Our Sustainable Strategy

Strategic Objective	Key Initiatives for 2015	Progress in 2015	2016 Priorities
Sustainable return through operational excellence	<ul style="list-style-type: none"> <li>Strengthen in-house knowledge on actuarial matters</li> <li>Investments in operational and technological infrastructure</li> <li>Use of technology to improve the operation</li> </ul>	<ul style="list-style-type: none"> <li>Company has successfully entered into a partnership with their international institutional investors to develop an Actuarial Team.</li> <li>Explored more web based products (Eg:Click2Claim online) and mobile applications (Eg:Click4Life)</li> </ul>	<ul style="list-style-type: none"> <li>Improve performance and become more competitive in a sustainable manner</li> <li>Upgrade IT infrastructure to improve efficiencies and effectiveness of internal processes</li> <li>Leverage technology to provide improved customer service and drive efficiency and effectiveness in all functions including learning and development</li> </ul>
Refer Our people section on pages 127 to 140			
Reshape our business to take account of trends in legislation and regulation	<ul style="list-style-type: none"> <li>Successful segregation of the composite company</li> <li>Prepare implementation of Risk Based Capital (RBC) Framework</li> </ul>	<ul style="list-style-type: none"> <li>The General Insurance Company was made a subsidiary as "Asian Alliance General Insurance Ltd"</li> <li>Participated in compulsory parallel run for RBC Risk Committee is updated on time with relevant developments to improve RBC</li> </ul>	<ul style="list-style-type: none"> <li>Further realign our business to comply with all related regulatory requirements</li> <li>Improve the internal benchmark via proper asset and liability management</li> </ul>
Deliver as a responsible corporate citizen	<ul style="list-style-type: none"> <li>Product responsibility</li> <li>Improve and contribute to the development of our environment</li> <li>Facilitate to develop community by promoting knowledge based activities</li> </ul>	<ul style="list-style-type: none"> <li>The motto of AAI is "We are in the Business of Protection" and the strategies are derived to cater to the protection needs of current and future customers.</li> <li>Carry out projects to accomplish the theme of "Protection of Your Beautiful World"</li> <li>Entered into an agreement with the Department of Finance of the University of Kelaniya to support academic excellence of youth</li> </ul>	<ul style="list-style-type: none"> <li>Continue to develop products which serve the needs of society</li> <li>Continuously perform such activities to deliver the message of "Protecting the Environment"</li> <li>Further develop knowledge-based activities</li> </ul>
Refer business unit review pages 122 to 125			

## Our 2018 strategy at a Glance

### We will accelerate our growth and market share

The Sri Lankan Economy has sustained 4%-6% economic growth over last few years consistently and is expected to achieve 7%-8% average growth and to reach per capita income of USD 6,000 by 2018, which will support the increase in living standards along with lower inflation rate.

The increasing rate of urbanisation and expanding labour force is leading to the rise of the middle class consumer, whose discretionary spending power is growing. Therefore, the insurance industry is expected to grow rapidly due to increasing rising incomes and retirement reforms.

This economic growth, together with retirement reform, micro insurance legislation and increased urbanisation offers market penetration opportunities in a country that has extremely low insurance (Life is 0.5%) penetration rates currently. In addition to above, increase in ageing population in Sri Lanka requires individuals and employers through group schemes to make their own arrangements in this regard.

### Key Value Drivers / Objectives

- Continue to develop a multi-channel distribution capability to broaden distribution reach utilising digital solutions where appropriate
- Continue to manage within modelled assumption (policyholder behaviour and expenses)
- Continue to implement economic capital measurement and improve capital efficiency
- Revise the leadership and talent management approach to cater to growth movement
- Improve the revenue from investment related and health related products
- Market share 11%
- Realise Average Premium per value of Rs. 100,000
- Achieve First-Year Premium Persistency level of 90%
- Focus on attracting, developing and retaining skilled employees

### Improve our Differentiation Consistency

### Key Value Drivers / Objectives

- Use technological development as key competitive advantage tools and increase service levels consistently in every area of the business
- Develop and provide training in weak areas
- Achieve operational excellence

### Improve the Brand Name

### Key Value Drivers / Objectives

- Winning key accolades from recognised institutions
- Continue investment in brands
- Deliver sustainable performance consistently

### Overtake Key Competitors on Product and Customer Service

### Key Value Drivers / Objectives

- Use innovation as one of key driver of business growth and operational excellence
- Use Technology as a key differentiator

The background features a vibrant, abstract composition of overlapping geometric shapes in shades of orange, yellow, blue, and green. A prominent feature is a grid of thin white lines that creates a textured, crystalline effect across the lower-left portion of the image. The overall aesthetic is modern and dynamic.

**Our**

***Performance***



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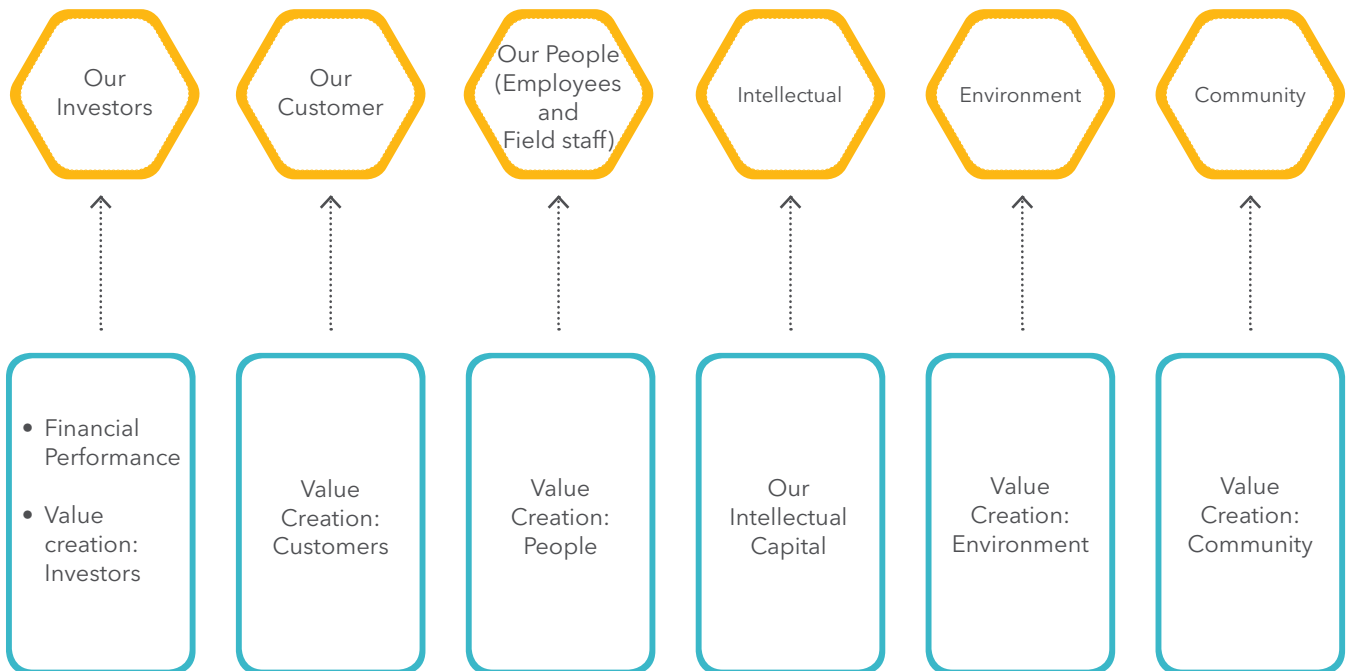
**158** Independent  
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## Value creation: Stakeholders

*“Our execution of strategy and leveraging on the AAI business model has resulted in 2015 being the most successful year in delivering value to all stakeholders of Asian Alliance.”*

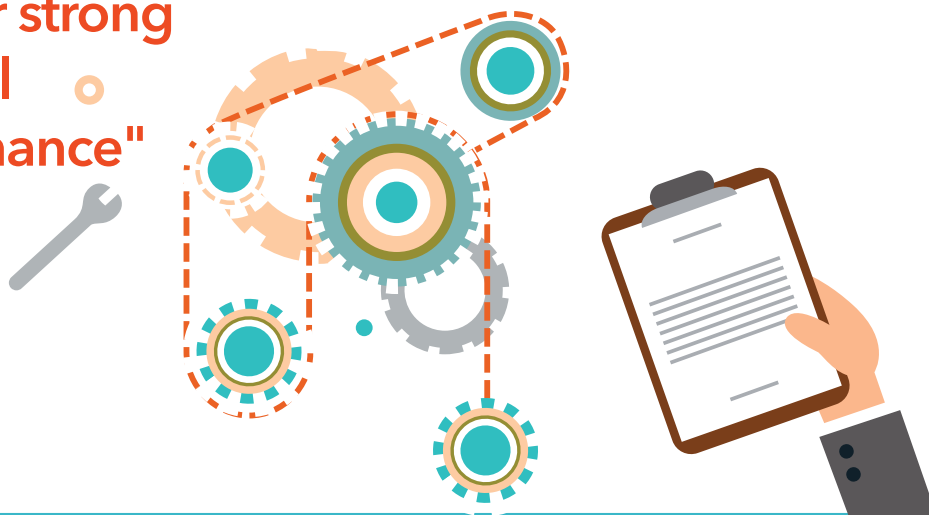
### Performance by Stakeholders



### Contribution to National Economy

## Financial Performance

"Deliver strong financial performance"



Our long term vision for the Company is driven by the loyalty and trust placed by the investors 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 organisation. The Company is committed to delivering and maximising investor value, which continued to climb up the Company's objectives list.

### Where We Focus

The Company delivered another set of record results, despite persistent volatility in the macroeconomic environment. Management continued to focus on the factors within our control, which included driving operational improvements, stringent cost control and increasing margins. This combined with the all-encompassing changes we have introduced to ensure greater efficiency, effectiveness and competitiveness, underpinned our excellent performance.

Over the last three years, our financial focus has been to support the delivery of the Group's strategy by managing our margins, cash, gearing, and return on equity within the context of the difficult local operating environment. In parallel, our focus on operational improvements has enabled us to build a solid platform for exceptional performance in the years ahead.

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. 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 2015, 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.

## Financial Performance

The group posted **Rs.924million** profit after tax for the year to surpass **Rs. 6 billion** in GWP. The Group's total asset base continued to grow during the year to **Rs.11.5 billion** from Rs. 10.3 billion in the previous year.

### Financial Capital Value Creation - Consolidated Income Statement

At AA I we continue to 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.

Topmost line (Value-Price)

Top line (Quality x Price)

Middle line (Costs)

Bottom line (Profit)

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 Group's total net revenue surpassed Rs. 6.2 billion for the first time in the history of the Company, from Rs. 6.1 billion recorded in year 2014.

The consolidated Gross Written Premium (GWP) increased by 27%, - reaching Rs. 6,053 million - and overall profits of the Group surpassed the Rs. 924 million mark for first time in the history of Asian Alliance, with an increase of outstanding 27% in 2015.

The following indicators denote our progress over the last three years:

Group Rs. million	2015*	2014*	2013	Growth 2015
Gross Written Premium	6,053	4,773	4,077	27%
Reinsurance	692	553	636	25%
Net Earned Premium	5,172	4,140	3,240	25%
Total Net Revenue	6,236	6,106	4,237	2%
Investments and Other Operating Revenue	1,064	1,966	997	-46%
Net Benefits and Claims	1,629	1,548	1,124	5%
Change in Insurance Contract Liability - Life	966	1,253	842	-23%
Underwriting and Net Acquisition Cost	1,149	833	712	38%
Operating, Administration and Other Expenses	1,566	1,677	1,152	-7%
Profitability	924	755	362	22%

\* Group performance due to segregation in year 2015

### Gross Written Premium (GWP)

Gross Written Premium (GWP) which represents the premium charged to underwrite risk and which is the main source of income from the operations, reached Rs. 6,053 million in 2015, with

an increase of 27% compared to Rs. 4,773 million recorded in 2014. The Life Insurance business recorded an increase of 34% by achieving Rs. 4,091 million. The General Insurance arm concluded the year with an increased GWP of Rs. 1,962 million which marks an increase of 14%.

### Gross Written Premium - Consolidated

Rs. Mn

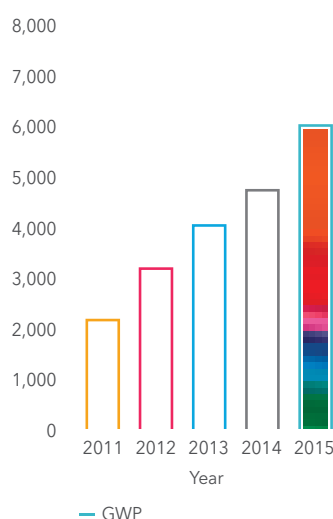


Figure 01: Performance of the GWP over last 5 years

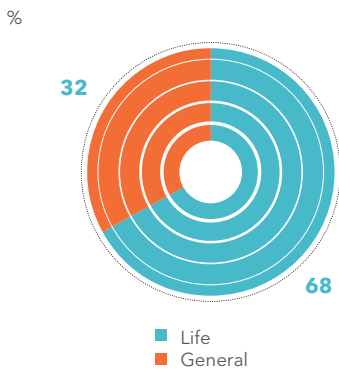
### Critical Success Factors for GWP Sustainable Growth

The continued strong growth in GWP is a result of strategic investments made over the years in terms of developing innovative products which appeal for their customer value proposition, multiple distribution channels and maintaining effective pricing discipline with improved technology, and structured training of the sales force together with exceptional management strategy.

As shown in figure 01, the Group consistently grew its top line, at a 5-year compound growth rate of 22.36%.

The Life Insurance segment was the main contributor for GWP by contributing 68% in year 2015, which was an

### Composition of GWP - 2015



### Composition of GWP - 2014

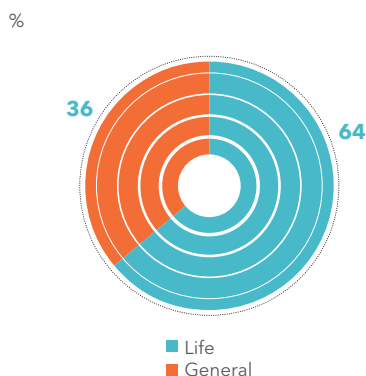


Figure 02: Composition of GWP Life and General Insurance year 2015 and 2014

increase of 34% from the year 2014. General Insurance contributed 32% to the consolidated GWP. Details of each segments contribution to the consolidated GWP is presented in figure 02.

### GWP performance in relation to the industry performance

During the year, the Group has outperformed its GWP achievement by recording consolidated growth of 27%, which is well above the industry average growth of 7% for the year, while the Group has consistently outperformed its growth during the last five years by achieving more than double the growth of the industry average. Details as summarised in table 01 and this is depicted in figure 03.

### Industry Average Growth vs AAI Growth

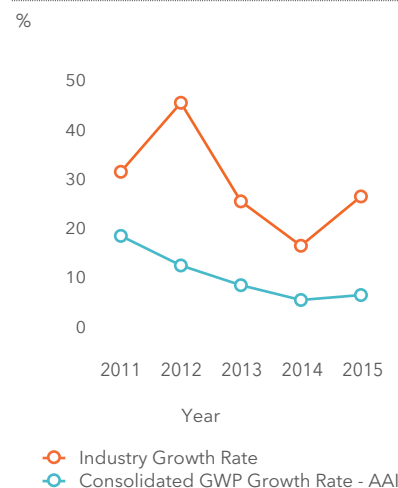


Figure 03: Industry Average Growth vs AAI Growth

Premium Income	2015	2014	2013	2012	2011
Industry Growth Rate (%)	7	6	9	13	19
Consolidated GWP Growth Rate (%)	27	17	26	46	32

Table 01: Industry Average Growth vs AAI Growth

**Group reported Five-year compounded growth of 22.3 % vs Industry Average growth of 7.1%**

### Reinsurance

The premium ceded to reinsurers of the Company grew by 25% by increasing the reinsurance to Rs. 693 million in 2015 from Rs.553 million in 2014. The Life Insurance segment contributes to 72% of the total reinsurance and it increased by 117% during the period under review. The increase of first-year premium and restructuring of our Life reinsurance arrangements in year 2014 mainly contributed for the increase. Meanwhile, the general reinsurance reduced by 40% due to the reduced lower GWP achievement in Fire and Marine classes where it involves higher reinsurance expenses due to involvement of high reinsurance arrangements.

### Reinsurance as a % of GWP

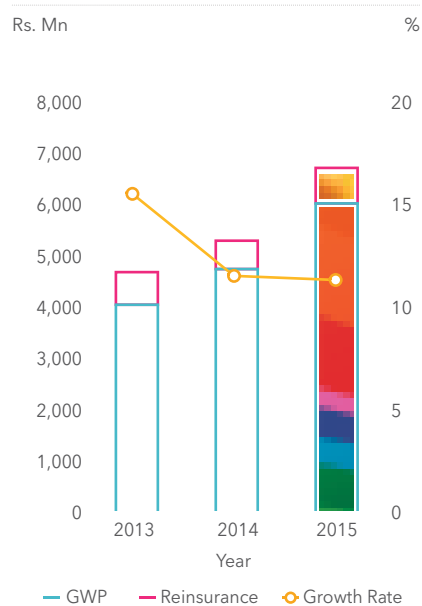


Figure 04: Reinsurance as a percentage of GWP

## Financial Performance

### Net Earned Premium (NEP)

In the year 2015, the Company's net earned premium surpassed the Rs. 5 billion mark, recording a notable 25% growth from the Rs. 4,140 million in 2014. Main contributor for NEP is Life Insurance segment which accounts for 69% and General Insurance accounts for 31% as shown in figure 05.

#### Composition of NEP

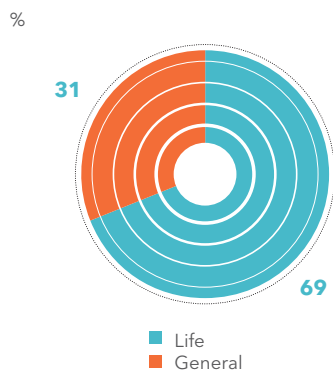


Figure 05 : Composition of NEP

The Life segment contributed Rs.3,589 million to the earned premium as against the contribution of Rs. 2,816 million in 2014 which is 27% 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 customised reinsurance arrangements in both Life and General Insurance businesses of the Company.

The General Insurance segment of the Company was able to increase net earned premium to Rs. 1,597 million with a growth of 21%, which is also above the

GWP growth due to the higher business volume recorded in Motor Insurance which has minimum reinsurance exposure. The unearned premium reserve is adjusted in arriving at General Insurance NEP to reflect unexpired risk period.

### Investments and Other Operating Revenue

This consists of finance income, realised gains, fair value gains and other operating revenue. The Group earned Rs. 1,064 million as the other revenue and it is a 46% decrease compared to the year 2014. This is mainly due to the reduction in fair value gains and realised gains by Rs. 891 million, due to exceptional gains from realisation of the equity instruments and sale from government securities in Available For Sale and Fair Value Through Profit or Loss in year 2014. In addition, in the year 2014 the Company recognised notional tax Income of Rs. 162 million.

Description Rs. millions	2015	2014
Finance Income	724	822
Net Realised Gains	149	765
Net Fair Value Gains	84	359
Other Operating Income	106	16
Total	1,064	1,962

### Insurance Claims and Benefits

Insurance claims and benefit expenses are the main costs of the insurance business, which includes gross benefits and claims paid and claims ceded to reinsurers. During the year, Group's net claimed expenses of Rs. 1,629 million as the insurance claims which is increase of 5 % compared to the year 2014. This growth reflects the manner in which the Company diligently paid out policyholder claims while maximising shareholder value. Increase in Life Insurance contract transfer to long term insurance fund) reduced due to lower achievement in fair value gains in the current year compared to the year 2014. Details of claims are as follows:

Description Rs. millions	2015	2014
Net Insurance Claims Expense	1,629	1,548
Increase in Life Insurance Contract	966	1,253
Total	2,596	2,801

### 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.

The cost of underwriting and net acquisition is increased to Rs.1,149 million, which is a 38% increase compared to the year 2014. The increase in net acquisition cost was mainly due to growth in new businesses attracted by both Life and General Insurance, which is 34% and 15% respectively. The increase in underwriting and net acquisition costs is mainly driven by the Life Insurance business.

#### Composition Underwriting & Net Acquisition Cost

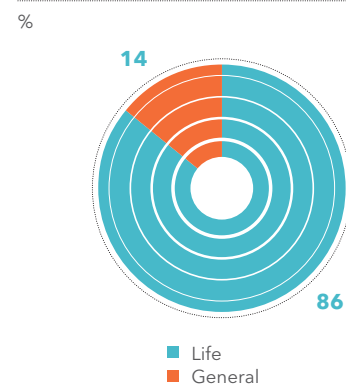


Figure 06: Composition Underwriting & Net Acquisition Cost

It is noted that costs from Life Insurance, accounting for 69 % of the total as per figure 05, was the key reason for the growth 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 and the nature of the business model.

The Company was able to control its acquisition cost in relation to GWP mainly due to the exceptional growth in new business premium in Life Insurance segment which shows a marginal increase of 1% from 18% to 19%.

### Operating, Administration and Other Expenses

The Group experienced Rs.1,566 million of operating and administration expenses, which reflects a 7% decline compared to the last financial year as a result of effective planning and monitoring process of the expenses carried out by the management. The Company spent 26% of its GWP as operational and administration expenses.

These expenses comprise of salaries, administration expenses, brand development expense, depreciation and amortisation of assets and all other expenses, not including underwriting and net acquisition costs. 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 Business Unit Reviews.

The expense ratio of the Life and General Insurance stood at 52% and 45% respectively.

### Income Tax Expense

The Income Tax Expense of the Group was reduced by 4% during the year and Company recognises a deferred tax for General Insurance business of Rs. 43 million for the period under review.

As per the tax rules of the country, Life Insurance and General Insurance Business segments are taxed separately and the corporate tax rate applicable is 28%. The Life Insurance business recorded a tax loss during the year due to the lower investment income recorded compared to the management expenses of the Company, which is the basis for calculation of Life Insurance income tax. Hence, the entire tax expense is applicable to the General Insurance business.

### Profit After Taxation

Group Profit after tax surged to Rs. 924 million for the year 2015 with a growth of 22% against Rs. 755 million reported in the previous year. The Life Insurance profit increased by 18% and the General Insurance loss reduced by 22% in the period under review. Increase in claims incurred in Motor Insurance classes was the main reason for the loss in General Insurance, which the management have already taken steps to rectify. The Company earnings per share stood at Rs. 2.47 which is a 23% growth over 2014, where earning per share was Rs. 2.01 per share.

### Profitability and Investor Attractiveness - Industry peer Comparison

Description	2015	2014	2013
Profit after tax (Rs. million)	924	752	362
Total profit from listed companies (Rs. million)	5,633	6,636	6,249
AAI share of profit as a % of total profit from listed companies	16%	11%	6%

\* Adjusted for Rs. 1.2 million gain on Disposals recognise by Union Assurance

It shows that the Company increased its profitability level from 11% to 16% of

profit for listed insurance Companies for the year 2015.

### Other Comprehensive Income

Other comprehensive income comprised gains and losses arising from valuing financial assets and liabilities classified as Available for Sale (AFS) to their market values and the related tax. The Group recorded negative Rs. 1,074 million in the other comprehensive income entirely from fair value changes of investments classified as available for sale financial assets.

We have recorded Actuarial Gains/Losses on Employee Benefit Liabilities also under other comprehensive Income in line with the change in the relevant accounting standard, LKAS 19 - Employee Benefits.

## Financial Performance

### Summary of Business Unit Performance - Life Insurance

#### Life Insurance Unit at a Glance

- Historical financial performance in a tough economic environment

Recorded GWP Growth of 34% to cross Rs. 4 billion for the first time in the history of Asian Alliance and continues to perform well above industry average

Historical Profit of Rs. 992 million which is an 18% growth over 2014

- Life Insurance Fund crossed Rs. 6 billion, reflecting 20% growth over 2014

- Strong performance in Key Value Drivers continues to be well above industry average

Annualised New Business Premium (ANBP) grew by 24% and reached Rs. 1,725 million

Premium Persistency (First year) crossed 82% during the year and is well above the industry average of 50%- 60%.

Continued to increase the average premium per policy and crossed Rs. 86,000 during year 2015 where the industry average range was Rs. 35,000 to Rs. 45,000.

- Continued to develop innovative product solutions and
- Improved distribution footprint through increased tied agency capacity by opening 4 new locations
- Significantly improved customer satisfaction levels
- Continued investment in people



## Segmental Financial Review - Life Insurance

### Snapshot of performance

Description Rs. million	2015	2014	Change %
Gross Written Premium	4,091	3,048	34
Reinsurance	(501)	(232)	117
Net Earned Premium	3,590	2,817	27
Net Claims and Benefits	(434)	(313)	39
Underwriting and Net Acquisition Cost	(993)	(715)	39
Expenses	(1,047)	(1,155)	(9)
Profit After Taxation	993	840	18

### Life GWP

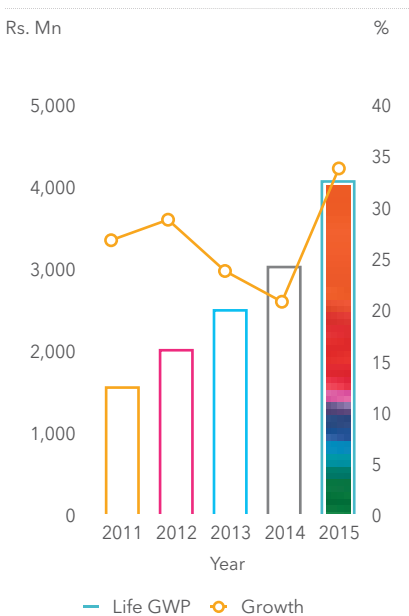


Figure 07: GWP Performance of Life Insurance last Five years

Description Rs. million	2015	2014	AAI Growth	Industry Growth
First Year Premium	1,376	931	48%	30%
Renewal Premium	2,610	2,086	25%	13%
Group Life Premium	99	27	267%	80%
Single Premium	7	5	40%	24%
Total	4,091	3,048		

Table 02: Composition of Life Insurance GWP

Five year compounded growth stands at 20.97% (2014 - 19.66%), and the year-on-year growth of the Life business was 34% (2014 - 21%)

### Commentary

The Life Insurance GWP grew consistently over the last five years as shown in figure 07. The GWP of the Life segment contributed to 67% of total GWP of the Group and increased by 34% to Rs. 4,091 million by surpassing Rs. 4 billion for the first time in the history of the Company. The Life Insurance GWP consists of first year premium, renewal premium, group life premium and single premium. GWP composition is provided in table 02 together with industry average growth rates.

First year premium includes the premium earned from the new business which recorded a very impressive growth of 48% which is well above the industry growth of 30%. Further, the renewal premiums continue the same trend compared to the year 2014, being the main contributor to the life GWP. The renewal premium grew by 25% during the period under review by recording Rs. 2,610 million. The group life premium and single premium contributed to Life GWP by recording Rs. 99 million and Rs. 7 million respectively.

### Key Value Drivers related to GWP

Life Insurance GWP achievement depends mainly on the key value drivers such as ANBP, average premium policy value and premium persistency level. The Company sustained focus on improving these 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 during year 2015 compared to year 2014 as provided in table 03 in next page

## Financial Performance

Table 03: Key Value Drivers

Description	2015	2014	Change %
Annualised New Business Premium (ANBP) Rs. million	1,725	1,246	24
Average Premium Per Policy (Rs)	86,667	81,639	4
Persistency Ratio Year 1 (%)	82	79	1
Persistency Ratio Year 2 (%)	63	58	7

The Company consistently raises the bar of these key value drivers. Hence, in the last five years, ANBP, premium persistency and average policy value were increased, and currently are well above industry average. Details of last five years' ANBP, average premium per policy and premium persistency are provided in table 04.

Table 04: Performance of The Key Value Drivers Last Five Years

Description	2015	2014	2013	2012	2011
Annualised New Business Premium (ANBP) Rs. million	1,725	1,246	1,086	989	736
Average Premium Per Policy (Rs)	86,667	81,639	76,187	73,732	63,453
Premium Persistence Ratio Year 1 (%)	82	79	76	77	75
Premium Persistence Ratio Year 2 (%)	63	58	55	56	54

The Company recorded five-year compound growth at 18.57 % in ANBP which was the critical success factor of the headline growth in the Life Insurance Segment.

### Strategies Executed

The Company continually focuses on delivering first-class service to customers by differentiating from competition, which has enabled us to achieve sustainable growth in GWP by providing more customer-centric innovative solutions, the differentiation and competitive advantage being the specialised knowledge of our sales force.

A growth in first-year and new business premium were reported from the implementation of the market penetration strategy, which also led us to increase our branch network by four during the year 2015. In addition to the above, the Company introduced several new products to capitalise on new opportunities by implementing our product development strategy.

Our unique business model, a specialised unit which aids the effective follow-up renewal GWP, enabled us to record and maintain increased renewal GWP premium. Further, this helps us to maintain premium persistency at well above the industry average

Refer Life operational review on pages 122 to 124 for more information

### Performance of GWP in Relation to Industry

The Company recorded an impressive growth of 34% in year 2015 which is well above the industry growth of 20%, and also the Company was able to deliver well above the industry average growth during the last five years as shown in figure 08. Further, the Company was able to deliver five-year compound growth of 20.97% while industry average for the same is 8.78%.

The number of policies issued in the industry was 645,596 in 2015 with a growth of 18%, whereas we have recorded 20,601 policies and it's a 32% increase compared to the year 2014.

### Industry Average Growth vs AAI Life Growth - 2015

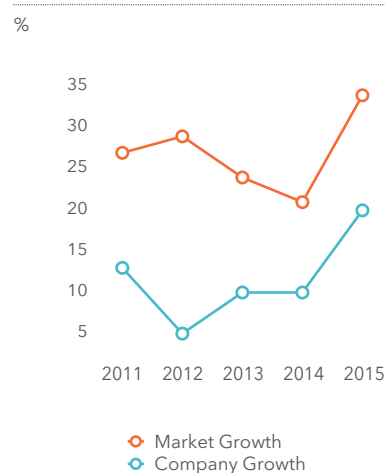
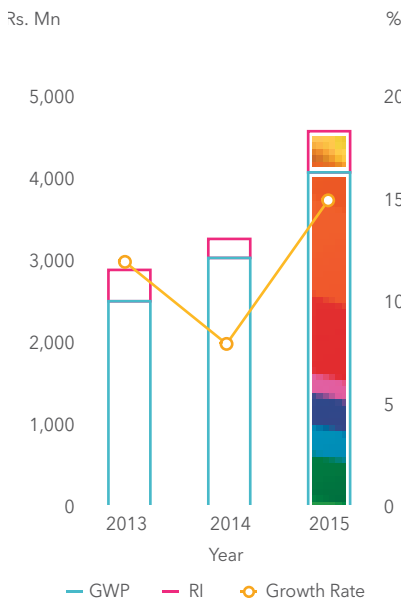


Figure 08: Industry Average Growth vs AAI Life growth 2015

Due to consistent growth in GWP in the Life segment of the Company, the market share rose simultaneously. Additionally, during the year, the Company managed to increase its market to 7.6% from 6.8% (2014). Details of the growth in market share during the last five years are provided in figure 08.

## Reinsurance Expense

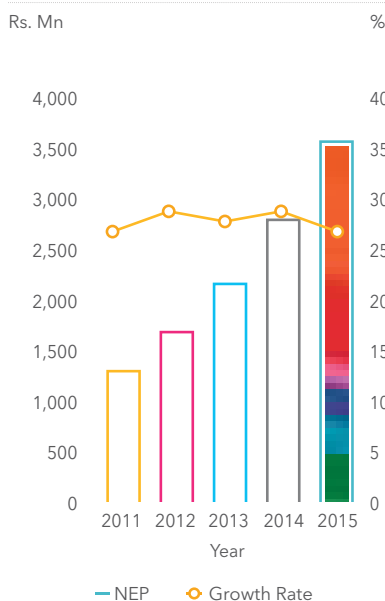
### Reinsurance as a % of GWP



#### Commentary

Reinsurance of the Company increased by Rs. 269 million due to the growth in the GWP by 34% and is a 12% compared to the Life Insurance GWP. The Company perceives reinsurance arrangement in order to manage the underwriting risk and safeguard its customers.

## Net Earned Premium - Life



Five year compound growth stands at 22.12% (2014 - 25.77%), and the year-on-year growth of the Life business was 27% (2014 - 32%)

#### Commentary

The Life Insurance segment Net Earned premium steadily increased predominantly due to the robust performance in GWP. The growth of GWP at a higher rate positively impacted on the increase of NEP and the growth rate decreased marginally due to increase of premium ceded to reinsurers.

## Net Claims and Benefits

Details of claims based on the nature is provided in following table;

Description - Rs. million	2015	2014
Regular Claims	234	129
Maturities	49	62
Policy Surrenders	76	80
Investment Product related Surrenders	30	-
Group Life and Health	45	41
Total	434	312

#### Commentary

This includes the expenses and benefits paid by an Insurance Company in the form of claims. The overall net claims and benefits expense increased by 39% during the year mainly due to the increase in policy surrenders in investment related products and group life where these segments reported high premium growth during the year.

However, regular claims as % to Net Earned Premium accounted for 6.5% in 2015 whereas this was 6% in 2014.

## Underwriting Results

Underwriting results shows the new inflow generated from the business before the investment income. Details are provided in the following table:

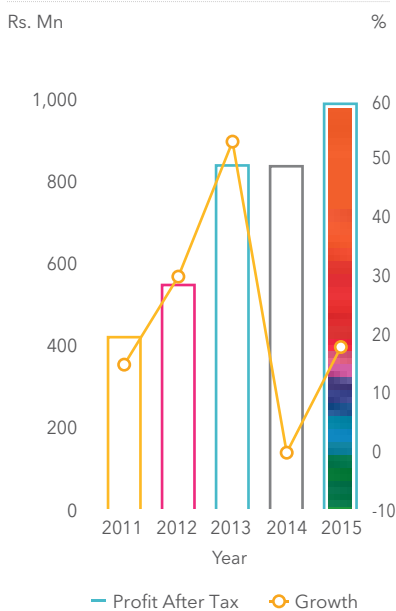
Description - Rs. millions	2015	2014
Gross Written Premium	4,091	3,048
Premiums Ceded to Reinsurers	(501)	(232)
Net Earned Premium	3,590	2,817
Net Benefits and Claims	(434)	(313)
Underwriting and Net Acquisition Costs (including reinsurance)	(993)	(715)
Expenses	(1,086)	(1,001)
Underwriting Results	1,077	788
Underwriting Results GWP (%)	26.3%	25.9%

## Financial Performance

### Commentary

The Company increased its underwriting results by Rs. 289 million, which is a 36% growth compared to year 2014 and is greater than the business growth of 34%, which is evidence that the Company improved its core business in an effective manner. Therefore, underwriting results as percentage to GWP increased to 29.3% compared to 25.9% reported in the previous year.

### Profit After Tax - Life



### Commentary

The Life Insurance segment recorded Rs. 993 million of PAT with an increase of 18% by contributing significantly to the Company performances.

Five year compounded growth stands at 37.77 (2014 - 27.07%), and the year-on-year growth of the Life business was 18% (2014 - 94%)

### Life Insurance Industry Specific Ratios and its Discussion

Performance of the Life Insurance industry specific ratios are summarised below:

Description	2015	2014
Net Claims Ratio (without maturities and surrenders) %	6.5	6
Expense Ratio % Net Earned Premium	67	60
Combined Ratio % NEP - without maturities and surrenders	73.5	66
Reinsurance Ratio (Reinsurance / GWP) %	12	8
Net Acquisition Cost Ratio % GWP	28	25
Premium persistency (First year)*	82	79
Average Premium per policy (Rs.)*	86,667	81,639

\*Details of Premium persistency and average premium per policy are discussed under 'Performance of Key Value Drivers' on page 79 to 80.

### Claims Ratio

Description	2015	2014
Net Claims Ratio (with maturities and surrenders)	12%	11%
Net Claims Ratio (without maturities and surrenders)	6.5%	6%

Table: Net Claims Ratios

### Commentary

Insurance industry claim ratio refers to net claims (gross claims deducted for reinsurance recovery) as a percentage of net earned premiums. The claims ratio without maturities excludes claims from policy maturities and surrenders is considered the more appropriate indicator to understand trends.

The Company manage its claim ratio without much volatility (increase is only from 6.5% from 6%) due to better risk management policies adopted by the Company

### Expenses Ratio

Life Insurance expense consists of net acquisition costs which represent net expenses (Commission) incurred for the acquisition of the business and other expenses which are incurred for the maintenance of the business. Details of ratios are presented in below:

Ratio	2015	2014
Net Acquisition Ratio	27.7%	25.4%
Other Expenses Ratio	26.5%	32.8%

Table: Expense ratios

**Commentary**

During the year, net expenses as percentage to net earned premium increased by 2.3% mainly due to the robust growth in new business premium, which is 48% compared to last year, when new business premium incurred a higher acquisition cost percentage in the first year.

**Performance of the Other Expenses Ratio**

Expenses ratio excluding the acquisition cost as percentage to GWP reduced by 6.3% compared to last year, mainly due to several initiatives that were taken to improve the productivity by capitalising on IT capabilities.

**Combined Ratio**

Life Insurance industry combined ratio is defined as the combination of expenses ratio and claims ratio. Details are shown in the following table for the years 2015 and 2014.

Ratio	2015	2014
Combined Ratio (with maturities and surrenders)	66.2%	69.2%
Combined Ratio (without maturities and surrenders)	45.0%	49.8%

Table: Combined ratios

**Commentary**

The Company was able to reduce the combined ratio as shown in the above table due to the better management of expenses, despite the increase in strain in acquisition costs due to the robust growth in new business premiums. As a result, the underwriting results of the Company increased by Rs. 289 million during the year.

## Financial Performance

### Summary of Business Unit Performance - General Insurance

#### General Insurance Unit at a Glance

##### Robust Operational turnaround in a tough economic environment

- Recorded Motor Insurance GWP Growth of 41% which is above the industry average growth of 19%
- Improvement in Underwriting performance to Rs. 269 million compared to year 2014

- Continued to develop innovative solutions - "Click2Claim"
- Improved distribution footprint through increased capacity by opening eight new locations in a cost effective manner
- Significantly improved customer satisfaction levels

##### Strong Performance in Key Value Drivers

- Significant improvement of claims ratio
- Continued investment in people

### Segmental Financial Review - General Insurance

Snapshot of key financial data as follows;

Description Rs. millions	2015	2014	Change %
Gross Written Premium	1,977	1,725	15%
Reinsurance Expense	(191)	(321)	-40%
Net Earned Premium	1,598	1,323	21%
Net Claims and Benefits*	(1,195)	(1,237)	-3%
Net Acquisition Cost*	(157)	(119)	31%
Technical Expenses*	(518)	(491)	5%
Policy Fee Income	24	6	300%
Underwriting Results	(247)	(517)	-52%
Profit after Taxation	(68)	(85)	-20%

\* Discussed under industry specific ratio analysis

Class Rs. million	2015	2014	Growth
Motor	1,247	887	41%
Medical	386	512	-25%
Miscellaneous	174	90	111%
Fire	96	185	-48%
Marine	59	51	16%
Total	1,962	1,725	15%

Table: Class wise GWP Performance

### General GWP

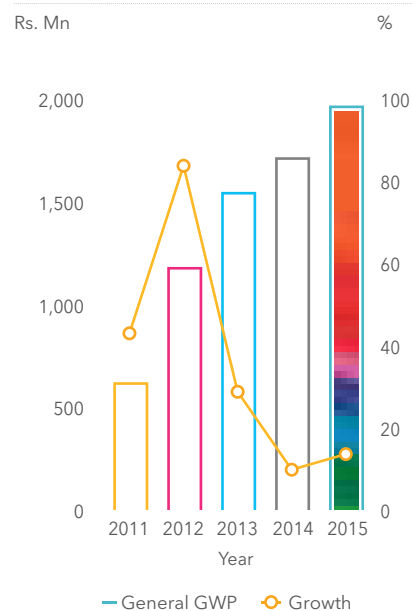


Figure: GWP Performance of General Insurance last Five years

Five-year compounded growth stands at 25.77% (2014 - 32%), and the year-on-year growth of the General business was 15% (2014 - 11%)

**Commentary**

The General Insurance segment contributed to 33% of total GWP of the Company and it has increased by 15% to Rs. 1,977 million, which is consistent with the market average growth of 15%. The Motor Insurance and Medical Insurance segments remain the dominant classes during the year by contributing 63% and 20% to the top line. Both retail and corporate distribution channels maintained a steady growth momentum in business volumes in 2015 which was in line with the strategic direction of the Company. The Motor class reported robust growth of 41% despite increase in the process.

Refer General Insurance market condition details on pages 86 for more information

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 walk-away policy adopted for some of the large corporate business, especially in the Medical class segment.

**Strategies Executed**

The Company continually focuses on delivering 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 introduced groundbreaking "Click2Claim" solution that 'eliminated the traditional accident claim process in Motor Insurance and brought revolutionary change to Sri Lanka's Motor Insurance industry', which helped the Company to grow its business despite increase in the Motor Insurance prices.

The Company continues to realise synergies from the Asiri Group of Hospitals - the market leader in healthcare, as it expands its market presence outside the Western Province in a cost-effective manner. The Company increased its distribution outlets by eight during the year.

Refer General Insurance operational review on pages 122 to 123 for more information

**General GWP Mix - 2015**

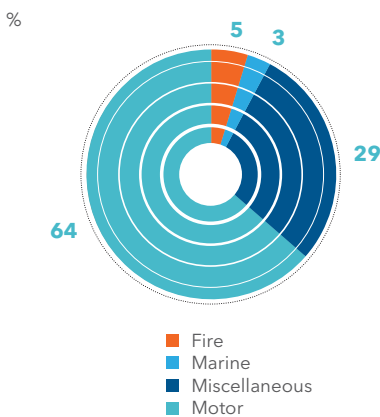


Figure Class wise GWP 2015

**General GWP Mix - 2014**

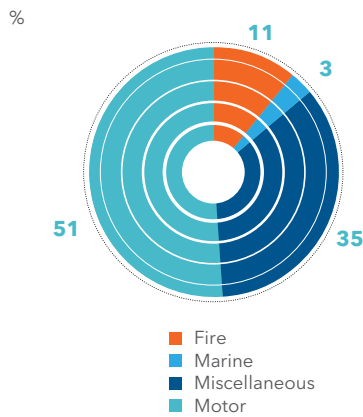


Figure Class wise GWP 2014

**Commentary**

**Motor Insurance**

**41% growth well above the industry**

During the year, Motor Insurance GWP recorded a robust growth of 41%, which is well above the Motor Insurance industry average growth of 19%, and reached Rs. 1,247 million, thereby increasing contribution to General Insurance GWP to 63% (2014 - 45%) as shown in figure Figure Class wise GWP. This is a very impressive growth, which is in line with the General Insurance strategy which was earlier communicated in our Integrated Report of 2014.

The growth was predominantly from outside Western Province retail business. In addition to the above, in line with the strategic direction of the Company, Motor Insurance growth was substantially achieved through the non-private segment, therefore its contribution to Motor Insurance GWP increased to 46% from 39% reported in year 2014.

**Non Motor Classes**

The non-motor class contributes to 37% of total general GWP and reached to Rs. 715 million, which record a 13% decline as a result of reduction in GWP generated in Medical Insurance. This is due to the walk-away policy adopted by the Company for certain corporate clients due to adverse claims experience.

## Financial Performance

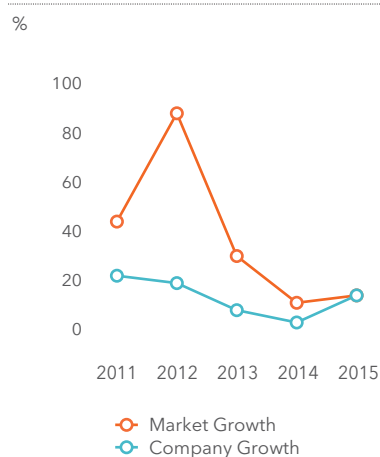
### Performance of the General GWP in Relation to the Industry

In 2015, General Insurance reported premium growth of 15% which is in line with the growth reported by the General Insurance industry. However, Motor Insurance GWP grew by 41% which is well above the industry growth of 19%.

General Insurance	2015	2014	2013	2012	2011
Market Growth (%)	15	4	9	20	23
Company Growth (%)	15	12	31	89	45

Source: IBSL Annual Report and Year 2015 data sourced from Industry GWP Circulation

### Industry Average Growth vs AAI General Growth - 2015



Five year compounded growth stands at 25.7%, industry average growth of 15%

### Reinsurance (RI)

#### RI as a % of GWP - General

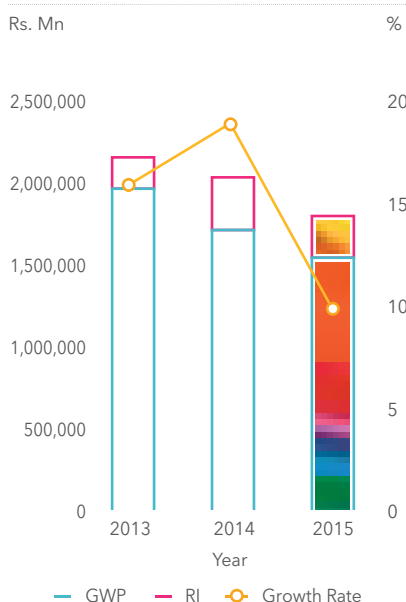


Figure 09: RI as a % of GWP - General

#### Commentary

Reinsurance as a percentage of GWP decreases to 10% in 2015 from 19% in 2014 as shown in figure 09. This was mainly due to the decrease in the Fire GWP by 48% which involves significant portion of reinsurance compared to other class of General Insurance products (i.e. Motor and Medical)

### Net Earned Premium (NEP)

#### Commentary

The General Insurance segment reported NEP growth of 21% compared to year 2014 which is above the GWP growth of 15% mainly due to the increase in the Motor contribution to the GWP by 27% due to impressive growth in the Motor class. The increase in the net change in reserves for unearned premium and premium ceded to reinsurers at a higher rate, has resulted in such decrease compared to year 2014.

Five year compounded growth stands at 35.67% (2014 - 36.64%), and the year-on-year growth was 21% (2014 - 20%)

### Underwriting Results

#### Commentary

During the year, underwriting results (technical results before investment income) was improved by Rs. 270 million as shown in "Table: Snapshot of Key Financial Data". This is due to several initiatives taken in relation to the management claims and business mix subsequent to the comprehensive actuarial study. This will be discussed in detail under claims ratio commentary.

### Profit After Taxation (PAT)

#### Commentary

The General Insurance segment reported loss of Rs. 66 million during the year which is a significant improvement compared to loss of Rs. 101 million despite the lower investment income reported in current year due to challenging investment climate as well as noteworthy improvement in operational results due to reduction in claim ratio.

### General Insurance Industry Specific Ratios and its Discussion

Performance of the General Insurance industry specifics are summarised as follows:

#### Claims Ratio

Description	2015	2014	Change %
Overall Claims Ratio	75%	93%	18%
Motor Claim Ratio	72%	92%	20%
Non Motor Claim Ratio	79%	95%	16%

Table: Details of Claim ratios

#### Expense Ratio

Description	2015	2014
Net Acquisition cost ratio	10%	9%
Other Expense cost ratio	31%	37%
Overall Expense Ratio	41%	46%

Table: Details of Expense ratios



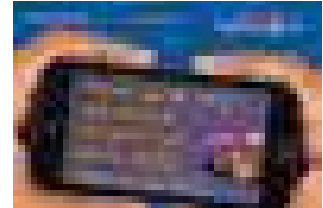
### Commentary - Claims Ratio

The claims ratio of the General Insurance is calculated Net Claims percentage to Net Earned Premium. As shown in table below overall claim ratio improved by 18% during the year and reached 75% compared to 93% reported in year 2014. Motor Insurance which represents 63% of its portfolio reduced its claim ratio to 72% which is noteworthy improvement of 20% compared year 2014. In addition to the above non motor classes also reported significant improvement in claims ratio for which the main contributor was Medical Insurance class.

#### Strategies executed

The significant improvement of claims ratio is mainly due to the successful execution of following strategies;

- Reduce claim leakages by using "Click2Claim" application
- Expansion of retail business and in non - private business generation
- Maintain optimum mix of the GWP in private to non-private class
- Risk based pricing for Motor Insurance / Correct pricing
- Selective underwriting and "walk-away strategy" for unprofitable corporate business
- Strengthening its policy conditions.



### Expense Ratio - General

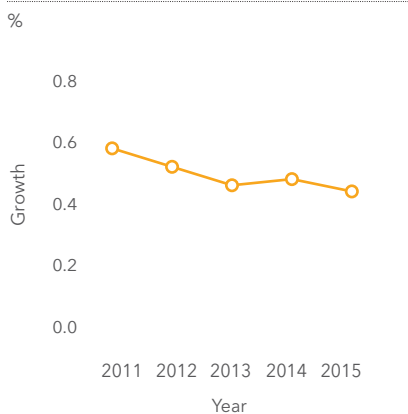


Figure: Expense ratio last five years

#### Commentary

Expenses ratio reduced by 5% during year compared to year 2014, due to the implementation of efficient control management initiatives solutions through IT-enabled solutions.

### Combined Ratio Combined Ratio - General

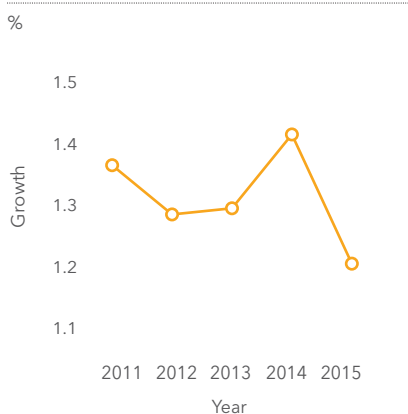


Figure: Combined ratio last five years

#### 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).

During the year 2015, General Insurance combined ratio reduced by 23% largely due to the lower claims ratio as discussed under the claims ratio commentary.

### Performance of Capital and Liquidity Management

#### Statement of Financial Position

Rs. million	2015*	2014	Growth 2015	Composition -2015
<b>Assets</b>				
Intangible Assets, Property, Plant and Equipment	541	409	32%	5%
Financial Investments	9,265	8,568	8%	81%
Loans to Life Policyholders	145	134	9%	1%
Reinsurance Receivables	122	160	-24%	1%
Premium Receivables	551	460	20%	5%
Other Assets	497	342	45%	4%
Deferred Acquisition Cost	126	101	25%	1%
Cash and Cash Equivalent	224	130	72%	2%
<b>Total Assets</b>	<b>11,472</b>	<b>10,304</b>	<b>11%</b>	<b>100%</b>
<b>Total Equity</b>	<b>2,223</b>	<b>2,373</b>	<b>-6%</b>	<b>19%</b>
<b>Liabilities</b>				
Insurance Contract Liabilities - Life	6,193	5,224	19%	54%
Insurance Contract Liabilities - General	1,322	1,139	16%	12%
Reinsurance Payable	140	131	7%	1%
Other Liabilities	1,594	1,437	11%	14%
<b>Total Liabilities</b>	<b>9,249</b>	<b>7,931</b>	<b>17%</b>	<b>81%</b>
<b>Total Equity and Liabilities</b>	<b>11,472</b>	<b>10,304</b>	<b>18%</b>	<b>100%</b>

\* Used Group figures for the comparison due to segregation of the Insurance Company

## Financial Performance

### Total Assets

Rs. million

Description	2015	2014	Growth
Total Assets	11,472	10,3204	11%

### Total Assets - Group

Rs. Mn

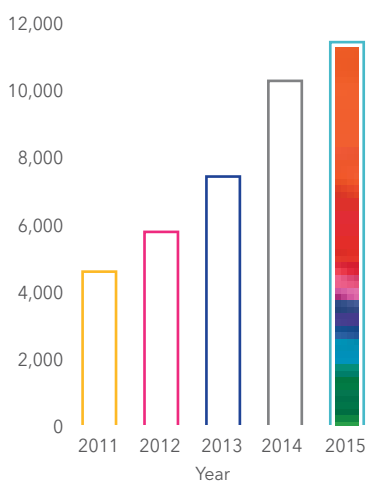


Figure: Total Asset Last Five Years

Five year compounded growth stands at 19.81 (2014 - 19%), and the year-on-year growth of the total assets was 11% (2014 - 38%)

#### Commentary

The total assets crossed the Rs. 11.4 billion mark in December 2015, recording 11% (2014 - 38%) growth over Rs. 10 billion achieved in 2014.

Total Investment portfolio reached Rs. 9.4 billion (including policyholder loans) which is 82% of total assets which shows the quality of the asset portfolio.

### Total Investments

Rs. millions

Description	2015	2014	Growth	Contribution
Financial Investments	9,265	8,568	8%	82%
Policy Loans	145	134	8%	1%
Total Investments	9,410	8,702	8%	83%

### Financial Investments - Group

Rs. Mn

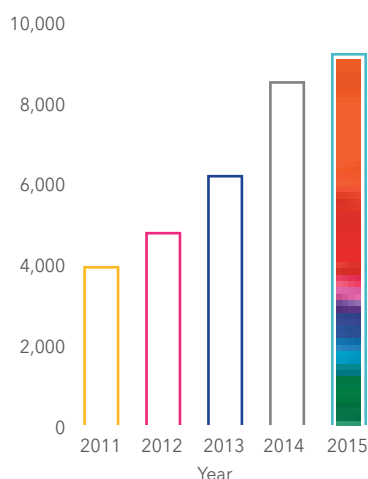


Figure: Growth of Total Investment Last Five Years

Five-year compounded growth stands at 18.38 (2014-18%), and the year-on-year growth of the financial investments was 8% (2014 - 37%)

#### Commentary

Continuing our growth momentum, our total investment portfolio (including the policy loans) crossed the Rs. 9.4 billion mark in the year 2015, recording a 8% (2014 - 37%) growth over the Rs. 8.7 billion achieved in 2014.

The financial investment portfolio includes government securities, corporate securities, bank deposits and equity investment, which represent 81% of the total assets. During the year, investment related asset portfolio recorded 8% (2014 - 9%) growth compared to last year. 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 Insurance Board of Sri Lanka (IBSL).

According to Accounting to the Standards (SLFRS / LKASs), the Company categorised financial instruments into four broad segments namely Available For Sale (AFS), Loans and Receivables (L&R), Fair Value Through Profit or Loss (FVTPL) and Held to Maturity (HTM). The graph depicts the composition of our financial investments according to this classification.

Financial investments of the Company are classified based on Available For Sale (AFS), Loans and Receivables (L&R), Fair Value Through Profit or Loss (FVTPL) and Held to Maturity (HTM). The composition of the investment portfolio based on above accounting standard classification is provided in figures and details of each is discussed in the next page.

Details of each category of investments are provided as follows;

### Composition of Investment Portfolio - 2015

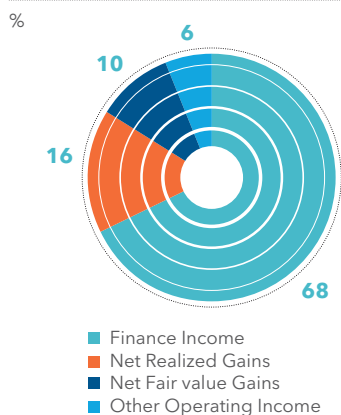


Figure: Composition of Financial Investment in SLFRS classification

### Available for Sale Financial Investments (AFS)

#### Composition of AFS

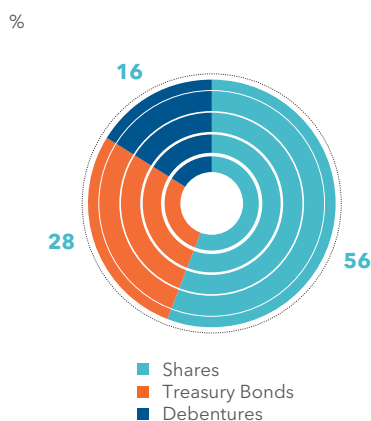


Figure: Composition of Investment classified as AFS

#### 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 of 28%, government securities of 56% and debentures of 16%.

### Loans and Receivable Financial Investments (L&R)

#### Composition of L&R

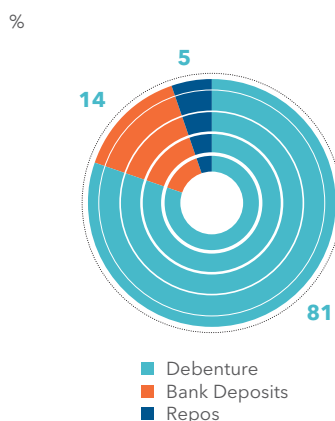


Figure: Composition of Investment Classified as L & R

#### 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 amounting to 81% with the rest comprising of debentures and bank deposits. Policy Loans, which are loans granted to active Life Insurance policyholders, represents 1% of total equity and liabilities.

### Fair Value Through Profit and Loss Financial Investments (FVTPL)

#### Composition of FVTPL

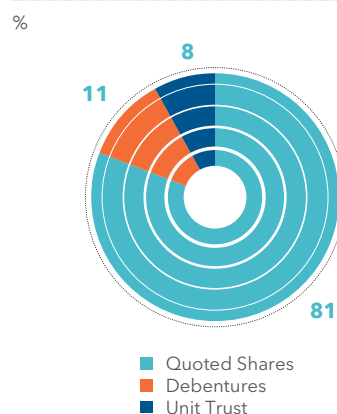


Figure: Composition of Investment Classified as FVTPL

#### Commentary

The Company's FVTPL financial assets mainly consist of quoted equity shares of 81% and the balance represent debentures and unit trust.

### Held to Maturity Investments (HTM)

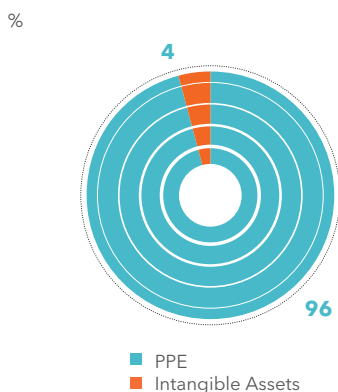
#### Commentary

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 fulfils this criteria under the category of HTM. HTM financial instruments consist of 100% government securities.

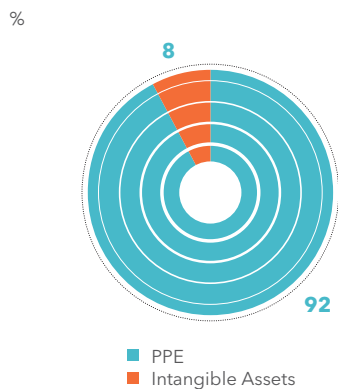
## Financial Performance

### Intangibles, Property, Plant and Equipment

#### WDV of PPE and Intangible Assets - 2015



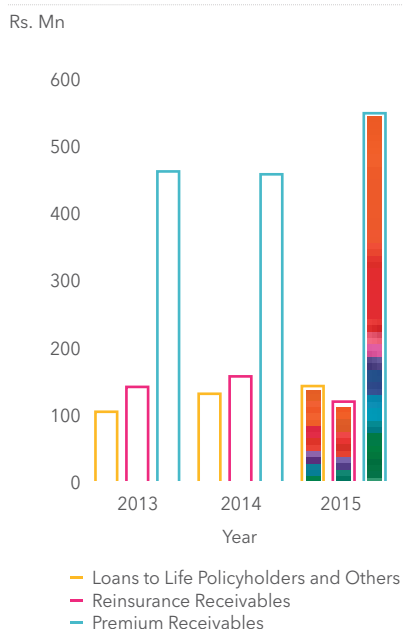
#### WDV of PPE and Intangible Assets - 2014



#### Commentary

The Company held only 5% of its total assets in intangible assets, property, plant and equipment, amounting to Rs. 541 million (2014: Rs. 409 million). Out of that 44% represents land and building, whereas other fixed assets represents 56% of total investments in PPE. Except the Land and building value, all other intangibles and PPE are accounted at cost. The intangibles assets are amortised over the estimated useful time period and the PPE and is depreciated using the straight line method as per the estimated useful life of each asset.

### Premium and Reinsurance Receivables



#### Commentary

The premium and reinsurance receivables accounts for 6% of total assets and amounts to Rs. 673 million (2014: Rs. 620 million). Reinsurance receivables decreased by 24% to reach Rs. 122 million due to high rate of reinsurance recoverable, and accounted for 1% of total assets.

Premiums receivable from customers, which amounted to Rs. 551 million increased by 20% due to the growth of the General Insurance business specially Motor Insurance GWP by 41%. Average premium collection in General Insurance stood at 89 days for the current period despite the growth of the business, whereas in the previous year it was 88 days.

### Total Equity and Reverses / Shareholder Funds

Description - Rs. million	2015	2014
Stated Capital	1,063	1,063
Revenue Reserves	1,776	853
Available for Sale Reserve	(640)	455
Revaluation Reserve	25	-
<b>Total Equity and Reverses</b>	<b>2,224</b>	<b>2,371</b>

Table: Composition of the Reserves

**Commentary**

Total equity and reserves of the Company consist of stated capital, available-for-sale, revenue reserve and the revaluation reserves. The total equity reached Rs. 2.2 billion, which is a marginal reduction compared to Rs. 2.37 billion reported in year 2014. This is due to the downward trend in the yield curve which resulted in the fair value movement in investment classified under AFS (specially treasury bonds) and the negative movement in the stock market.

Entire shareholders fund falls under Tier 1 capital under Risk Based Capital (RBC) framework which is an indicator of the quality of the equity of the Company.

## Life Insurance Contract Liabilities

Description - Rs. million	2015	2014	Growth
Life Insurance Fund	5,966	4,999	19%
Claims Payable	227	224	1%
Total	6,193	5,223	19%

Five-year compounded growth stands at 21.35(2014-22%), and the year-on-year growth was 19% (2014 - 33%)

## 6

**Rs. Bn Life fund****Commentary**

The Life Insurance contract liabilities, which refer to the reserves, meet the future claims and maturities of Life Insurance policyholders. The Life Insurance contract liabilities of the Company crossed Rs. 6 billion in 2015 and the Life Fund is stood at Rs. 5,966 million at the end of the year with a record growth of 19% in comparison with the previous year. The Life Insurance contract liabilities represent 54% of the total liabilities.

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 236. 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 2015 are adequate to meet the future liabilities of the business.

**General Insurance Contract Liabilities**

## Description

Rs. million	2015	2014	Growth
Unearned Premium Reserve	1,091	959	14%
Unexpired Reinsurance Premium	-57	-114	-50%
Claims Outstanding Reserve	199	216	-8%
IBNR Claim Reserve	89	77	15%
Total	1,322	1,139	16%

**Commentary**

The General Insurance contract liability comprises of reserves relating to the General Insurance business, which includes net unearned premium reserves, gross claims outstanding, Incurred But Not Reported (IBNR) claims reserves and Incurred But Not Enough Reported (IBNER) Reserves. The General Insurance contract liabilities recorded Rs. 1,322 million by year-end. This marks a growth of 16% compared to Rs. 1,139 million in 2014.

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 has 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 31st December 2015 are adequate to meet the future liabilities of the business.

## Financial Performance

### 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 a 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. Details relating to AAIPLC are as follows;

Description - Rs. million	2015	2014
Value of admissible assets	7,783	6,713
Amount of total liabilities	7,311	6,109
Available solvency margin	471	603
Solvency ratio (times)	1.58	2.45
Required Solvency Ratio (times)	1.00	1.00

Table: Solvency Position

#### Commentary

The Statement of Solvency for AAPLC has been prepared in accordance with Solvency Margin (Life Insurance) Rules 2002 and the amendments thereto.

The Company continued to maintain healthy Solvency Margins throughout the year, well above the stipulated solvency margin requirement adding a greater degree of confidence to the security of policyholders.

#### Statement of Approved Assets

Description - Rs. million	2014	2013
Approved assets maintained in business	6,600	5,665
Insurance fund	5,966	4,999
Approved assets in excess of the insurance fund	634	666
Approved assets as a % of insurance fund	111%	113%
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.

### Leverage and capital structure

#### Capital Structure

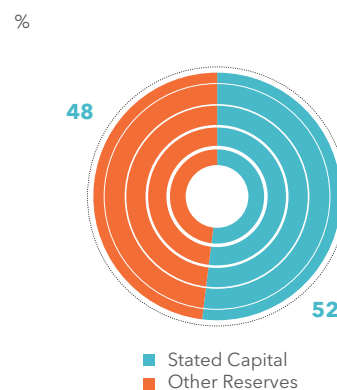


Figure: Capital structure

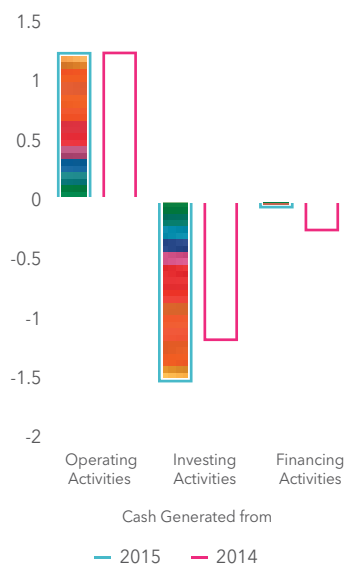
#### Commentary

The Group is fully equity funded (as shown in the figure) which mainly consists of stated capital of Rs. 1,063 million and retained profit of Rs. 1,776 million as at 31st December 2015.

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

## Cash Flow Analysis - Group

Rs. Mn



### Commentary

During the period under review net cash generated from operating activities was Rs. 1,246.

The majority of these funds were channelled into investing activities. As a result, the overall investment portfolio grew to Rs. 9.4 billion from Rs. 8.4 billion as at end 2014.

Five-year compounded growth stands at 31.78%, and the year-on-year growth was -3% (2013 - 27%)

### Impact of Changes in Sri Lanka Accounting Standards

The Institute of Chartered Accountants of Sri Lanka (CA 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 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 1st 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 1st January 2016
- Agriculture: Bearer Plants (Amendments to LKAS 16 and LKAS 41) - effective from 1st January 2016

We are in the process of ascertaining the impact of these standards on Financial Statements.

### Summary

In what were competitive industry conditions, 2015 was an exceptional year for the Company as well as for the AAI Group. Looking forward to 2016, the Company is confident of continuing to deliver sustainable premium growth and strong profitability.

## Performance Dashboard 2015 and Targets for 2016

### Group

Financial Performance	Actual	Target	Achievement	2016
Return on Equity	42%	20%	●	20%
Market Capitalisation	6,000 million	Increase by 20%	●	Increase by 20% year-on-year
GWP Performance	6,053 million	6,100 million	●	21%
Profit After Tax	924 million	900 million	●	20%

### Asian Alliance Insurance PLC

Life Insurance	Actual	Target	Achievement	2016
GWP Performance	Rs. 4,091 million	Rs.4,000 million	●	25% Year-on-year growth
Profit After Tax	Rs. 993 million	Rs.900 million	●	Annual Increase in PAT of 20%
Annualised New Business Premium (ANBP)	Rs. 1,725 million	Rs. 1,600 million	●	20% Year-on-year growth in regular premiums
Average Premium Per Policy	Rs. 86,667	Rs. 84,800	●	Increase by 5% year on year
Persistency (Year1)	82%	80%	●	82%
Persistency (Year2 )	63%	60%	●	61%
Market Share	7.6%	Increase the market share to 7%	●	Increase the market share by 3%

### Asian Alliance General Insurance Ltd.

General Insurance	Actual	Target	Achievement	2016
GWP Performance	Rs.1,977 million	Rs. 2,100 million	●	17% Year-on-year growth
Motor GWP performance	Rs.1,247 million	Rs.1,476 million	●	Growth of Motor GWP by 38%
Profit After Tax	Loss Rs. 68 million	Breakeven	●	Decrease the loss to Rs. 38 million
Claim Ratio	77%	72%	●	Improve the claims ratio to 68.5%
Expense Ratio	45%	38%	●	Improve the expenses ratio to 42.9%
Combined Ratio	122%	111%	●	111%

- Fully Achieved
- Partially Achieved
- Not Achieved



# Performance of the Investment Portfolio

The year in review was defined more by political developments rather than economic milestones which in turn impacted the investment climate of the country, in particular as a result of delays in policy formulation and implementation by the then newly elected government. This was evident in the reducing trend witnessed in GDP growth, which fell from 4.4% in Q1 to 4.8% in Q3. Additional symptoms of weakening were evident in the depreciation of the Sri Lankan Rupee against the US Dollar by 9.03% during the year, whilst the stock market declined by 5.5% and 1 Year Treasury bill increased by 111 basis points, with further correction expected.

The above factors were closely monitored and taken into consideration by the treasury team in carrying out active management of the respective funds of the Company. Whilst the volatility witnessed in the markets and on interest rates in particular was at times challenging, the expertise and experience of the treasury team in building or divesting positions along both the yield curve and stock market allowed the Company to maintain rates above benchmark yields and achieve targeted investment income during the year.

## Treasury Bond Portfolio

The year under review was volatile and witnessed significant variations along the yield curve as a result of unclear

policy direction and growing pressure on the exchange rate versus US Dollar. Timely action taken by the treasury team however, together with steps taken to match policy liabilities with matching assets allowed the Company to continue to achieve income on the FIS portfolio above budgeted yields.

## The Corporate Debt Portfolio

Due to the anticipated increase in the yield curve, treasury opted to take advantage of volatility in the government securities sector and revisit investments in this asset category once stability was reached along the curve, together with clear fiscal and economic policy direction given by the government. Future investments in this category will also be made based on the Risk Based Capital approach, which was made into law effective from January 2016.

## Equity Portfolio

Though the stock market showed a decline of 5.5% for the year under review, the equity portfolio of AAI yielded positive results as a result of investments in fundamentally sound stocks bearing fruit. Marked to market gains, together with significant dividend income assisted in reaching the budget, though challenging times lie ahead due to continued weak economic performance and tax impact flowing through from the fiscal policy for 2016. The market will continue to be monitored closely to take

advantage of any arbitrage opportunities, whilst maintaining existing investments on the basis of sound fundamentals, and increasing holdings in such stocks on availability of attractive prices.

## Asset and Liability Committee (ALCO)

The ALCO continued to function and monitor developments in the economic and financial spheres successfully, and continues 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 is to actively manage AAI's Statement of Financial Position whilst complying with regulatory requirements to maximise 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 Asian Alliance Insurance PLC and Asian Alliance General Insurance PLC further to splitting of operations as required by the Insurance Board of Sri Lanka in 2015.

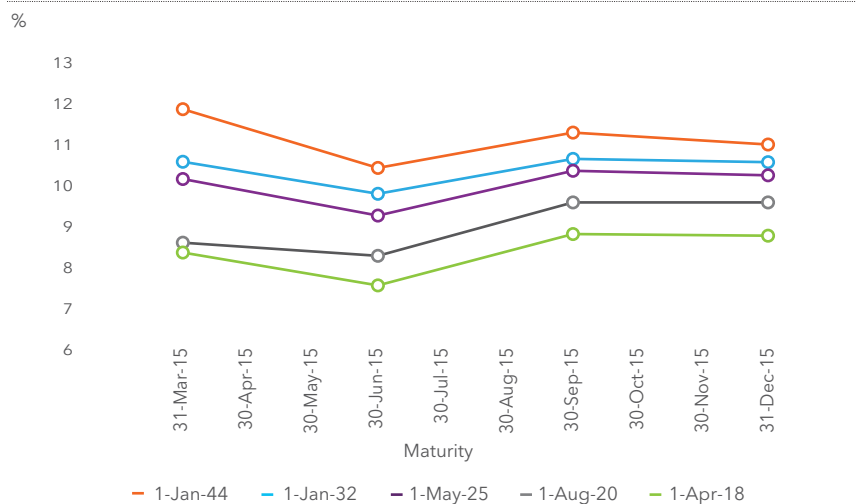
Therefore, the funds were monitored in the following composition:

- Life Fund
- Life Shareholders Fund
- Corporate Fund
- General Fund

## Life Fund

The assets within the fund continued to perform admirably under a trying year for investments, and the treasury team was able, with the guidance of the ALCO together with securities available

## Treasury Bond Rate Movement 2015



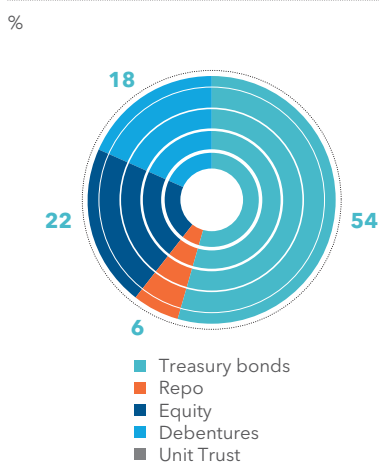
## Performance of Investment Portfolio

throughout the curve, to reduce the mismatch of assets against liabilities. The volatility which existed along the yield curve allowed the team to take advantage of arbitrage opportunities, whilst care was taken to reduce the asset liability mismatch as stated.

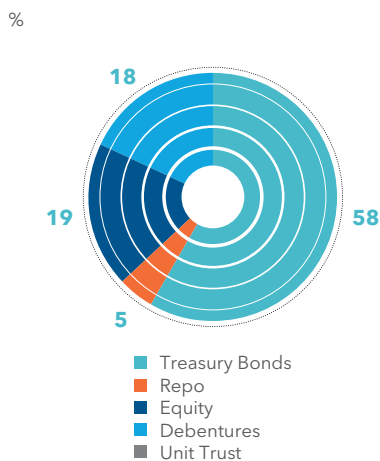
Investment in listed corporate debt were limited due to the view that rates will increase, and therefore funds available for investment in this category were redirected to other liquid instruments in order to be able to invest in corporate debt once a stability had been reached along the yield curve.

The equity portfolio continued to be restructured with actively traded and fundamentally strong stocks being identified and added to the portfolio, and it is the view of treasury that whilst the current returns on the stock market are weak, that a recovery will yield sufficient returns due to the strength of stocks in hand. As in the case of the government securities portfolio, the equity portfolio will continue to be monitored on a daily basis to take advantage of trading opportunities that arise during the coming year.

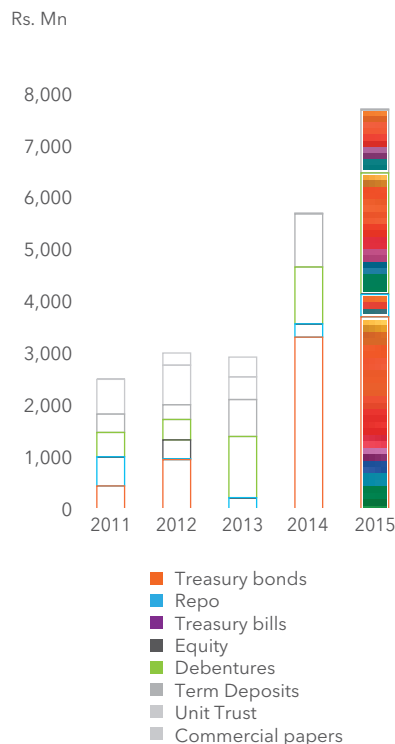
### Life Investment Mix - 2015



### Life Investment Mix - 2014



### 5 year breakdown of Investment Life



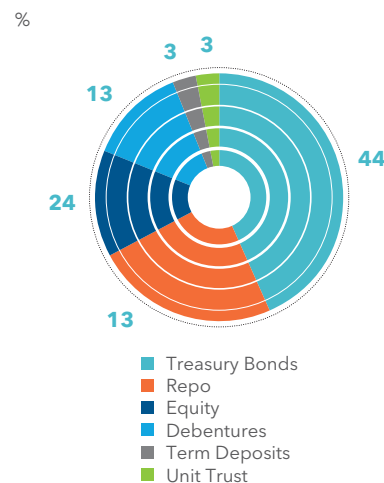
The fund grew by 45% as a result of aggressive growth of the Life business, where the GWP increased by 34% year-on-year, together with gains achieved in trading through the FIS and equity portfolios. Income earned on the fund returned 11.8%, and a breakdown of the asset category and growth can be seen below;

### General Portfolio Fund

The shorter term aspect of the fund resulted in liquidity continuing to be a priority on assets. 57% constituted of government securities of which a significant proportion had a maturity profile of less than 5 years, whilst investments in other asset categories were made with a view to balance the need for adequate returns versus maintenance of sufficient liquidity to service claims and other payments, whilst allowing the treasury team to take advantage of trading opportunities in the market as well.

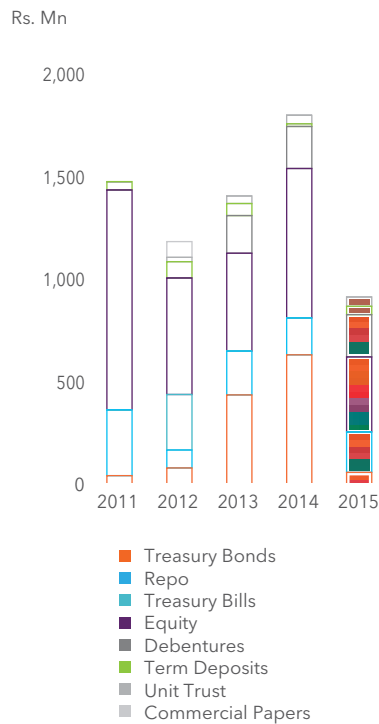
The asset mix of the fund is as follows at year-end:

### General Investment Mix - 2015



The investment base continued to grow aggressively with a 29% growth in the base as a result of aggressive expansion of the General Insurance business. Investment income through the base achieved adequate returns, though was unable to emulate impressive returns seen in the previous year due to high volatility and lack of direction in the absence of a clear fiscal policy for a majority of the year. Growth of the investment base can be seen below;

### 5 Year Breakdown of Investment - General



### Future Outlook

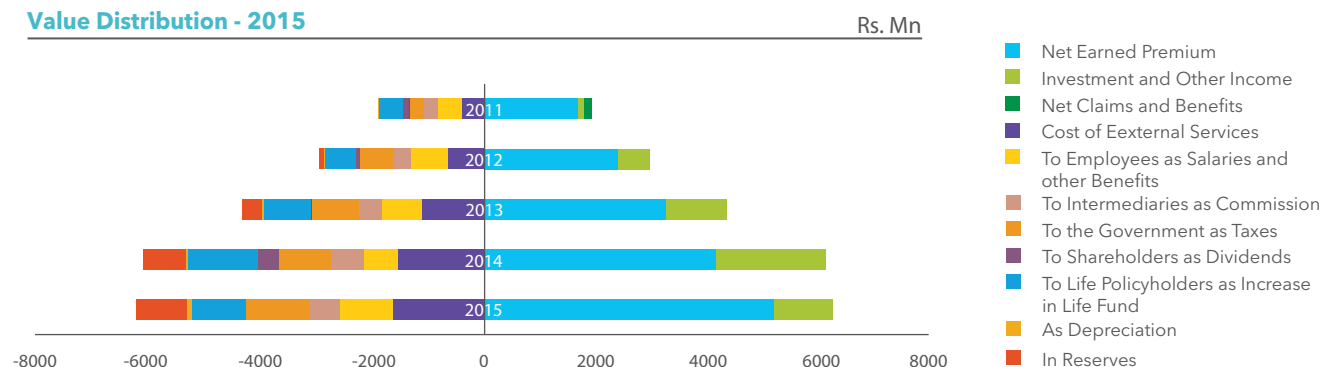
Continued pressure on the exchange rate through increase consumable imports, together with loose fiscal policy by the government will continue to create upward pressure along the yield curve. Treasury remains cognizant of this fact, and in terms of FIS has maintained liquid investments to take advantage of rates at targeted peak levels to continue to achieve budgeted yields whilst maintaining ALM within the respective operations. The equity market provides a bleak outlook for 2016 due to the high interest rate environment and investor flight to FIS assets, though treasury is confident in the current equity portfolio held by the respective funds due to shares been fundamentally strong and fairly priced at time of purchase, and await further opportunities to trade in the market once opportunities arise.

## Contribution to the National Economy

Sources of Distribution of Income detail analysis

Sources of Income Rs. Mn	2015	2014	2013	2012	2011
Net Earned Premium	5,173	4,140	3,240	2,392	1,669
Investment and Other Income	1,064	1,962	1,100	562	109
Net Claims and Benefits	(1,629)	(1,549)	(1,124)	(660)	(395)
Cost of External Services	(964)	(600)	(522)	(647)	(445)
Total Value Added	3,644	3,954	2,694	1,647	938
To Employees as Salaries and Other Benefits	523	603	412	316	242
To Intermediaries as Commission	1,149	926	856	597	260
To the Government as Taxes	4	4	3	5	4
To Shareholders as Dividends	-	368	180	75	113
To Life Policyholders as Increase in Life Fund	966	1,253	842	551	424
Retained with the Business	-	-	-	-	-
-as depreciations	78	48	38	31	24
-in reserves	924	752	362	73	(128)
	3,644	3,954	2,694	1,647	938

### Value Distribution - 2015



Direct Economic Value Generated - Rs. Mn	2015	2014
Revenue	3,644	3,954
Operating cost	-	-
Employees wages	1,672	1,529
Payments to providers of capital	-	368
Payments to government	4	4
Community investment	1,044	1,301
Economic value retained	924	752

# Key Accounting Concepts of Simplified Insurance Financials

*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:** Insurance Accounting is different from the accounting for a manufacturing or trading organisation, due to the uniqueness of the business and terminology associated with the transactions.

Summary of the extract of Income Statement is as follows.

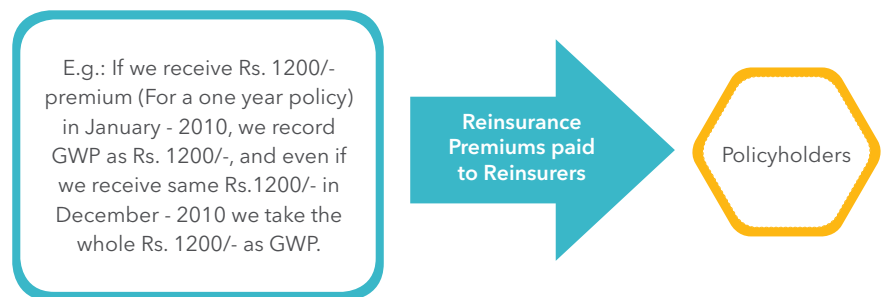
Income Statement	Rs. '000
For the year ended 31 December 2015	
Gross Written Premium	6,053,425
Less: Premium ceded to reinsurers	(131,590)
Net earned premium	5,172,741
Net insurance benefits and claims	(1,629,158)
Net acquisition cost	(1,149,112)
Increase in Life Fund	(966,452)

Note: Only the insurance specific part of the Income Statement is extracted above.

**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 organisation. 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".



## Key Accounting Concepts of Simplified Insurance Financials

**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 policyholders, 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.

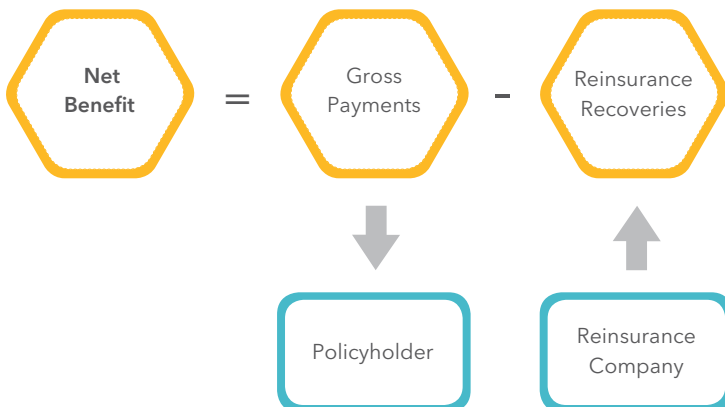
The benefits and claims net of reinsurance recoveries are treated as net benefits and claims.

**Q:** What includes in Net Acquisition Expenses?

**A:** This consists of commission, franchise fee, deferred acquisition expenses net of Reinsurance commission.

### Deferred Acquisition Expenses

In 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.

**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 as follows.

Liabilities	2015 Rs. '000
Insurance Contract Liabilities	5,966,013
Unclaimed Benefits	226,599
Life Insurance Contract Liabilities	6,192,612
Reserves for Net Unearned Premium	1,033,457
Gross Claims Payable	288,554
General Insurance Contract Liabilities	1,322,01

Note: Only the insurance specific part of the Balance Sheet is extracted above.

**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 policyholders' 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 liability until they have been 'earned' during the period to which they relate.

**Q:** What is meant by Claims Incurred But Not Reported?

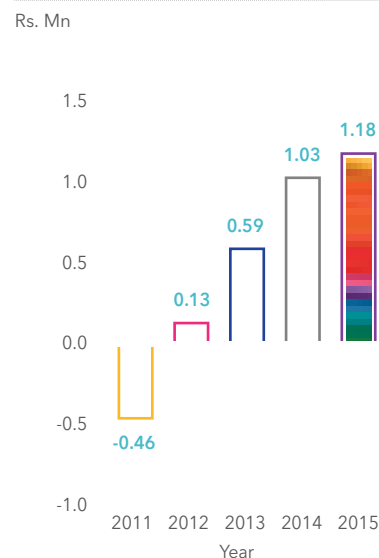
**A:** This is the provision for an estimated amount made for claims that could be incurred as at the reporting date, but not informed to the insurer as at the Balance Sheet date. This estimate is based on an actuarial valuation.

## Key Non-Financial Performance Highlights

Group	2015	2014	2013	2012	2011
Total Claims and Benefits Paid* Rs. Mn	1,594	1,403	1,108	796	499
Number of Life Customers	59,123	56,142	46,483	41,462	36,860
Growth in Consolidated GWP %	27%	21%	26%	46%	32%
Number of Branches	79	67	53	34	33
Number of New products	2	5	3	2	-
Growth in Claims Paid %	14%	21%	39%	60%	-37%
First Year Customer Retention - Life	82%	78%	76%	78%	75%

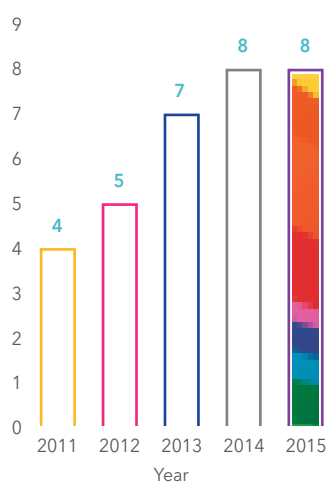
Rs. 000'	2015	2014	2013	2012	2011
Consolidated Revenue per Employee	7,976	8,360	6,856	5,132	4,022
Consolidated Gross Written Premium per Employee	7,740	6,539	6,597	5,789	5,133
Profit per Employee- Consolidated	1,181	1,030	586	132	(461)
Value Added per Employee	4,602	5,804	4,626	3,105	4,690
Number of Employees - Group	782	730	618	557	430
No of Agents - Life	1,344	1,092	979	-	-
GWP per Agent (Rs. million)	3.04	2.79	2.31	-	-

### Consolidated Profit per Employee



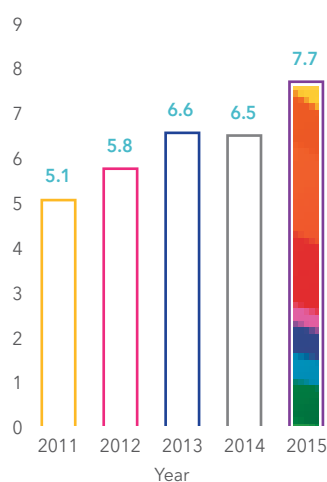
### Consolidated Revenue per Employee

Rs. Mn



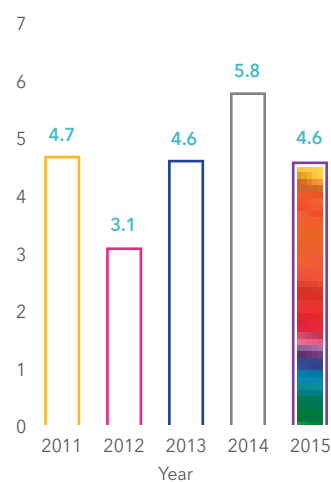
### Consolidated GWP per Employee

Rs. Mn



### Value Added per Employee

Rs. Mn





## Value Creation: Investors

We are the stewards of our investors' financial capital and we value their trust and confidence.

Consistent and effective engagement with investors, with the objective of aligning shareholder expectations with our strategy and targets, helps ensure our share price fairly reflects our value creation opportunity.

Our investors and potential investors require regular interaction and information to assist in achieving their investment goals.

We deliver this interaction and information through dedicated investor relations services, a well directed and comprehensive plan complemented by accessible channels of enquiry and timely responses. The business of an insurer is often perceived as complicated with its own sub-culture of jargon and metrics. Therefore it is imperative that we efficiently communicate the insurance business model, overlaid with AAI's uniqueness, by explaining our differentiated capabilities and strategy. Refer the "Our Sustainable Strategy" section on pages 63 to 67 for more details.

Due to the lack of a completed IFRS Standard on the measurement of insurance liabilities, the provision of detailed analysis of our financial results is critical to aid investors and analysts to compare us with our competitors on a like for like basis. Refer to "Financial Performance" section on pages 71 to 91 for more details.

Our investors, are the providers of financial capital, we consider them as our ultimate stakeholders. Thus, we consider it our duty to create and deliver sustainable value through our business model by responding to the social and environmental issues inherent in our business. Details of our sustainable business model is provided on pages 38 to 39 of this report.

Key Financial Performance are provided below;

Description	2015*	2014
Gross written premium		
Total amount we receive from life and general customers as payments for their insurance policies	Rs. 6.1 billion	Rs. 4.8 billion
Net earned premium	Rs. 5.1 billion	Rs. 4.1 billion
Net profit		
Profit after tax attributable to our ordinary shareholders from life and General Insurance businesses	Rs. 924 million	Rs. 752 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	41.57%	39%

The details of Company's financial performance is provided in Financial Performance Review Section on pages 71 to 91 to this report.

### Economic Value Added

Economic Value added increased to Rs. 688 million compared to value added of Rs. 510 million in year 2014 which amount to 39% growth. This shows the exceptional performance to our valued shareholders.

Economic Value Added	2015* Rs.'000	2014 Rs.'000
Invested equity		
Shareholders' funds	2,223,324	2,373,664
Earnings		
Profit after tax	924,309	752,111
Cost of equity (based on 12 months weighted average Treasury Bill rate plus 3.5% for the risk premium)	10.61%	10.19%
Cost of average equity	235,895	241,876
Economic value added	688,414	510,235

### Performance of Key Ratios

Description	2015*	2014
Net Asset per Share (Rs.)	5.93	6.33
Earnings per Share (Rs.)	2.46	2.01
Share Price at the year end (Rs.)	16	143
Earning Yield	15%	14%
Market Capitalisation Rs. millions	6,000	5,363
Price Earnings Ratio (times)	6	7

The details of the Share information and additional ratios are provided in pages 359 to 363.

\* Figures are presented on a consolidated basis

## Value Creation: Investors

### Sustainable Performance

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 during the year,

The details of these improvements as well as the overall structure are provided on pages 174 to 203 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 organisational 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 218 to 221.

### Business Continuity Planning

The business continuity plan was successfully implemented and tested during the year based on reallife 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.

### Strategic Planning and 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 204 to 206 of this report.

### Reliable and Timely Information to Shareholders and Public

#### Publish Comprehensive Reliable Information to Shareholders

We, as a responsible corporate citizen, make every endeavour to share reliable and comprehensive information with our stakeholders. In recognising our unrelenting commitment to transparency in financial reporting, our 2014 annual report won several accolades at the Annual Report Awards Ceremony conducted by The Institute of Chartered Accountants of Sri Lanka, including bronze award for overall excellence in Integrated Reporting and bronze award in the insurance sector for the best annual report.

#### Timely Submission of Quarterly and Annual Financial Statements

During the year the Company published all its Quarterly and Annual Financial Statements with all required disclosures in line with the statutory submission dates. The financial reporting calendar for 2016 is provided on page 222.

#### Shareholder Communication Policy

In line with best corporate governance practices, we have a shareholder communication policy in place to ensure that they have ready and timely access to all information of the Company that should be publicly available. The shareholder communication policy of AAI is given on page 175 - 176.

## Value creation: Customers



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 AAI 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 the purchase of a product to getting paid when a claim is made.

### Our Critical Success Factors

<b>59,123</b> Life Customers and <b>59,177</b> General Customers	<b>79</b> Branches Islandwide	<b>89% - 97%</b> Customer Satisfaction on Life Insurance
<b>4</b> Product Rebranded & <b>1</b> New Products	<b>95%</b> Customer Complains were resolved in-house	<b>220%</b> increase in no. of Ex-gratia claims

To achieve the objective of maximising 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.

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 recognises 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.

## Value Creation: Customers

### Highlights of 2015

Introduce Life Max, a unique policy which consists of a life cover with health benefits.

A unique cover is introduced as "Overseas health plan" available with premier healthcare partners; Asiri Hospitals, Parkway Hospitals Singapore and Apollo Hospitals India

Click2Claim for ladies, a unique Motor Insurance product was launched that gives unprecedented benefits to lady drivers.

Enabling customers to purchase travel insurance online through 'Alliance Travel Assist Insurance'. Policy covers personal accident, reimbursement of medical expenses, personal liability, loss of baggage/personal effects/money/passport, hijacking, cancellation of flights, etc.

Customer Service Weekend was held from 9th Oct 2015 to 16th Oct 2015 to enrich the relationship with our customers by meeting and greeting them

The geographical sales expansion as per budget is in progress as planned, with the addition of 12 new branches that brings the total number of strategically placed locations to 79 Island-wide.

Introduce Alliance Protected Investment Plan which combines the benefits of term insurance with Bank Fixed Deposit product.

### Where we focus

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
- Improve customer convenience, fair and secure.
- Financial security
- High return
- Governance
- Brand recognition

With our operations being nationwide 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 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 2014 to reflect on what our customers have told us is important to them in making insurance easier, offering solutions that meet their needs, putting them in control and taking accountability if things go wrong.

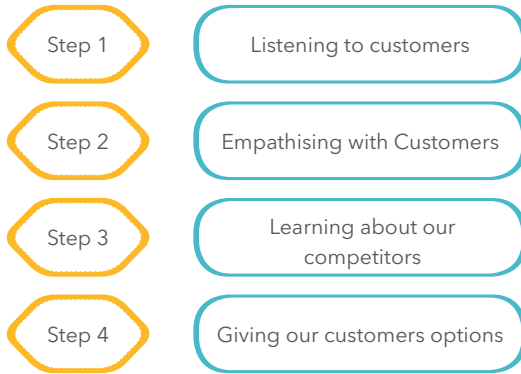


### We understand our Customers

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

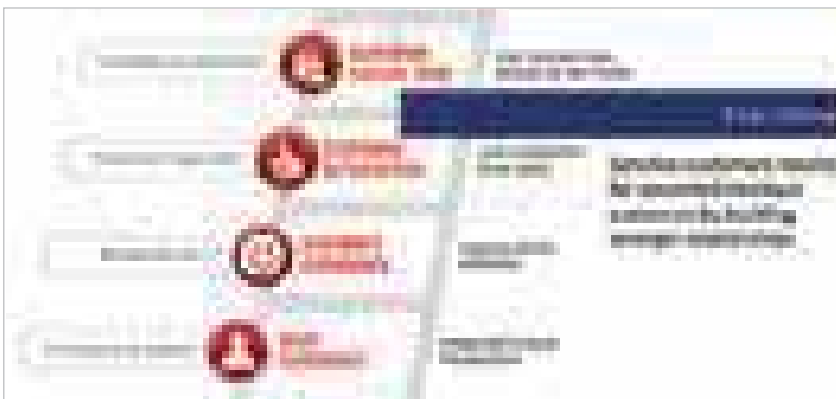


**Step 1: Listening to customers**

Whether talking on the phone with a customer or conducting business in person, we always take a minute to ask our customer's 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.

The "Client Experience" is one of our strategic priorities. While we appreciate unsolicited feedback from clients, we objectively measure client satisfaction through "Breakthrough Research Sri Lanka" based on the following criteria

Life Insurance Overall Expectations vs. Experience	Overall Achievement
Provision of necessary information at the point of purchasing	89%
Relevance of the product for your insurance requirement	92%
Explanation of the policy document and conditions	95%
Speed of services provided by the sales agent	95%
Professionalism of the sales agent	95%
Ability to contact the sales agent / representative	97%
Customer service of the sales agent/ representative	96%
Speed of the claim process	89%
Convenience of the claim process	91%
Willingness to help at the point of the claim	91%
Customer centricity of the call center	92%
Honesty of business transactions	93%
Keeping you informed of your payments	92%
Respecting you as a customer	96%
Keeping you updated on new policy developments	89%

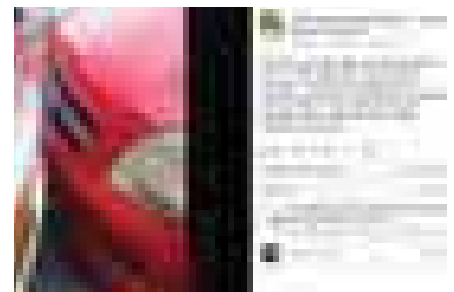


**Step 2: Empathizing with customers.**

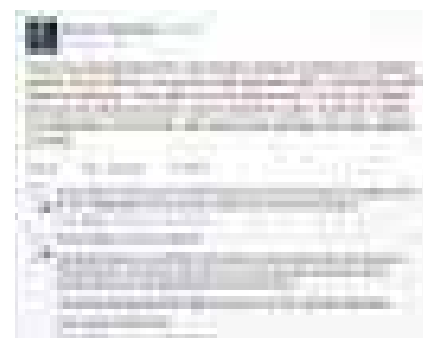
Many businesses claim that the client comes first, but very few allow clients to sit at the table and have an authentic voice in business discussions. When our customer's offer feedback about us, we take time to put ourself in their place. We believe it is vital for clients to understand the products they are buying and to ensure they have the protection they need. Therefore, before introducing a new product to the market we have table discussions and press release events so the customer can get a clear understanding about the product and its feature.

Social media is also one of our attractive ways to listen to client's customers feedback. A special team is allocated to reply to all questions, complaints and claims through social media.

**Positive Feedback from a Customer**



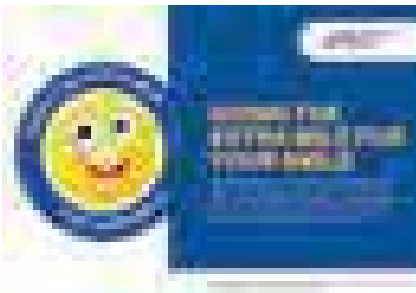
**Negative Feedback from a Customer and our Response**



## Value Creation: Customers

Advisors are encouraged to meet with clients on a regular basis to address any gaps in coverage that may exist and to answer any questions. In year 2015, International Customer Service weekend was carried out where,

- Each Branch Manager visited the top 10 customers of their branch along with the sales person or advisor
- Our Chief Operating Officer- Life & Chief Executive Officer visited 5 customers along with the advisor and sales person
- Managing Director visited 2 customers with the advisor and sales person during the week
- Each Department visited a minimum 5 customers along with the sales team



### Step 3 Learning from our Competitors

AAI considers healthy competition to be the best tutor. AAI extensively researches the segments it operates into 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 in us.

### Step 4 Giving our Customers Options

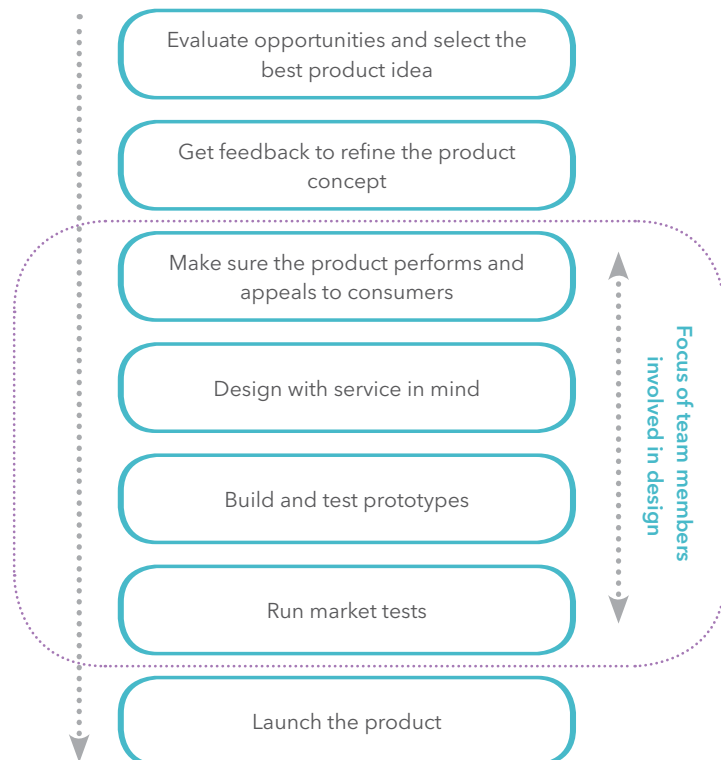
Every week, the Senior Management meets and analyses the product performance of both segments whilst brainstorming for new and innovative ideas based on the results of Steps 1, 2 and 3. The objective here is to match the high standards of our customers by optimising the products and services of AAI to further suit their needs.

### 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

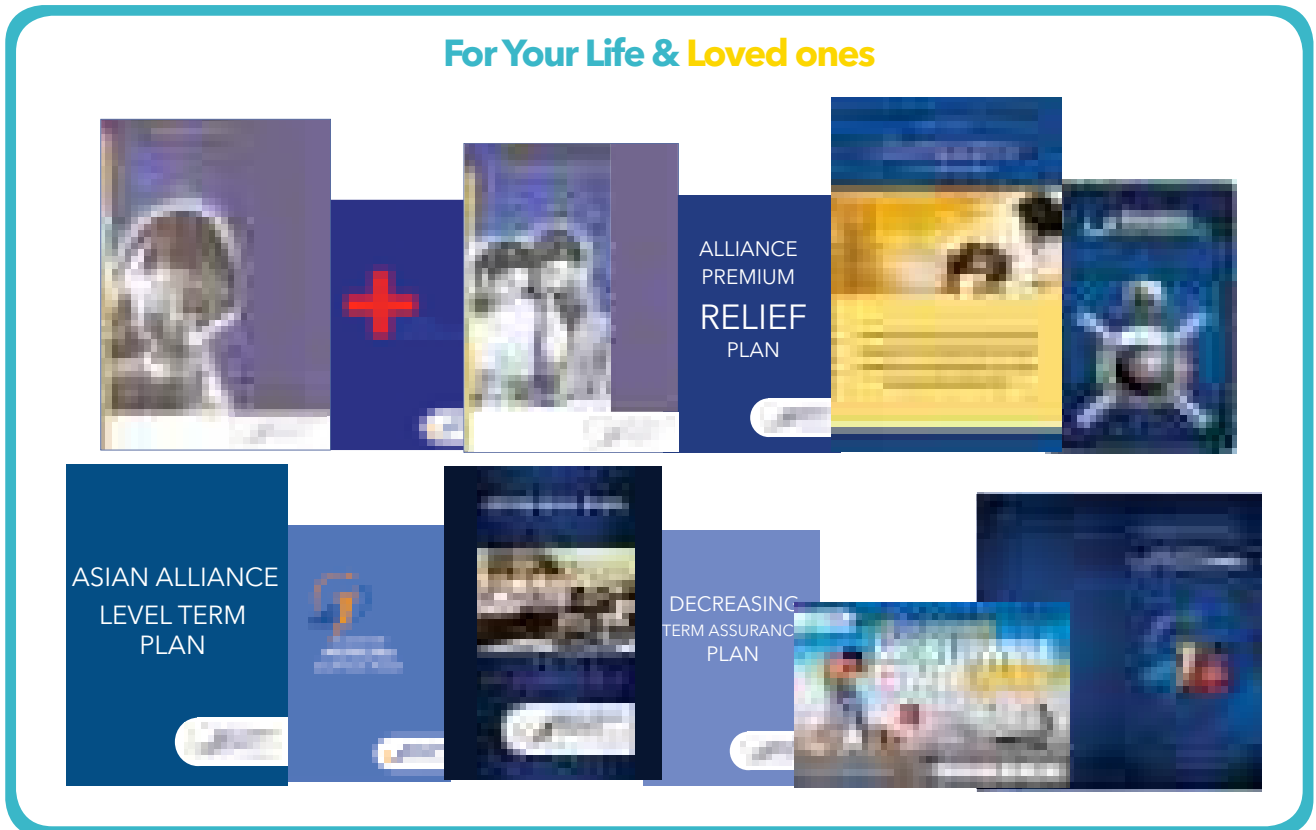
of products for both segments which strengthen the Company's competitive advantage as well as guarantee customer satisfaction due to its unique features and the embedded operational simplicity. Anyone can easily understand the desired product or service and if further assistance is needed, our customers do not have to look very far.

Our product development process is constantly evolving. We continue to review our process while seeking to provide a relevant product offering that supports environmentally and socially beneficial features. The Company strictly follows its formalised products introduction process which requires approval from a product development forum before launching new products to its Customers.



### Our Products - Life Insurance Solutions

Insurance is an important element of any sound financial plan. Different kinds of insurance help protect you and your loved ones in different ways against the cost of accidents, illness, disability, and death. Therefore, as a result of our development process we have offered the following products and options to suit with individual financial needs.



## Value Creation: Customers

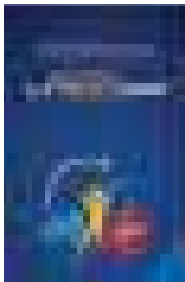
Details of product with brief description as follows;

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"> <li>• At the end of the term of the policy child will start receiving 200% of the sum assured at 40% per year for 5 consecutive years</li> <li>• 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</li> </ul>
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>



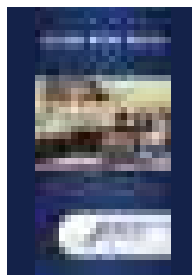
## Dividend Based Investment Account Products

### Alliance Protected Savings Plan



The Protected Savings Plan is a unique product that combines the benefits of term insurance with those of a bank savings account are coupled with Life covered. 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.

### Retire with Pride - Asian Alliance Retirement Plan



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.

## Term Cover Products

### Asian Alliance Level Term Plan



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.

### Decreasing Term Assurance Plan (DTAP)



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.

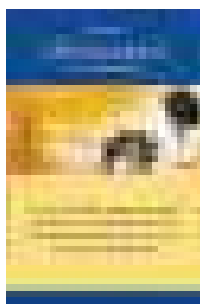
## Value Creation: Customers

### Riders

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

##### Relief Plan

Alliance Premium Relief Plan is an innovative tailor made insurance solution from us to meet the future protection needs of you and your loved ones. This product releases you from conventional premium payments whilst providing the benefits throughout the original term of the policy.



##### Family Healthcare Benefit

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.

##### 100 Years PLUS Life Cover

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).

##### Total Permanent Disability Benefit

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

##### Partial Permanent Disability Benefit

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

##### Premium Protector Benefit

Waiver of premium benefit in the event of a total or permanent disability

##### Spouse Cover Benefit

Optional life cover provided to the spouse of the main policyholder.

##### Hospitalisation Benefit

Daily benefit paid in the event of hospitalization, to help cover loss of income, medical bills, transport costs etc.

##### Family Income Benefit

A monthly benefit paid in the event of a death or a total and permanent disability of the main life assured.

##### Critical Illness Super Benefit

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.

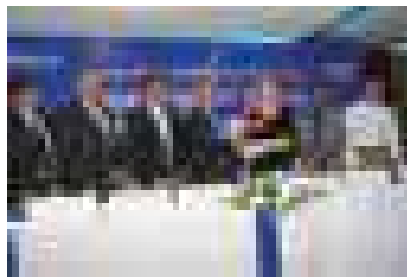
**Life Insurance Product Improvements for 2015**  
**Asian Alliance Life - Product Rebranding**

Lifemax is a unique policy which consists of a life cover with health benefits. This allows the customers to get medical treatments from leading local and overseas hospitals.



**Overseas Plan**

This unique cover will be in partnership with recognised local and international healthcare service providers, to create a platform of the best healthcare solutions for the Company's Life policyholders and their families. The special partnership with Apollo Group of Hospitals India and Parkway Hospitals Singapore, will enable AAI policyholders to enjoy highly specialised care on overseas treatment. This rider benefit comes together with our life policy.

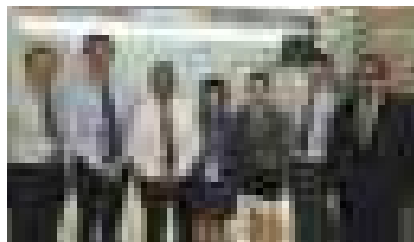


Signing a MOU with Apollo Group of Hospitals India

Death Benefit will be paid from the accumulated premium + 10% of the initial single premium.

**Alliance Loan Protected Plan - Product Rebranding**

Cover against non payment of loan installments due to death or total disability. The period of the plan will depend on your loan repayment period and will cover the outstanding balance of the loan at any given time.



Celebrating partnership with Parkway Hospitals Singapore

**Alliance Protected Investment Plan**

Asian Alliance Protected investment plan is a unique product with a single premium payment where customers can opt for the monthly dividend receiving option or the receiving dividend at maturity option. Dividend rate defined at the policy inception will remain fixed until the maturity.



Annual Limit (LKR)	1,500,000	2,000,000	2,500,000	3,000,000
Scope of Coverage	Sri Lanka, India, Malaysia, Singapore			
Cover Available for	Spouse and four Children age below 21 Year			
Premium Paying Mode	Monthly, Quarterly, Half year, Yealy			
Currency	Sr Lankan Rupees			
Policy Eligible	Resident of Sri Lanka Only			

**Benefits**



- With just a single premium payment at the inception of the plan period, your liabilities, collateral and the amount due to respective lending institution are both protected.
- Due to the risk being covered on a capital reducing basis, you will have the benefit of protecting your mortgage at the lowest premium in the industry.






## Value Creation: Customers

### Our Products - General Insurance Solutions

**For Your Possessions & Security**





TRAVEL INSURANCE	PROFESSIONAL INDEMNITY INSURANCE	PERSONAL ACCIDENT INSURANCE	CASH IN TRANSIT INSURANCE	CONTRACTOR'S PLANT AND MACHINERY INSURANCE	STOCKS THROUGH-PUT INSURANCE
DETERIORATION OF GOODS IN COLD STORAGE INSURANCE	FIRE INSURANCE	MACHINERY BREAKDOWN INSURANCE	MARINE INSURANCE	EMPLOYER'S LIABILITY AND / OR WORKMEN'S COMPENSATION INSURANCE	BOILER ALL RISKS INSURANCE

Specialised Products	Features
	<p><b>Click2Claim</b></p> <p>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.</p> <p>This groundbreaking Motor Insurance policy offers two of the most crucial factors in the 21st century speed and smart phone technology.</p>
<b>Health Insurance</b>	
	<p><b>Buhuman Pensioners</b></p> <p>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.</p>

Specialised Products	Features
	<p><b>Asiri Alliance Medical</b></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>
<p>Personal Plans</p>	
	<p><b>Burglary Insurance</b></p> <p>Covers movable items against forcible and violent entry to or exit from the premises.</p>
	<p><b>Travel Insurance</b></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><b>Professional Indemnity Insurance</b></p> <p>Covers the legal liability towards third parties for losses caused due to the negligence of the insured and erroneous advice.</p>
	<p><b>Personal Accident Insurance</b></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>

## Value Creation: Customers

Specialised Products	Features
<b>Corporate Plans</b>	
	<p><b>Cash in Transit Insurance</b> 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><b>Contractor's Plant and Machinery Insurance</b> Covers the contractor's mobile plant and machinery against various types of risks including transit losses. Policy can be extended to include riot, strike and terrorism. This is an ideal policy for owners who hire such equipment to contractors.</p>
	<p><b>Stocks Through-put Insurance</b> Covers stocks from the stages of raw material, processing to until the finished goods are placed - on board the vessel.</p>
	<p><b>Boiler All Risks Insurance</b> A specific insurance to cover the "boilers" and resulting third party bodily injury, death and property damage due to boiler explosion.</p>
	<p><b>Deterioration of Goods in Cold Storage Insurance</b> 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
<b>Corporate Plans</b>	
	<p><b>Fire Insurance</b></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><b>Machinery Breakdown Insurance</b></p> <p>Covers plant and Machinery against breakdown due to various causes which are not covered under a comprehensive fire policy.</p>
	<p><b>Marine Insurance</b></p> <p>Covers goods in transit by air, sea, rail or road due to various losses or damages.</p>
<b>Liability Insurance</b>	
	<p><b>Employer's Liability and / or Workmen's Compensation Insurance</b></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>

## Value Creation: Customers

### General Insurance product Improvements for 2015

#### Click2Claim Lady Insurance

In year 2015, we launched "Click2Claim" for ladies, a unique Motor Insurance that gives unprecedented benefits to lady drivers. Enabled by modern technology, our customers will be able to intimate their claims through their mobile smartphones as they "click and send" intimations of accidents to Asian Alliance, avoiding any inconvenience associated with an accident, and promptly being informed of their claim settlement.

#### Benefits



Dead battery assistance



Locksmith service



Tyre change assistance



Emergency fuel delivery



Technical advice hotline



Doctor and ambulance services

**24 Hrs x 365 days**  
roadside assistance

**Emergency**  
medical assistance

#### Product and 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 as 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. Significant alteration, damage, or removal of any critical cultural heritage
12. 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 2015, 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 business. 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 regulator's 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, penalties or warnings for non-compliance with laws and regulations or voluntary codes concerning the provisions related to health and safety impacts of products and services during their life cycle and with laws and regulations concerning the provision and use of products and services to the best of the Company's knowledge. AAI has a formal process in terms of compliance with regulations followed by our Compliance & Risk Officers'.

As discussed earlier, 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 a Q&A session is conducted for each new product which prevents instances such as selling products banned in certain markets or the subject of stakeholder questions or public debate.

#### Products Awareness

Anyone with internet access can log on 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 of the week. Our customers can always simply walk in to our head office or any of the 79 branches located island-wide to meet our insurance specialists who 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 itself 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.

According to the customer survey results "Speed of the claim process" shows a clear drop compared to other criteria. Where AAI has performed excellently. We want to be recognised as the sustainable choice for insurance, and we see this as an important part of who we are. Further, we believe that claims is an area of opportunity for incorporating sustainability into our operations.

### Sustainable Claims Solutions

We were able to introduce Dashboards for the Life operations and the Click2Claim app for Motor Insurance customers in order to increase efficiency of the claims process. The dashboards help 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 track claims processed by its respective operational stage. This helps identify delays and minimise inefficiencies in the respective operational process.

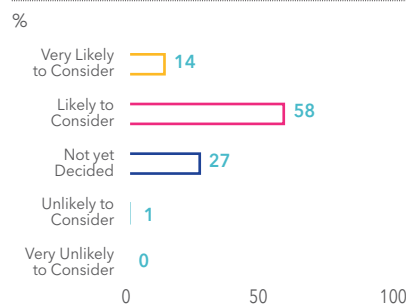
Using the Click2Claim app designed by Asian Alliance Insurance, Motor Insurance policyholders no longer need to wait for an assessor to visit the scene of an accident in order to pass a claim. The policyholder can now take a photograph of the damage to their vehicle via their mobile phone and send it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

In order to measure the performance of Motor Click2Claim app "Breakthrough Research Sri Lanka" has further evaluated the brand values of this AAI Motor Insurance product.

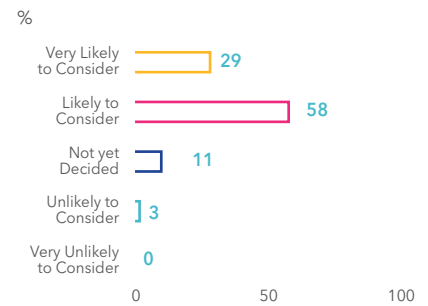
	Trustworthiness	Customer centricity	Innovativeness	Efficiency	Honesty	Clear in communication
Overall	65%	67%	67%	66%	65%	66%
Existing	80%	81%	78%	78%	78%	77%
Competitor (Industry)	56%	58%	60%	58%	56%	60%

Overall evaluation for Click2Claim

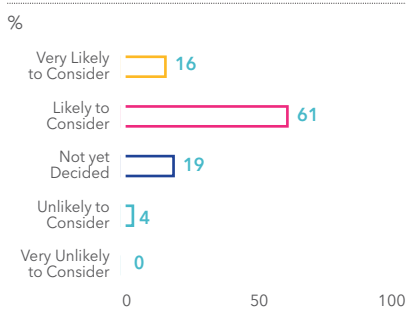
### Overall - Likelihood of considering Click2Claim at the point of renewal



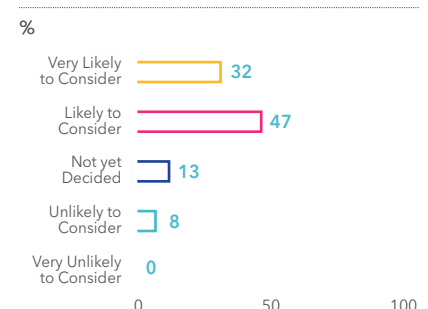
### Existing - Likelihood of considering Click2Claim at the point of renewal



### Overall - Likelihood of recommending Click2Claim to someone close to you



### Existing - Overall level of satisfaction with Asian Alliance motor services



### Key Strategic Partners

The strategic partnerships of AAI with recognised local and healthcare service providers, create a platform of best healthcare solutions for the Company's life policyholders and their families. Since AAI is a Softlogic Group Company, its policyholders can enjoy the benefits of advanced medical treatments, priority services and many other value added services when treated at any of Asiri Group of Hospitals, the leader in the private healthcare sector in Sri Lanka.

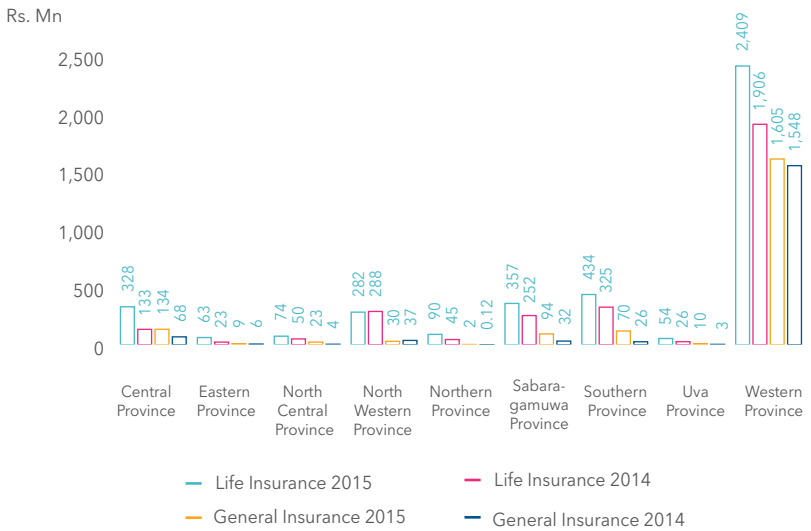
In addition, the special partnership with Apollo Group of Hospitals India and Parkway Group of Hospitals Singapore which includes Mount Elizabeth Hospital will enable AAI policyholders to enjoy highly specialised care on overseas treatment.

## Value Creation: Customers

### Better Connectivity

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.

### Gross Written Premium by Markets Served

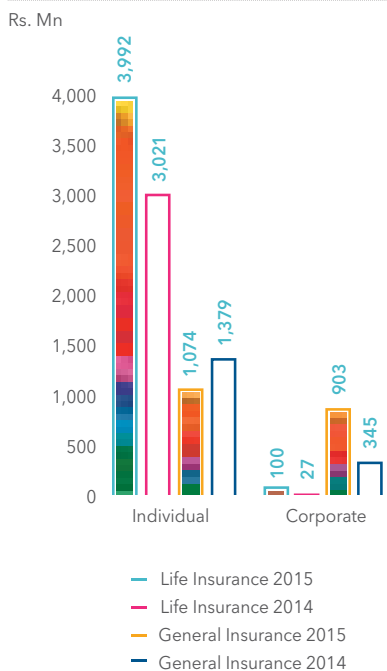


Further, AAI took steps to enhance customer convenience by linking the Company through Web based sales and broker channels. We have deployed multiple channels so that customers can access our services with ease.

The distribution strategy of the Life business 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 customised 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.

### Gross Written Premium by Sectors Served



Our branch network as well as the agent's network are both included in our corporate website and in summary we are an institution that is nation-wide in page 146

Province	No, of Branches
Central Province	9
Eastern Province	4
North Central Province	5
North Western Province	7
Northern Province **	4
Sabaragamuwa Province	6
Southern	7
Uva Province **	5
Western Province	32
<b>Total Branches</b>	<b>79</b>

\*\* Low populated areas

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.

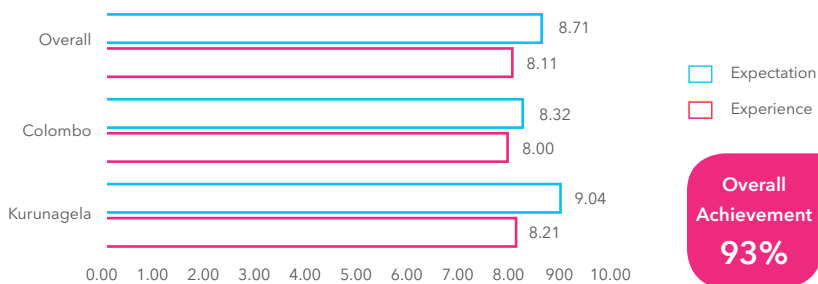


## Accountability

### Trust and Reputation

Company reputation and the fallout from reputational damage have surpassed economic and business model concerns as a top strategic risk for many large companies. We consider our reputation to be one of our most valuable assets. We act in ways that upholds our values and demonstrate that we are a trustworthy, honest, friendly, helpful, transparent and community-minded organisation.

When looking at the total sample reported by our client satisfaction survey conducted by "Breakthrough Research Sri Lanka", AAI Life Insurance have scored 93% for honesty of business transactions



### 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.

Description	2015**	2014*
Complaints	195	145
Successfully resolved	186	137
Unresolved	9	8

\*Life complains only

\*\*Both General & Life complains

A majority of the complaints received by AAI is related to Dissatisfaction with the claim amount offered and clerical errors. Out of 195, the number of complains General Insurance received is 115, where 114 were resolved in-house by the Company. Out of 80 Life Insurance complains, 75 were resolved by in-house consultants .

There were a myriad cases where we put ourselves in place of the customer and paid Ex-gratia claims.

Description ***	2015	2014
No of ex-gratia claims	48	15
Amount in (Rs. 000')	1,590	3,110

\*\*\*Life claims only

### 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 safeguarded:

- 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 specialised 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 procedure implemented to adhere to the data privacy policy. The IT audit is conducted throughout the year and the results are reported to the management and the Audit Committee for decision-making purposes and rectification procedures when required.

There were no substantiated complaints received concerning breaches of customer privacy from outside parties and substantiated by the organisation or complaints from regulatory bodies which is due to leaks, thefts, or losses of customer data. AAI have a formal process in terms of substantiating customer complaints on breaches of sensitive information. There were no complaints received by the Company on breaching of sensitive information by customers or outside parties.

## Value Creation: Customers



### Our Business Unit Operation Performance - Life

The Company has undertaken many initiatives to maximise “Top Most Line” of the valued customer by way of optimising to expenses by the use of IT as a key platform to optimum use of resources as well as improve customer value propositions.

Strategic objective	Initiative
<p data-bbox="148 544 520 573">Embed customer and client centricity</p> 	<p data-bbox="596 584 983 613"><b>Click4Life Mobile Application</b></p> <p data-bbox="596 618 1441 732">The Company was able to introduce a Life Insurance mobile app to ease the life of our valued customers. This will enable policyholders to pay premiums through, intimation of claims, view payment history, Special letters request such as surrender value certificates, Embassy letters and premium summary reports etc.</p> <p data-bbox="596 763 1441 846">This will be a great value added to the customer as through greater convenience as they will not be required to physically visit our branches, which would help them to save their valuable time.</p> <p data-bbox="596 882 1430 996">In addition to the above, this will enable customers to rate the service level of the Company, the Advisor and Servicing Officer. By implementing this solution the Company identified service level areas to improve in order to bridge the service level gap.</p> <p data-bbox="596 1028 1441 1229">This is a ground breaking app and a pioneering one since no other Insurance Company has a facility of this kind in the world. It has become so much easier to reach Life customers through the mobile app, thereby engaging customers 24/7. Further, customers are now empowered to generate documents they require through the mobile app at the click of a button, thereby eliminating the need to physically visit any AAI branches. Customers can even update information regularly while viewing their premium payment record.</p> <p data-bbox="596 1261 1430 1319">The app has captured the imagination of our customers and already 2,000 customers have registered to transact through the app.</p>
	<p data-bbox="596 1330 1043 1359"><b>Expanding Geographical Presence</b></p> <p data-bbox="596 1364 1441 1505">The Company encourages organic growth which empowers the expansion of regional hubs and 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. Therefore the Company added 4 new branches during the year.</p> <div data-bbox="596 1518 1037 1765">  </div> <div data-bbox="1075 1529 1356 1742">  </div> <p data-bbox="596 1778 1090 1807">Ceremonial Opening of Life Head Office - Kollpity</p>



Strategic objective	Initiative
	<p><b>E - Advisor</b></p> <p>Asian Alliance “E- Advisor” was launched successfully by Asian Alliance Life where the sales force will reform their sales process with technology-based customer solutions. It facilitates E - quotation, Product Demos, review of finance performance, video conferencing facility etc.</p> <p>This is a mobile tab app with a lot of functions involving the sales process. The Sales Advisors can use this app freely to access quotations and gain market intelligence.</p>
	<p><b>Digital Care Centre</b></p> <p>The Company intends to digitally interact and engage with their customers - to transform themselves as a digital service provide, and improve customer satisfaction and retention. This an all-inclusive solution offering both care and commerce capabilities from a single platform enabling consistent and personalised customer interactions across all channels</p>
	<p><b>Customer Relationship Management</b></p> <p>Customer Relationship Model has been successfully implemented to enhance the relationship with our valued customers. This model will be used on a continuous basis to create and maintain a good relationship with our existing and potential customers.</p>
	<p><b>Tab Proposals</b></p> <p>“Tab Proposal” tool was introduced and enables to fill proposal forms using Tablets. This will enable the sales team to expedite the sales process while giving a high standard service to our clients while increasing the accuracy and the service standards.</p>




## Value Creation: Customers

Strategic objective	Initiative
	<p><b>Life Operations Learning Portal</b></p> <p>In an era of digitisation, life operations launched an E - Learning platform to assist island-wide staff members to address most of their training needs out of the training rooms. Predominantly newly recruited staff members can learn the operational process since each and every step that requires to be adhered to clearly outlined in the portal. This was implemented in Sinhala and English for the benefit and understanding of most of the branch staff.</p>
	<p><b>Going Digital</b></p> <p>We are focused on completely eliminating paperwork and documentation to the greatest extent possible by digitising all systems and processes. This is already helping us record greater operational efficiency across all functions, thereby moving employees up the value chain. We have also streamlined the motor claims process to a greater degree today, by making the claims lodging process paperless, with no manual inputs, which takes us a step closer to our goal of becoming a paperless organisation.</p>

### Operation Performance - General

We have taken initiatives to achieve key objectives for the prospects of the General Insurance business which are summarised below: table.

Strategic Objective	Initiative								
<p><b>Embed Customer and Client Centricity</b></p> <div data-bbox="228 1514 628 1823" style="border: 1px solid #ccc; padding: 10px; margin: 10px 0;"> <table> <tr> <td>Panadura</td> <td>Anuradhapura</td> </tr> <tr> <td>Kuliyapitiya</td> <td>Jaffna</td> </tr> <tr> <td>Pettah</td> <td>Gampaha</td> </tr> <tr> <td>Nugegoda</td> <td>Kandy</td> </tr> </table>  </div>	Panadura	Anuradhapura	Kuliyapitiya	Jaffna	Pettah	Gampaha	Nugegoda	Kandy	<p><b>Expanding Regional Geographical Presence</b></p> <p>The Company encouraged organic growth which empowers cost effectiveness manner by adding new 8 branches to its distribution network.</p>  <p>Photo caption: Ceremonial opening of Kollupitiya Branch</p>
Panadura	Anuradhapura								
Kuliyapitiya	Jaffna								
Pettah	Gampaha								
Nugegoda	Kandy								

Strategic Objective	Initiative
	<p><b>Automation of Claim Processing Back-end Operations</b></p> <p>During the year several initiatives were taken to automate back-end operations of claims operation such as;</p> <ul style="list-style-type: none"> <li>• Workflow Implementation for Motor Claims</li> <li>• Assessor App Additional Features (mobile app)</li> <li>• C2C back-end Automation</li> </ul>
	<p><b>Conduct Comprehensive Research</b></p> <p>A research was carried out by 'Breakthrough Research Sri Lanka' to assess the service delivery of Asian Alliance Click2Claim product and to benchmark Asian Alliance insurance motor performance with competitors.</p>
	<p><b>General Insurance Premier League (GIPL)</b></p> <p>A special competition (General Insurance Premier League - GIPL) was launched for four months from June to September with a view to boosting sales performance. The competition has helped the Company to consistently achieve the targeted top line.</p>

## Value Creation: Customers

### The value balance between Customers and AAI

Employee Benefits	Source of value	Benefits to AAI	Key performance measures
Competitive investment returns and facilitation of retirement income	Investment products	Collecting the expected margins priced in contracted premiums Agreed charges typically linked to the assets invested	<ul style="list-style-type: none"> <li>• Death and disability claims (mortality variances)</li> <li>• Distribution headcount</li> <li>• Customer satisfaction</li> <li>• Customer complaint volumes and insurance Ombudsman queries</li> </ul>
Agreed charges typically linked to the assets invested			
Agreed charges for services provided			

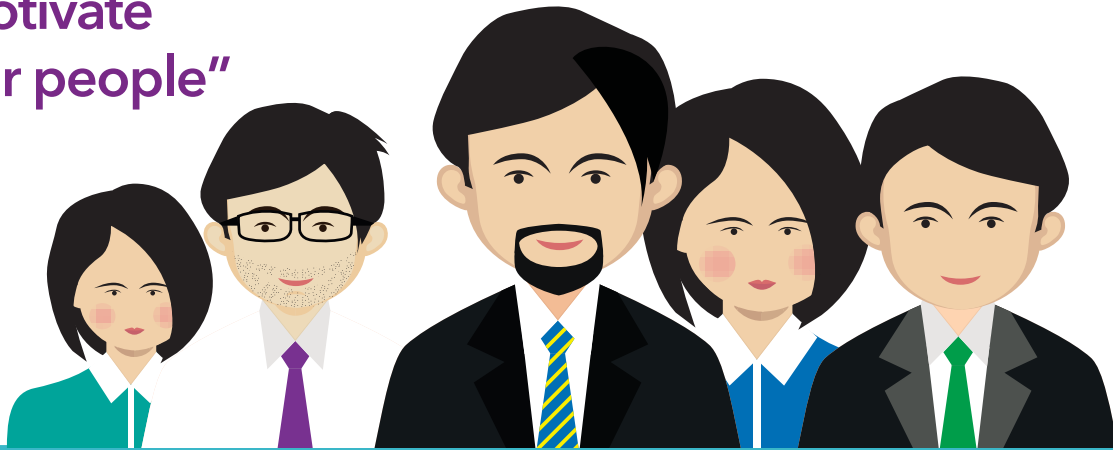
### Future Outlook

Our rapidly burgeoning customer base reflects the effectiveness of our sustainable approach towards our customers. We are proud of the gains achieved during the year in terms of enhancing customer convenience and moving customers up the value chain. AAI is proud of its strong customer focus with a special emphasis on the customer experience which has resulted in high retention rates. We remain committed to offering unique customer value propositions that distinguish us from competition, thereby enabling us to be poised as the clearly preferred insurance solutions provider for discerning customers. Our customers can expect many more technology backed solutions in the coming years just like we deployed during the year under review.



# Value creation: People

"Inspire and motivate our people"



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.

### Our Critical Success Factors

<b>Rs. 5 Mn</b> invested in training of salaried employees	<b>36%</b> of our permanent staff are women	<b>232</b> new employee hires
<b>3</b> student actuaries <b>6</b> Chartered Insurer's <b>7</b> Chartered Accountants and <b>10</b> MBA holders employed	<b>782</b> permanent employee <b>1,544</b> Commission-remunerated agents	<b>9</b> hours of training per employees

### Highlights of 2015

A Memorandum of Understanding (MoU) was signed with FMO - Financierings-Maatschappij voor Ontwikkelingslanden N.V, and DEG Deutsche to obtain financing via the Capacity Development Programme (CDP)/ Business Support Services (BSS) Programme to enhance the knowledge, skills and expertise of its team of In-house Actuaries

Training programs that are planned for the first and second quarter, captured via the training needs analysis. Based on this calendar employees can request for training programs that have been scheduled.

In-house doctor to visit Head Office and Ward Place.

Hotline to assist staff on urgent leave and attendance queries.

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.

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

Continuing our development series for Managers and Senior Managers; a number of focused training programs launched to improve managerial skills.

Staff uniforms were provided for selected grades of staff

## Value Creation: People

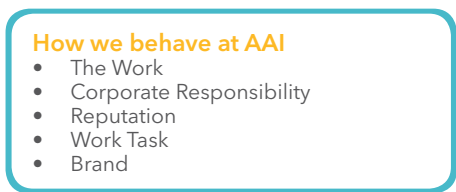
### Where We Focus

- Diversity and Equal Opportunity
- Gender Diversity
- Career Development and Employability
- Meeting our Employees' Needs

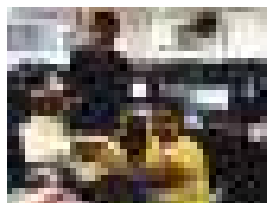
Employees are the driving factor behind AAI's swift ascendancy as one of the leading players in the industry. Today, the Company possesses one of the youngest and most dynamic insurance teams in the industry. The Company has invested in strategic areas to develop and grow talent through a corporate culture 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.

### AAI Employee Engagement Model

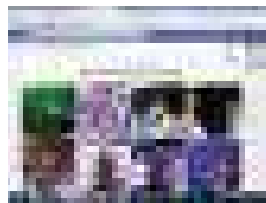
AAI's employee engagement model brings together the Company's leadership qualities, company values, and the employees' experience as the foundation for employee engagement and Our Company's long-term success. Employee engagement is driven by leadership quality, effective rewards, strong workplace culture and values, enabling productivity and support of performance and development.



### Employee Engagement Summary 2015



Month end Surprise



Got Talent Photo Competition



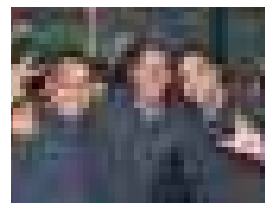
Talent show



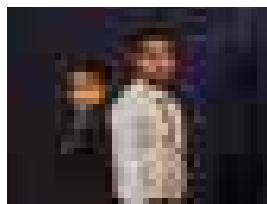
Infinity Website



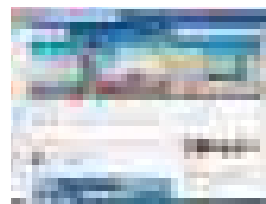
Wesak Bakthi Gee



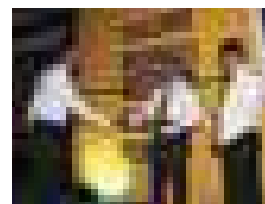
Dress Down Day



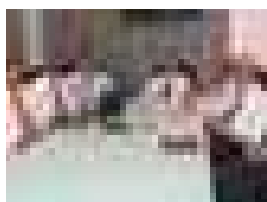
Uniform Launch



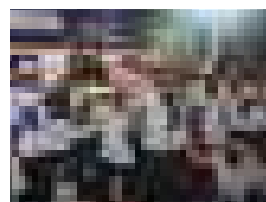
Closed-Group Facebook Page



Employee Recognition



Management Meetings



Cricket Carnivals



Performance Appraisal

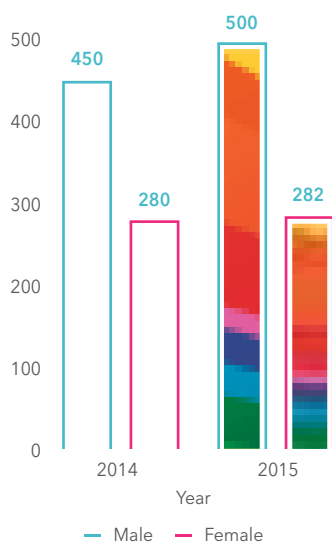
### Diversity and Equal Opportunity

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.

Workforce headcount	2015	2014	Growth
Salaried employees	782	730	7%
Commission-remunerated agents	1,544	1,144	34%

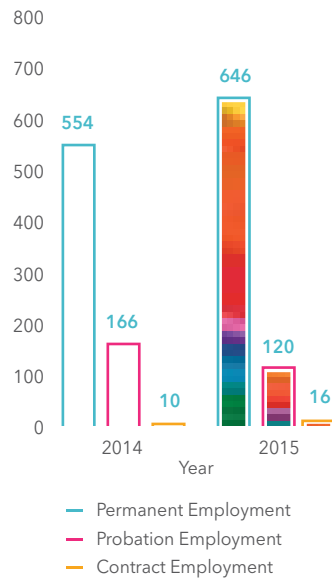
#### Employment by Gender

Head Count



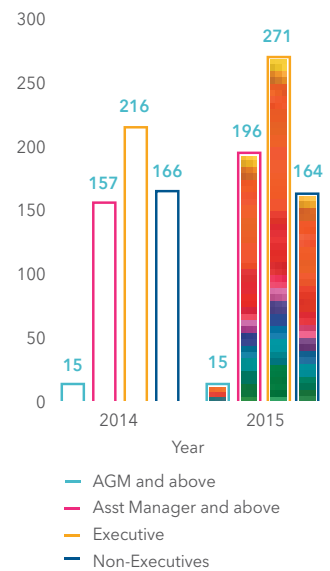
#### Employment by Type

Head Count



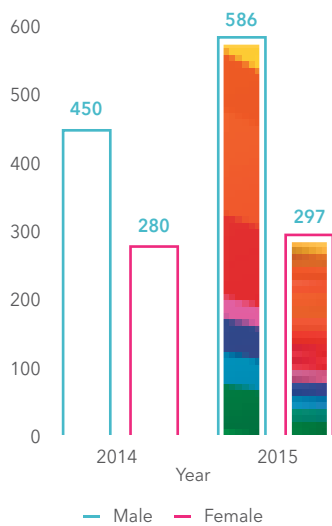
#### Permanent Employment by Category

Head Count



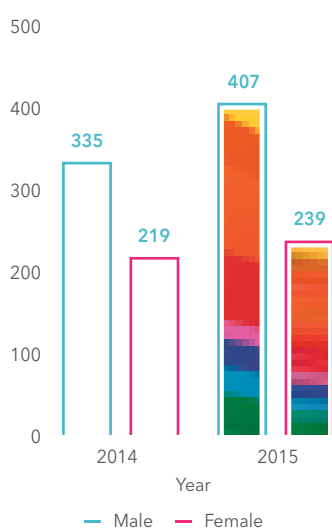
#### Workforce by Gender

Head Count



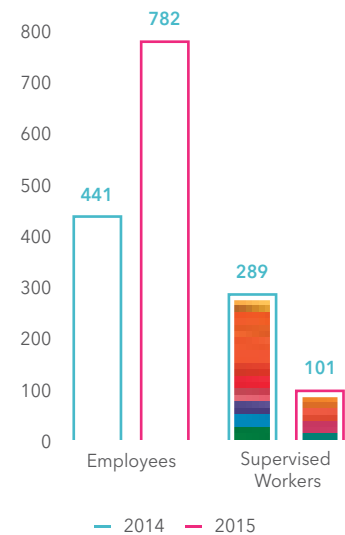
#### Permanent Employment by Gender

Head Count



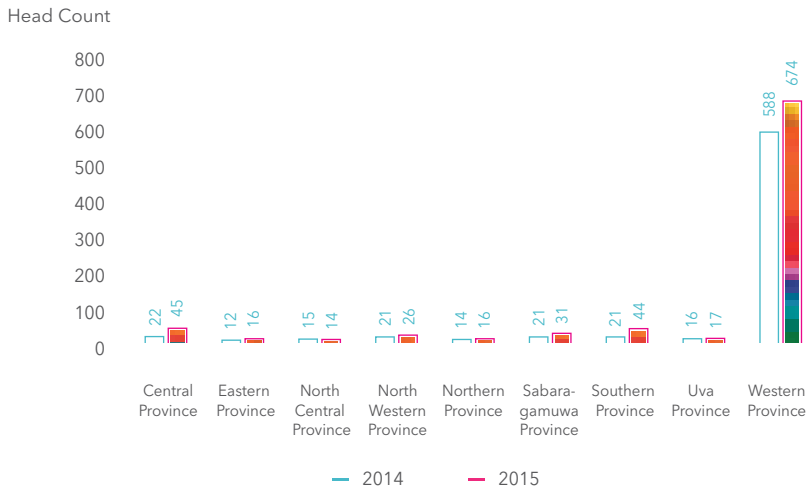
#### Workforce by Employees and Supervised Workers

Head Count



## Value Creation: People

### Workforce by Region



With regards to other worker, a substantial portion of the organisation's work is not performed by workers who are legally recognised as self-employed, or by individuals other than employees or supervised workers, including employees and supervised employees of contractors. During the year there were no significant variations in employment numbers.

### Age

The workforces are becoming increasingly diverse in age demographics, creating professional environment that is rich with experience and maturity as well as youthful exuberance. Companies that employ workers in a wide range of age groups have the advantage of creating a dynamic, multi-generational workforce with a diverse range of skill sets that is beneficial to the Company. Following are some of the advantages,

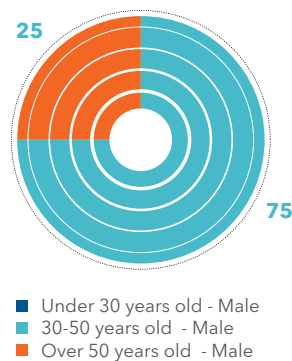
- A workforce composed of different age demographics creates an environment where each generation brings different skills and talents to the table.
- Young professionals grew up in a high-tech world and have greater familiarity with business technology tools compared to their more mature counterparts.

- Just as younger generations are credited with having good working knowledge of business technology, more mature members of a workforce have the advantage of traditional business skills.
- A workforce heavily composed only of people in a particular age demographic runs the risk of becoming obsolete.

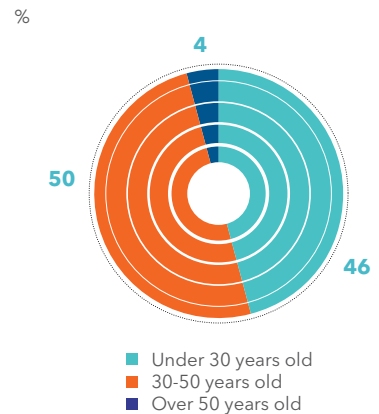
Therefore AAI team is composed of different age groups which creates a greater value for our business.

### Company's Governance Body by Gender & Age 2014 and 2015

%



### Employment by Age - 2015



### Percentage of Employment Category by Age - 2015



### Talent Acquisition

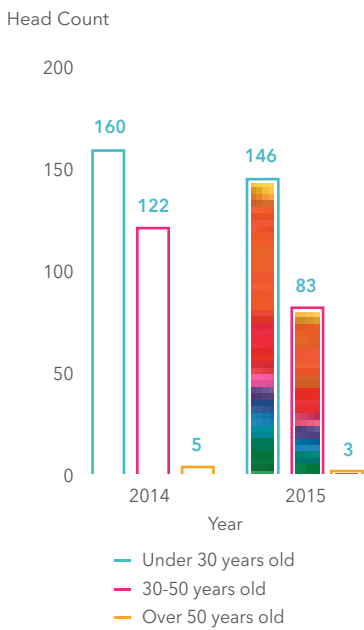
We travel to distant geographical locations where we have branches and recruits locally for those branches and even for the Colombo branches. This has not only benefited the local youth, but also enhanced our talent pool, helping us to expand our choices rather than being relegated to recruit within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

The initiatives to support employees include:

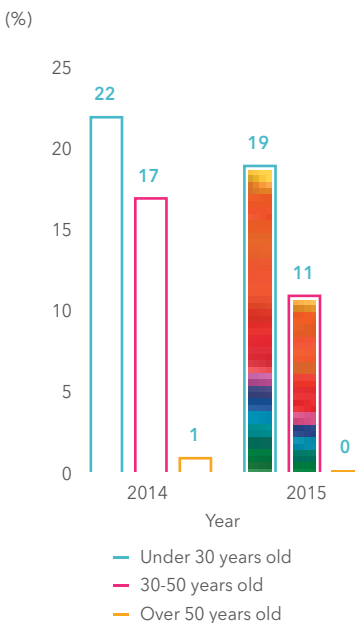
- Building stronger partnerships with colleges and universities that serve diverse populations

- Strengthening Our Company's internship programmes as 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

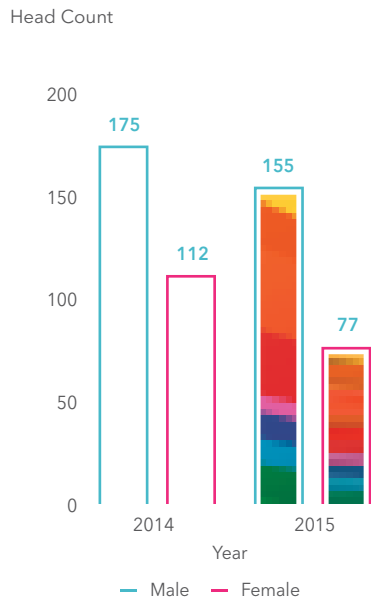
### New Employee Hires by Age Group



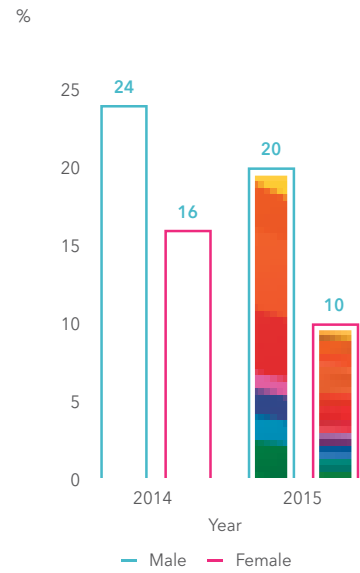
### Rate of New Employee Hires by Age group



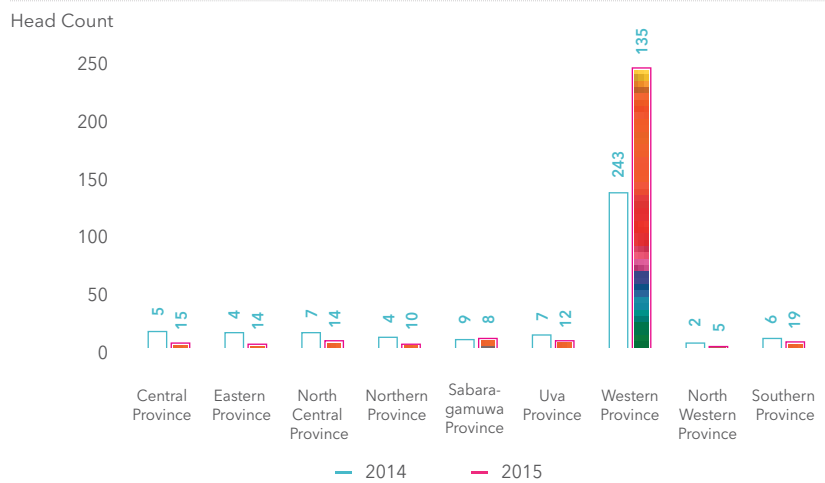
### New Employee Hires by Gender



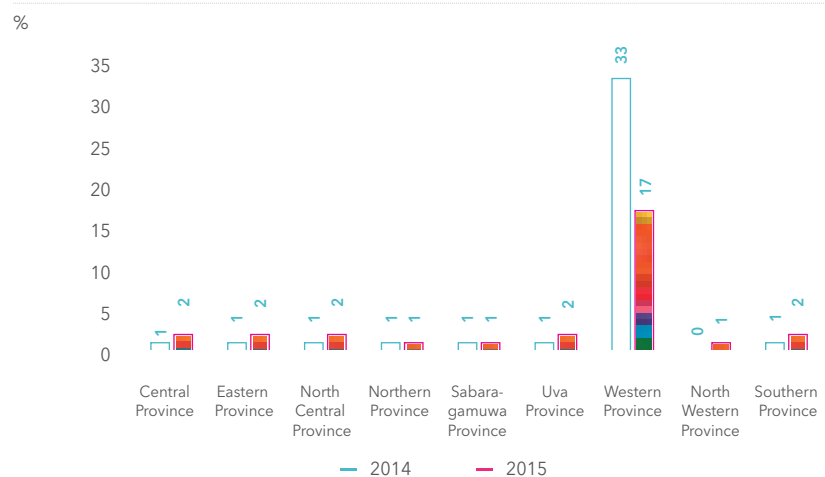
### Rate of New Employee Hires by Gender



### New Employee Hires by Region



### Rate of New Employee Hires by Region



## Value Creation: People

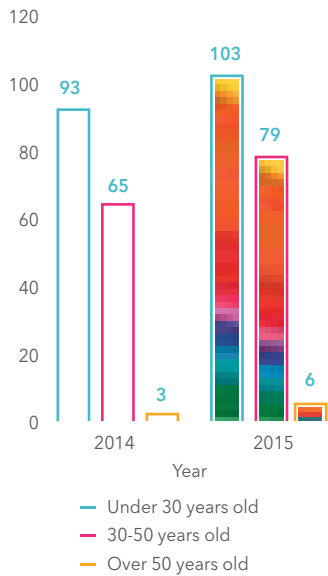
### Turnover

High turnover rates can negatively affect a company and its employees in many ways. With the constant need to hire and train new employees, it is easy to veer from the true mission and vision of the organisation. By retaining employees, companies can provide a higher caliber workforce that positively affects the bottom line. Businesses can lower turnover rates by providing adequate training, rewarding employees for a job well done and creating a company culture of trust. AAI's strategy on maintaining employee turnover is further discussed in the Career Development and Employability section.

### Employee Turnover Performance 2015 Vs 2014

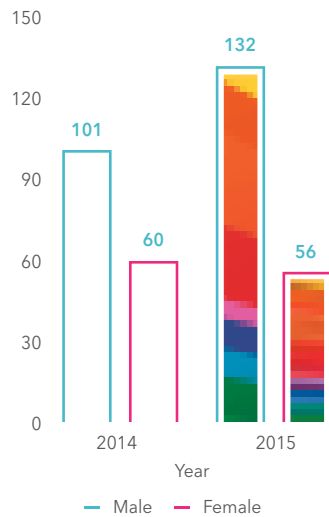
#### Employee Turnover by Age group

Head Count

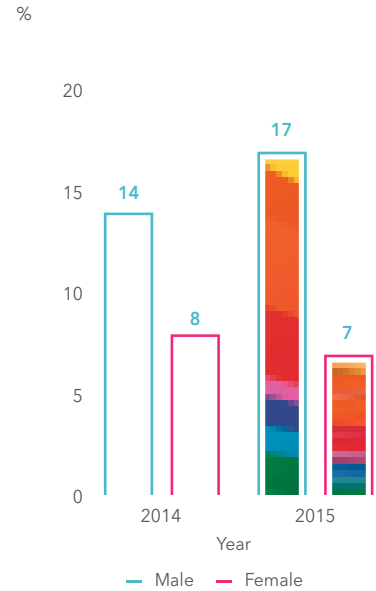


#### Employee Turnover by Gender

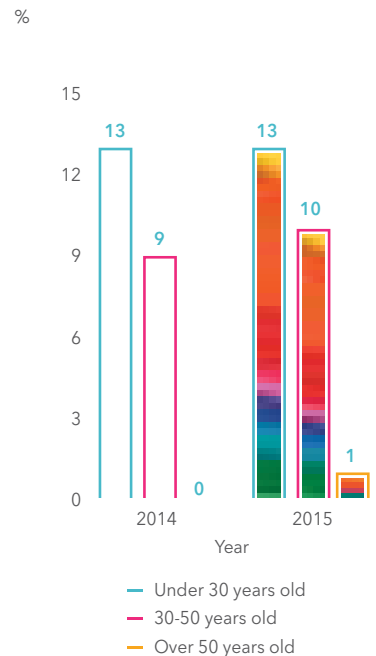
Head Count



#### Rate of Employee Turnover by Gender

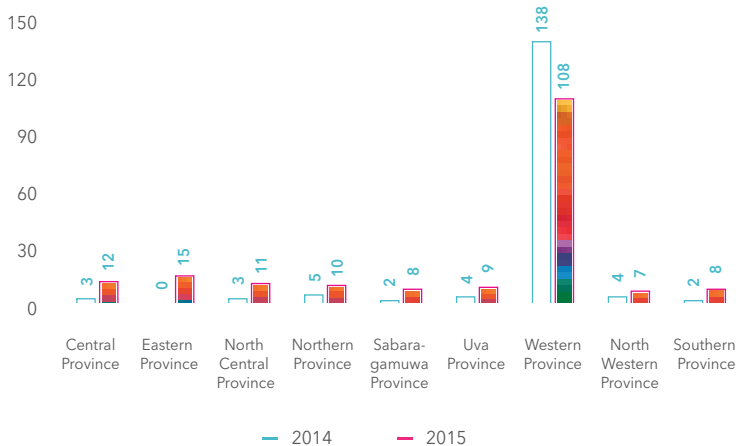


#### Rate of Employee Turnover by Age

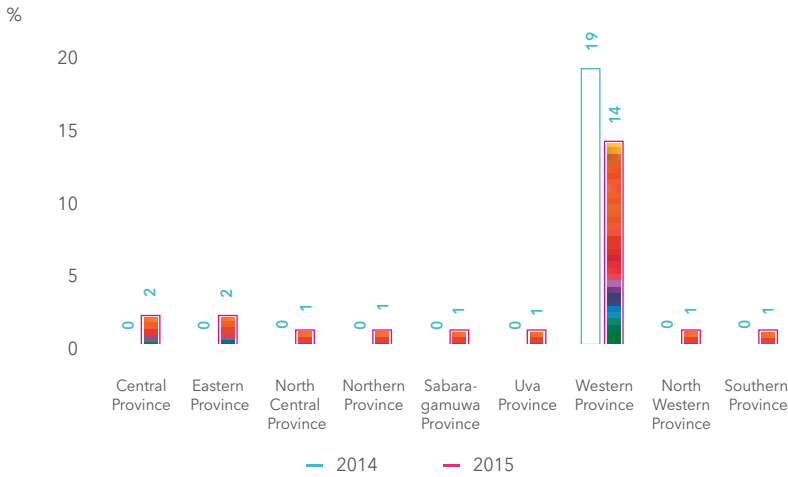


#### Employee turnover by Region

Head Count



### Rate of Employee Turnover by Region



### Gender Diversity

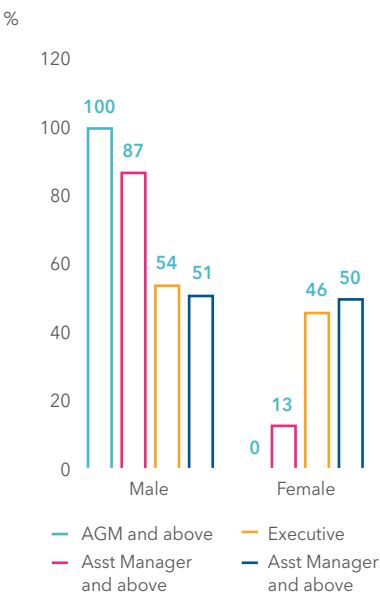
AAI is committed to providing employees and employee candidates the right to equal employment opportunities and a discrimination-free work environment, where employment practices are based upon an individual's capabilities and qualifications without regard to race, gender, age, colour, religion, national 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. Therefore the company's salary scale does not discriminate in terms of gender where annual pay is based on performance.

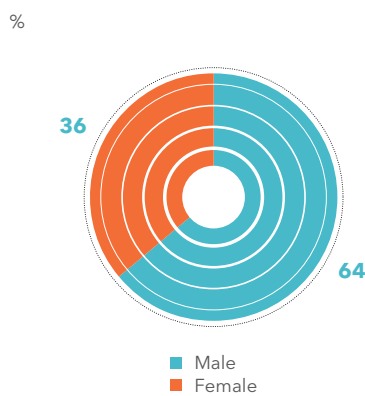
Increasing gender diversity in the workplace is proving to make businesses more productive across the globe. At AAI, we believe in gender diversity, and over the years our ratio of male to female employees has been steadily improving.

Employee Gender Diversity Performance 2015 Vs 2014

### Percentage of Employment Category by Gender - 2015



### Employment by Gender - 2015



### Career Development and Employability

We have a long term perspective when it comes to developing the skills and competencies of our employees. We take the view that investing in human capital will generate increased revenues, more satisfied customers and enhanced economic performance.

### Performance Management

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. 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



Figure: Performance appraisal model

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 base rewards 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 guiding them towards enhancing performance, clarifying job roles and responsibilities. Assistant Managers and grades above are appraised online based on the

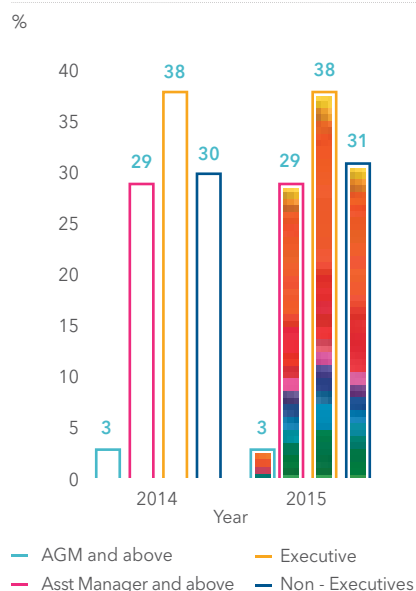
## Value Creation: People

Balanced Scorecard method where their KPI's are categorised into four segments.

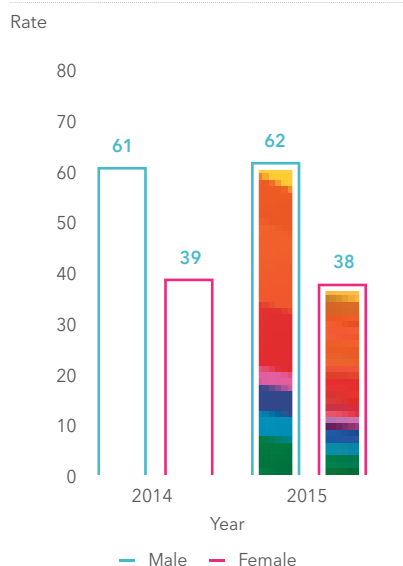
Non-Executive and Executive staff members are evaluated manually where they are appraised by their respective Department Head/Divisional Head. The HR department hands over the summarised data of the online appraisal as well as the manual appraisal to the respective Divisional Heads for their approval. Once the performance evaluations are finalised and approved by the Managing Director of the Company, based on the appraisal grading, increments and bonuses are granted to the staff. 71% of all AAI employees underwent a performance management process in 2015.

### Employee Performance Review 2015 Vs 2014

#### Percentage of Employees who Received Career Development Reviews



### Employees who Received Career Development Review by Gender



### Learning and Development Programmes

Training and career development are very vital in any company or organisation 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
- Utilising diversity as a key component in the succession planning process for future leaders

### Training Summary for Year 2015

Type	Scope
Regional Business Unit Coordinators Training	Operations
Motor Underwriting Training	Operations
Creative Selling	Overall
Customer Relationship	Operations
Advanced MS Powerpoint	Overall
Regional Office Underwriting Process	Operations
Out Bound Training	Overall
How to Read a Lab Report	Operations
Recent Changes/Initiatives of Life Operations and Branch Staff Role on Life Operations	Operations
Awakening the Leader Within	Overall
Know Your Customer	Overall

As part of this process we allocate a budget to each employee for training, professional development and personal development. Employees are encouraged to grow, develop themselves and seek new job opportunities in the organisation.

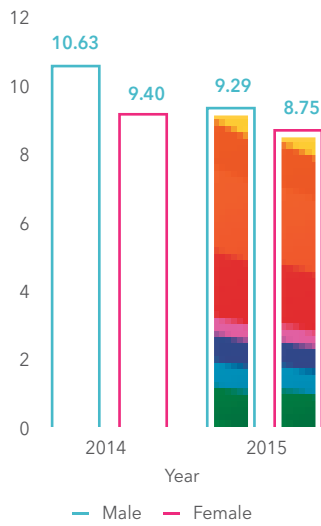
We offer an open internal job market to stimulate this. Employees who may be impacted by restructuring are given support through a dedicated team and a programme that includes access to training and mentoring. The objective is to help them find a new role inside or outside the organisation.

Training and development employees	2015 Act Rs. 000	2016 Bud Rs.000
Cost	5,115	15,003



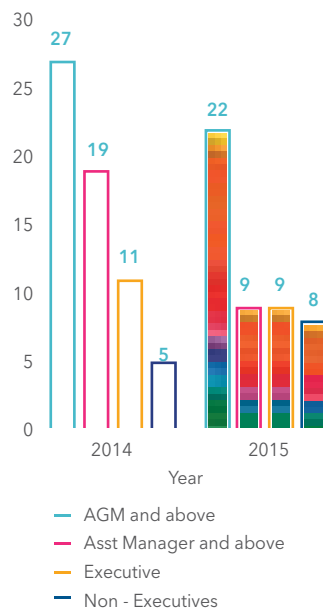
### Average Hours of Employee Training by Gender

Hours

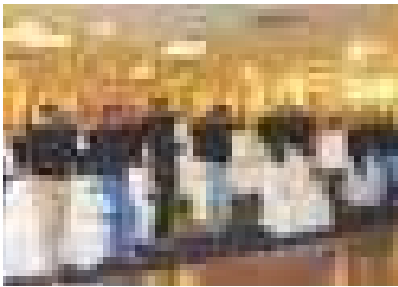

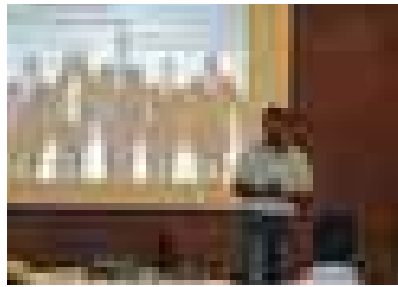
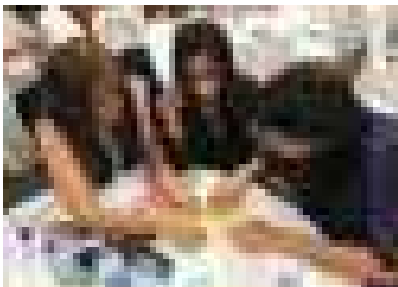
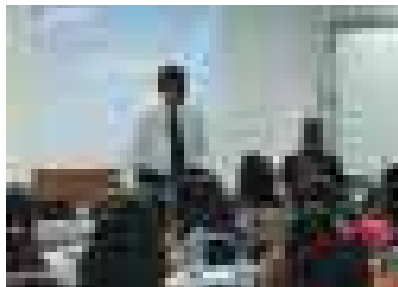
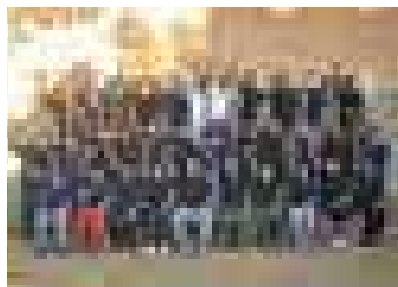


### Average Hours of Employee Training by Employment Category

Hours



### In-house Training Highlight's for 2015

Customer Service Training	Technical Training	Leadership Training
 Customer Relationship	 Excel Training	 Motivation Programme
 Customer Service Training	 Branch Training	 Outbound Training

## Value Creation: People

With the compliance and regulatory changes in the environment it is very important for a company to absorb these changes within the Company. In order to adopt these changes AAI users external training sessions and seminars.

### Career Development Programmes

During the year 2015, Our actuarial team engaged in a capacity development exercise with a qualified Actuary from Hong Kong who spent 4 weeks working closely with the team to develop a Financial projection and reporting template to enable better management decision-making using actuarial input. The template enables the actuarial team to calculate and summarise profit margins and other important indicators and report the results to the management for decision-making. Using this template, the our actuarial team was able to identify areas of additional profitability that the Company could explore by making minor changes to the business mix of the Company. Additionally, the template also allowed the team to carry out extensive sensitivity analysis where certain parameters were changed and the impact on profitability could be quantified and reported. This enabled the management to analyse the impact of different business decisions over the long term.

In addition to the capacity development of the life Actuarial function, the actuarial team also engaged with another Actuary from Australia on the General Insurance operations. Many of the functions that were outsourced on the General Insurance operations such as regulatory reporting and ad-hoc management analysis were brought in-house with the expansion of the actuarial capacity at Asian Alliance.

Also a Memorandum of Understanding (MoU) was sign with FMO - Financierings-Maatschappij voor Ontwikkelingslanden N.V, and DEG - Deutsche Investitions und Entwicklungsgesellschaft mbH, who are both shareholders of us paves

the way for AAI to obtain financing via the Capacity Development Programme (CDP)/ Business Support Services (BSS) Programme to enhance the knowledge, skills and expertise of its team of In-house Actuaries.

The initiative enable the organisation to improve performance and to become more competitive in a sustainable manner, by promoting and facilitating transfer of knowledge and skills, thereby strengthening important organisational capabilities.



Signing of MOU for Actuarial Support

This programme provides a significant competitive edge to AAI by equipping in-house staff to analyse its business in-depth, add value and support in enhancing performance. Accordingly, the Company will contract reputed Actuaries with substantial exposure in the Asia Pacific region for both Life and General Insurance, to deliver a comprehensive training and development program that will include on-site training in all the key functions performed by the Actuarial team that will include Product development, portfolio analysis, the new Risk Based Capital reporting and a number of other essential areas including professional and academic development of the team.

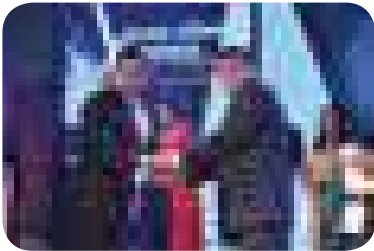
The programme to develop the Actuarial Team also fits in with AAI's overall comprehensive talent management strategy - 'Talent Drive' - which envisages attracting and retaining the country's best professionals in the sector with the aim of becoming the most preferred employer in the Sri Lankan insurance industry. The programme has been launched

at all levels in the Company. We offer employees multiple training opportunities both locally and overseas, to provide exposure to global best practices and international markets.

### Career Transition

AAI also assist with transition programs for 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 the Company has supported the transformation of such employees to a new path.

Program Name	2015	2014	Growth
Transition Assistance programs	4	2	50%



Mr. Amila Pathirana Joined AAI in January 2005 as a Trainee Accounts Executive. In year 2013, he transferred to the Finance Department of Life Sales as an Insurance Advisor as he recognised his marketing skills during the course of employment at AAI. In year 2015, he became the first person to become a Business Manager (Rank 06) and Achieved a Platinum Award in 2 years' time. He is also part of the membership of Million Dollar Round Table (MDRT).

### Meeting our Employee's Needs

<b>Self Esteem</b>	AAI's employment policies are not merely restricted to remuneration but include elements of recognition, acknowledgement and rewards	
AAI's working environment promotes contact and friendship with fellow workers, social activities and opportunities	Benefits for full-time employees include: <ul style="list-style-type: none"> <li>• Life and Disability Insurance</li> <li>• Safe and Healthy Workplace</li> <li>• Maternity Leave &amp; Holidays</li> <li>• Staff Medical Plan</li> </ul>	<b>Self-Actualization</b>
<b>Sense of Community</b>	AAI provides a safe, non-discriminatory work environment and job security based on performance	<b>Personal Financial Security</b>

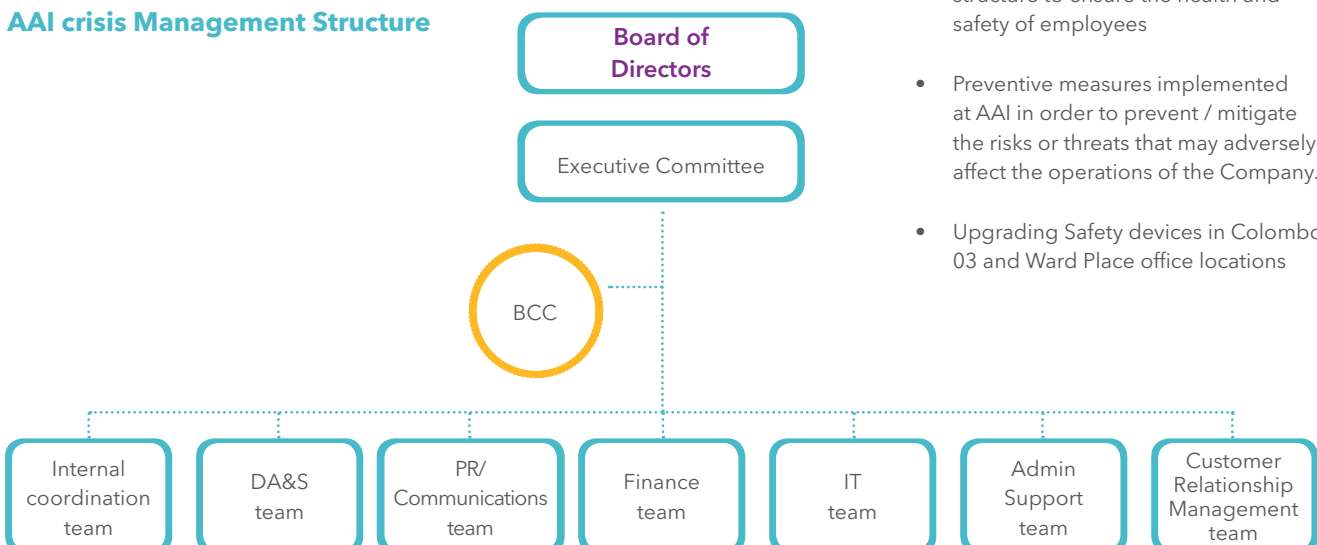
### Safe and Healthy Workplace

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.

- A business continuity plan was established in the year conducted by the crisis management command structure to ensure the health and safety of employees
- Preventive measures implemented at AAI in order to prevent / mitigate the risks or threats that may adversely affect the operations of the Company.
- Upgrading Safety devices in Colombo 03 and Ward Place office locations

### AAI crisis Management Structure



## Value Creation: People

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 developed 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 recognise that this contributes to employee satisfaction. The Company actively promotes an optimal work-life balance.

### Staff Medical Plan

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

### Life and Disability Insurance

All employees are insured with a life cover, to offer a sense of security and well-being to face the future. The Company shoulders the burden of responsibility of the employee's.

### Employee Holidays and Leave

Employees need to take vacations, even in the midst of important company deadlines. Numerous studies have shown that employees who don't get a break from work responsibilities have a tendency to develop above-average stress levels that can render them less productive. AAI employees are entitled for the following leave categories for a year,

- Annual Leave
- Casual Leave
- Medical Leave
- Study Leave
- Maternity Leave

Every employee who has completed the 1st year of employment is entitled for the above leave categories whereas only female employees are entitled for parental leave.

Return to Work and Retention Rates After Parental Leave	2015		2014	
	Male	Female	Male	Female
Employees that took parental leave, by gender.	N/A	13	N/A	12
Employees who returned to work after parental leave ended, by gender.	N/A	11	N/A	12
Employees who returned to work after parental leave ended who were still employed twelve months after their return to work, by gender.	N/A	11	N/A	8
Employees who return to work and retention rates of employees who took parental leave, by gender.	N/A	85%	N/A	67%

There were no incidents of discrimination and corrective actions taken on employees matters reported during the year.

### Talent Show 2015

AAI's inaugural talent show - 'Asian Alliance Got Talent' was held recently at the Nelum Pokuna International Theatre. The event showcased the singing, dancing and acting talents of the team - all choreographed to perfection, with the best of all aspects combining to present a good show.

Over 100 staff members took part in the Asian Alliance Got Talent, organised by the Company's Sports Club, which featured 30 events including two dramas, 12 dances and 16 solo and group singing performances.



Overall winners Asian Alliance Got Talent celebrating their victory

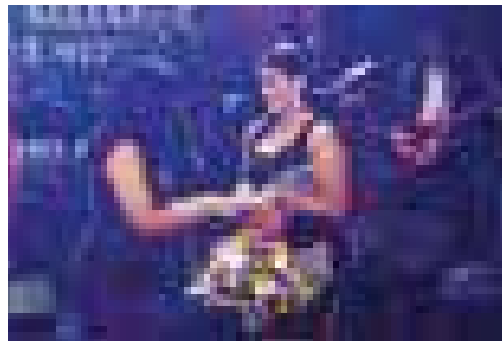
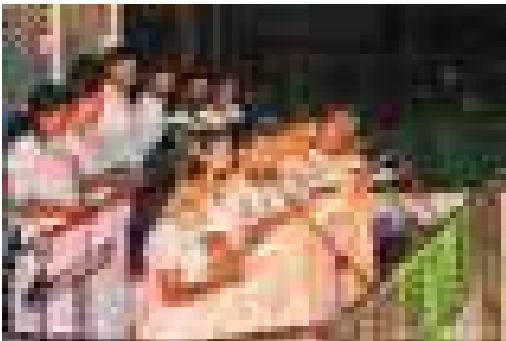
### Vesak Drive Thru Dansala & Bakhti Gee Saraniya 2015

AAI Vesak Bakhti Gee Saraniya and the first ever Drive Thru Ice Cream Dansala was held at the General Insurance Head Office at Ward Place on 7th May.



### "Get to Know Each Other" Time

In order to build a healthy relationship with leaders, managers and co-workers, AAI encourages to go on department trips and outings once every year. Despite of role they play at workplace, every team member gets an opportunity to know each other and it helps to overcome depression and work stress which would affect the employee retention rate.



## Value Creation: People

### The Value Balance Between Employees and AAI

Employee benefits	Source of value	Benefits to AAI	Key Performance Measures
Employee Wages, Incentives And Benefits	Fair pay	A highly motivated and appropriately skilled work force that is able to implement strategy and provide competitive returns on shareholder capital	Variable remuneration ratio linked to financial outperformance
Career Development and Employability	Career advancement	An efficient deployment of human capital, with a diverse and inclusive working culture that maximises opportunities. A fair balance between performance delivery and cost of employment	Expenditure on skills and development Voluntary staff turnover
Gender Diversity & Human Rights	Equal opportunity		
Comprehensive Value-Added Benefits	Fringe benefits		

#### HR Initiatives- 2016

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.

#### Online Profile Test For New Recruits

All new recruits above AM will undergo an online profiling test which will map AAI values, Competencies and psychometrics. This will enable us to identify each candidate's strengths and weaknesses and the job fit prior to deployment.

#### Overseas Training for Assistant Manager Category

Staff member who are getting promoted to the Assistant Manager category will be given an opportunity to attend a seminar series held in Pune, India. This will benefit them to enhance their knowledge as well as to get foreign exposure.

#### Residential Training for Senior Management

Specially designed Residential Training programme for the members of the senior management which will assist them in getting away from their busy schedules and giving them space and time to focus on the training and grasp the topics in depth.

#### Aptitude Test for Job Applicants

Introduction of aptitude test for candidates who apply for vacancies will help in attracting the best to the Company and will enhance the effectiveness of the recruitment process. This will assess an applicant's ability to problem solve, reason, write coherently and get along with others.

#### Appointing a Second Level Management Committee

The Committee will assist the Senior Mmanagement in accomplishing organisational objectives. Forming such Committee will also develop a Second layer to take up greater responsibilities.

# Our Intellectual Capital

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 sets AAI apart.

The Company is aware that pursuing 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:

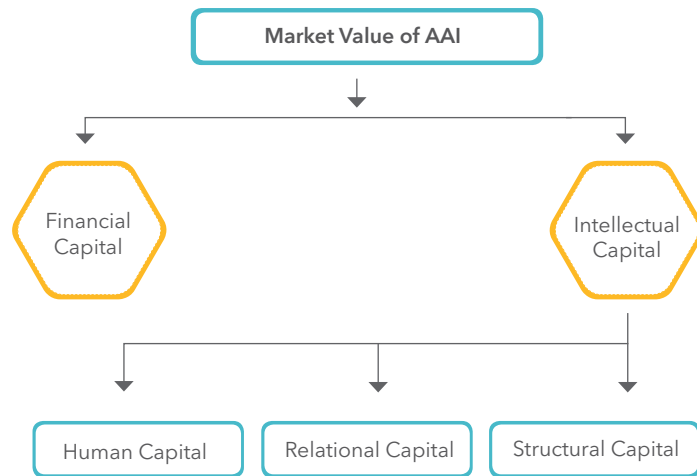
- Measuring intellectual capital can help the Company formulate business strategies. By identifying and developing its intellectual capital, the Company may gain a competitive advantage.
- Measuring intellectual capital may lead to the development of key performance indicators that will help evaluate 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.

## 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



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.

for the effective outcome expected by the Company. The Company provides financial support and encourages the personnel to enroll for professional and career related exams.

## Employee Welfare

At 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, chartered marketer, to directors counting experience of over 30 years in Life and General Insurance industry and financial industry. The senior management are well-qualified experts who have been working in the corporate industry for many years.

## Relational Capital

The Company takes into account all the relationships that exist between the Company and any person or organisation 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

## Our Intellectual Capital

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

### Relational Capital

#### Internet Based Communication

We believe in communicating with our customer base through new technology in-terms of the corporate website ([www.asianalliance.lk](http://www.asianalliance.lk)) and integration with social media through the facebook page ([www.facebook.com/asianalliance](http://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 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 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

#### Organisational 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 reinsurers with high ratings. The Company cedes insurance risk through proportional, non-proportional and specific risk reinsurance treaties. While these mitigate insurance risk, the recoverable from reinsurers and receivables arising from ceded reinsurance exposes the Company to credit risk.

Five components of AAI's Intellectual capital measurement methodology

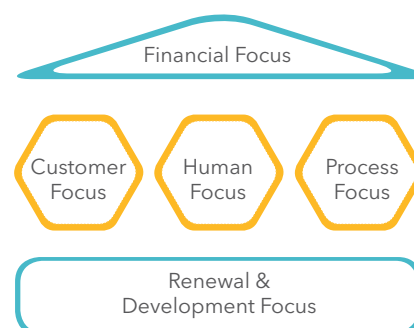


Figure: Five components of AAI's Intellectual Capital Measurement Methodology

Element	Indicator	Measurement	Referance
Human capital	Learning & development	Average training hours per employee	Refer page 135
		Programmes for skills development	Refer pages 132 -135
	Employee welfare	Number of activities organised for staff welfare	Refer pages 136 - 137
	Employee know-how	Number of management meetings	Refer page 182
Relational capital	Market share	Life	Refer page 80
	Focus on customer satisfaction	Motor insurance claimants satisfaction	Refer pages 117
Structural capital	Organisational framework	Strong corporate governance structure Board Committees <ul style="list-style-type: none"> <li>Board Audit and Compliance Committee</li> <li>Board Remuneration Committee</li> <li>Board Nominations Committee</li> <li>Board Investment Committee</li> </ul> Branch network	Refer page 175 Refer page 209 - 217
		Financial relations	Reinsurer ratings
			Risk management initiatives



## Our Brand Valuation and Brand Building Process

Asian Alliance Insurance (AAI) was launched in 1999 as a Sri Lankan brand providing 'tailor-made insurance' solutions. AAI brand was positioned as being in the business of protection. Today, after 17 years the 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, and Innovation and Care.

### Brand Building Initiatives

Year 2015 has been a landmark year for the Asian Alliance brand and the Company's history. It has moved away from the umbrella brand strategy to a sub-brand strategy. As a result the Company launched two new brands related to two key business portfolios namely "LifeMax" for Life Protection category and "Click2Claim" for Motor Insurance category.

### LifeMax

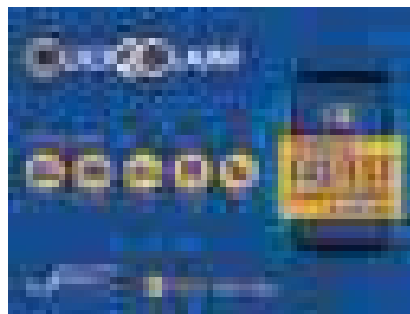


Life Insurance is also quite mundane with parity products which has brands often propose the dark side of the life in order to lure customers to buy into the category and this has taken a completely different route and projects the positive side of the life and position the product which enables the user to live his life to the fullest.

In addition to the above a clutter breaking TV campaign using babies who are talking as adults has been launched which has captured the attention of the target audience and has established

the brand firmly in the minds of the customers. Brand building efforts were supplemented by the campaigns run to awards of "Asian Innovation of the year" and "Gold award" for Insurance category which was received at the National Business Excellence Awards from the National Chamber of Commerce.

### Click2Claim



Motor insurance brands in the market were hardly differentiated and the market had not seen a proposition which was breakthrough in nature for more than a decade. After carefully studying the customer needs in the market place a key proposition has been launched to the market which is now the new wave of innovation in Motor Insurance. The product that set new rules and re defines the category.

The brand was promoted using above-the-line, below-the-line and digital media. Heavy media support was given during the launch phase with emphasis being TV in order to demonstrate the brand proposition and key benefits. Ground level brand building hoarding have been positioned in key strategic locations throughout the island.

### Performance of the Brand

The AAI brand was valued at Rs. 739 million in 2015 (2014 - Rs. 365 million). This value was derived from the valuation conducted by Brand Finance (UK) in association with Sting Consultants, using the "relief of royalty" approach, which assumes that the Company does not own the brand and calculates how much it would need to license it from a third party.

In 2015, the AAI brand received an A rating in terms of its "Brand Power" from Brand Finance (UK). Brand power determines the ability of the brand to continue delivering the revenue streams expected in the future. It is based on a number of objective criteria including growth rates, market share, brand awareness, etc.

### Future Outlook

It is expected that the initiatives set into motion as part of the new brand positioning will enhance the value and power of the AAI brand in future years.



Life Max

[www.asianalliance.lk](http://www.asianalliance.lk)

## Value Creation: Environment

### "Improving Environmental performance"



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.

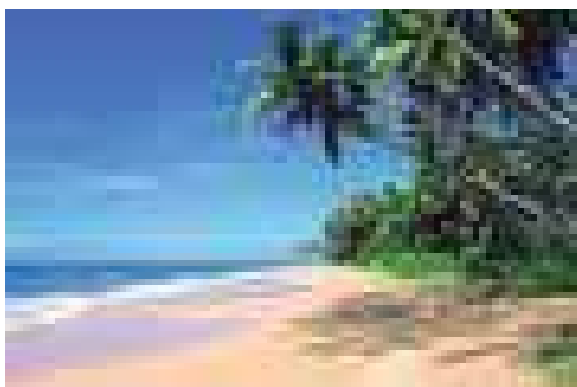
In the midst of an impending global air pollution crisis to which Asia is fast emerging as one of the main contributors, Sri Lanka has emerged as one of the cleanest countries in the region in a global Mid-Year Pollution Index for 2015. Ranking among the 12 cleanest countries in Asia, Sri Lanka

comes far ahead of regional counterparts such as China, India, Bangladesh, Vietnam, Malaysia, Pakistan and several other countries to rank 11th of 34 Asian countries. The Pollution Index estimates overall pollution, with the biggest weight given to air pollution.

#### Environment Issues in Sri Lanka

Environmental concerns in Sri Lanka include deforestation; soil erosion; wildlife populations threatened by poaching and urbanisation; coastal degradation from mining activities and increased pollution; freshwater resources being polluted by industrial waste and sewage runoff; waste disposal; and air pollution in Colombo and other cities due to emissions from motor vehicles and factories and other industrial establishments.

The forests in Sri Lanka have been removed to make way for agricultural land and plantations and to provide fuel and timber. The sale of timber is a part of the national economy to raise revenue. The country is a major producer of tea and the land required for tea plantations is substantial. Apart from the environmental implications deforestation in Sri Lanka has caused ill effects such as flooding, landslides and soil erosion from exposure of the deforested areas. It is also the primary threat to the survival of Sri Lanka's biodiversity. Sri Lanka has 751 known species of amphibians, birds, mammals and reptiles of which 21.7% are endemic, and over 3,314 species of vascular plants, of which 26.9% are endemic.



Sri Lanka as an island nation is surrounded by pristine beaches with golden sand. The sun, surf and sand of the country attract hundreds and thousands of visitors every year who throng to the beaches from all corners of the world. Sri Lanka sits in a strategically important location in the trade routes of the mighty Indian Ocean which gives added importance to the island nation.

Sri Lanka has a long seacoast of approximately around 1,300 kilometers. The golden stretch in the South, including Hikkaduwa, Unawatuna, and the surfing heaven in Arugambay and Nilaweli in the East and also the emerging kite surfing and whale watching sites in Kalpitiya and Northern beaches are patronised by both local and foreign tourists all around the year.

In the below geographical regions, AAI has 79 branches in operation with a workforce of 782. AAI does not own any of the locations and there are 4 branches operating on lease which are 7,520 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 our 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.

**Highlights 2015**

- Utility Saver Competitions
- Conserve Energy Signs and Stickers Project

**Where we Focus**

Asian Alliance Insurance has fashioned and is 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 Priority action areas are conducted in two phases as external and internal initiatives.

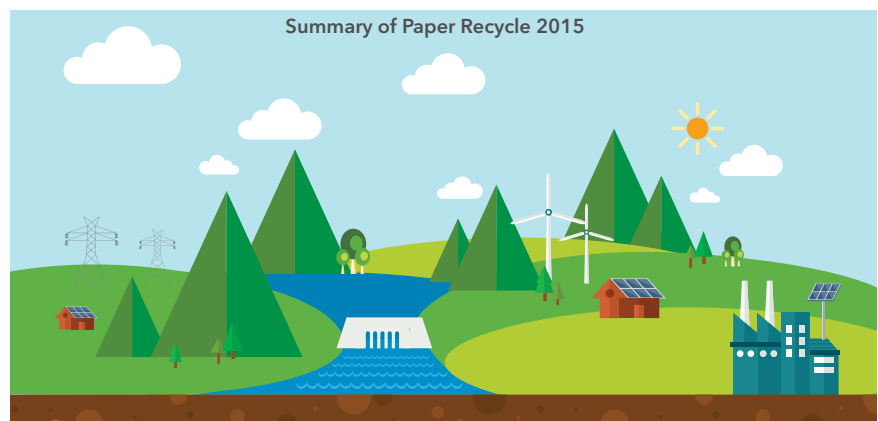
- Wildlife and Marine Biosecurity awareness
- Driving eco-efficiency

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 will always consider exiting the business relationship.

**Driving eco-efficiency**

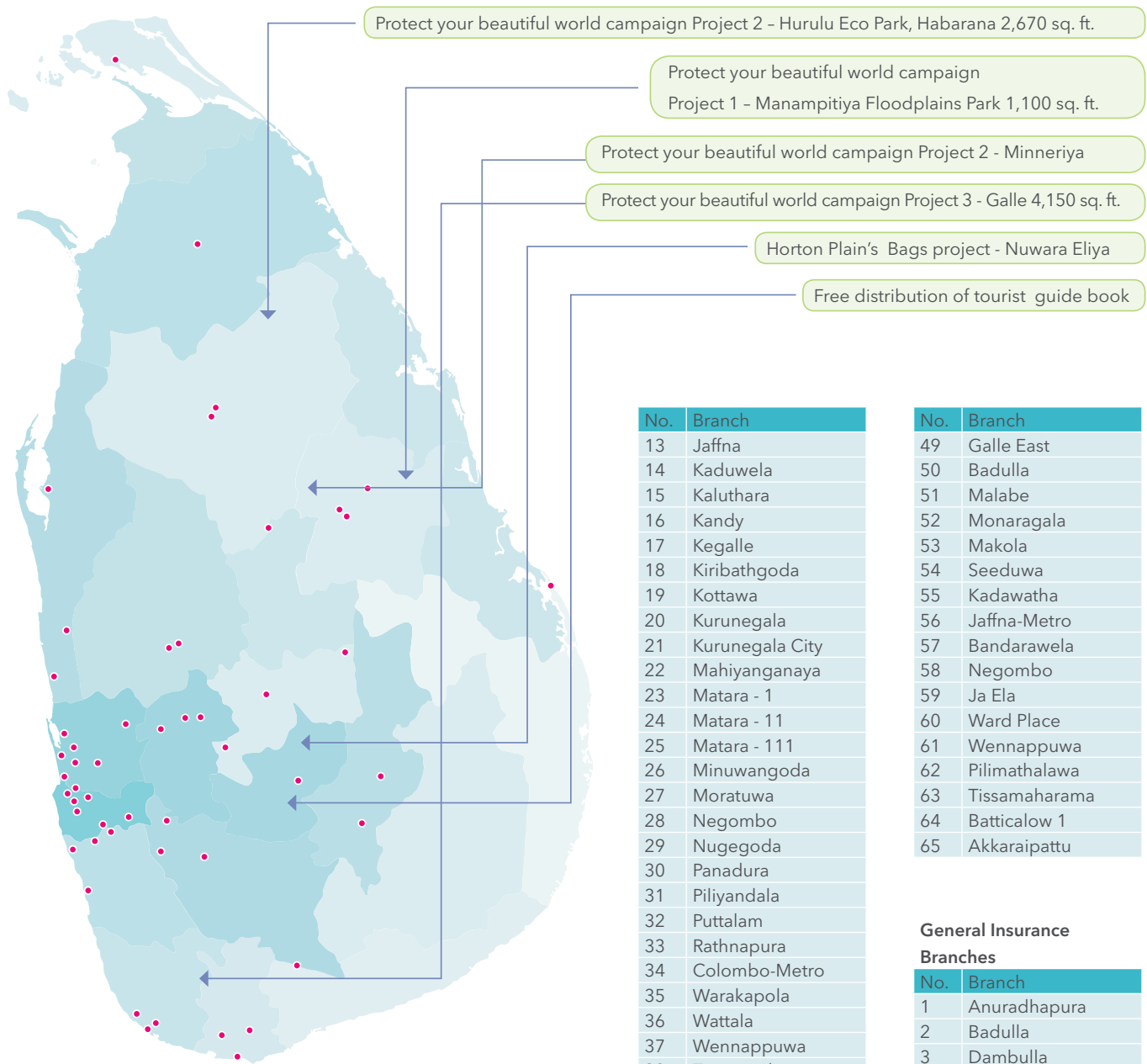


**2015**

- 23 fully grown Trees
- 2,422 liters of Oil
- 5,520 kwh of Electricity
- 43,856 liters of Water
- 4 cubic meter of Land fill
- Reduce Greenhouse Gas Emission by 1,387 kg's of Carbon Equivalent.

## Value Creation: Environment

### Our Distribution Network Vs Environment Projects



#### Life Insurance Branches

No.	Branch
1	Anuradhapura
2	Battaramulla
3	Batticaloa
4	Chilaw
5	Colombo
6	Dambulla

No.	Branch
7	Galle
8	Gampaha
9	Gampola
10	Head Office
11	Horana
12	Ja-Ela

No.	Branch
13	Jaffna
14	Kaduwela
15	Kaluthara
16	Kandy
17	Kegalle
18	Kiribathgoda
19	Kottawa
20	Kurunegala
21	Kurunegala City
22	Mahiyanganaya
23	Matara - 1
24	Matara - 11
25	Matara - 111
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
47	Thalawathugoda
48	Trincomalee-Metro

No.	Branch
49	Galle East
50	Badulla
51	Malabe
52	Monaragala
53	Makola
54	Seeduwa
55	Kadawatha
56	Jaffna-Metro
57	Bandarawela
58	Negombo
59	Ja Ela
60	Ward Place
61	Wennappuwa
62	Pilimathalawa
63	Tissamaharama
64	Batticalow 1
65	Akkaraipattu

#### General Insurance Branches

No.	Branch
1	Anuradhapura
2	Badulla
3	Dambulla
4	Kurunegala
5	Polonnaruwa
6	Rathnapura
7	Nuwara Eliya
8	Jaffna
9	Gampaha
10	Kandy
11	Panadura
12	Kuliyaipitiya
13	Pettah
14	Nugegoda

### Waste Management

Waste management and management of paper consumption were prioritised like last year. All interdepartmental 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 minimise 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.

We do not incur costs regarding waste disposal, emission treatment and remediation cost since none of the third parties charge a fee for the services provided.

### Energy use and Efficiency

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

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:

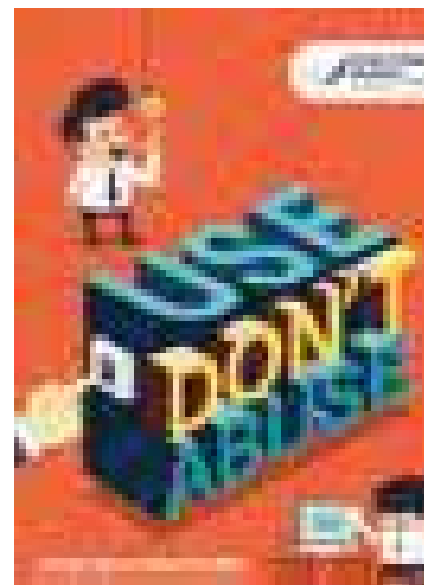
- Sending an SMS instead of written reminders to pay premium

- Provision of Laptops for all Senior Management
- LCD monitors used for energy conversation
- Utility Saver Competitions  
Competitions are a great way to inspire participants to save money and shrink their environmental footprint by challenging them to improve their property's energy



efficiency. In year 2015, AAI found that a spirit of healthy competition and the opportunity for recognition are among the best drivers for participation in organisation for energy management. This Utility Saver Competition is held every month where the winning Branch gets a prize for being the most energy saver in the month.

- Conserve Energy Signs and Stickers

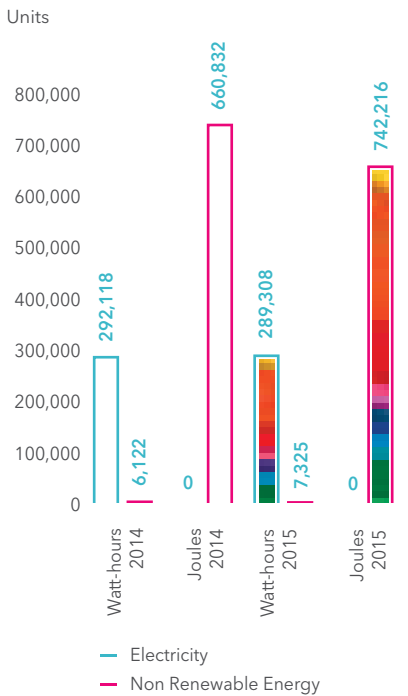


Conserve Energy Signs promote power conservation in a practical way. With the depletion of fossil fuels and few economical energy resources, the planet needs all the help it can get. In year 2015 we introduced a "Conserve Energy" campaign to promote power conservation in a practical way.

## Value Creation: Environment

### Carbon Offsetting

### Energy Consumption



Units in Joules**	2015	2014
Non Renewable Sources	7,325	6,122
Renewable Fuel	N/A	N/A
Consumption (Electricity)	-	-
Sold (Electricity)	N/A	N/A
Total Energy	7,325	6,122

\*\* Reported figures are only for both Life and General Insurance significant branches

	2015	2014
	Litres	Litres
Water	304,783	355,360



### Wildlife and Marine Biosecurity awareness

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

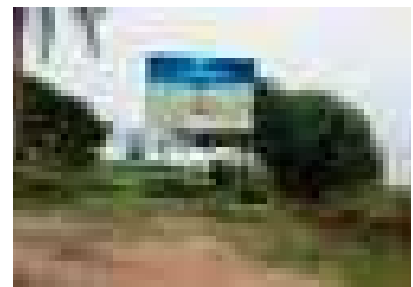
### "Protect Your Beautiful World" Awareness Programme Summary



Habarana awareness boards



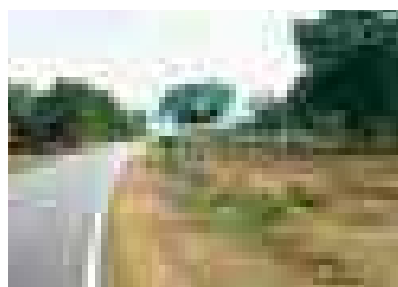
Manampitiya awareness boards



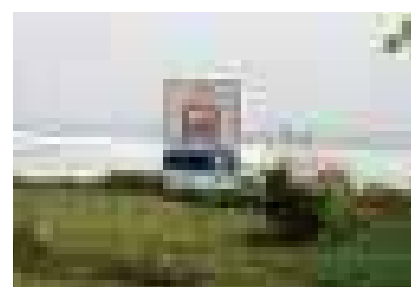
Galle awareness boards



Minneriya awareness boards



Yala awareness boards



Galle awareness boards

The Company erected 63 boards in the stretch between Batticaloa and Polonnaruwa road to Manampitiya, Hurulu Eco Park on the Habarana-Trincomalee road to Minneriya and Yala. 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 executing these projects 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.

In year 2015, we managed to maintain and continue the awareness board project launched in 2014

Because the oceans are the largest eco-systems on Earth, they are the Earth's largest life support systems. To survive and prosper, we all need healthy oceans. Oceans generate half of the oxygen people breathe. Oceans provide a sixth of the animal protein people eat. They're the most promising source of new medicines to combat cancer, pain and bacterial diseases. .

In year 2015, we extended our awareness campaign to the coastal side of Sri Lanka as we identified the importance of protecting Coasts and Marine Resource conservation. 15 hoardings were located around the coastal side of galle district.

Project Name	Year	Province	No. of Hoardings	Rs. 000'
Minneriya Project	2014	North Centrel Province	13	712
Habarana Project	2014	North Centrel Province	15	613
Yala Project	2014	Southern Province	17	1,004
Polonnaruwa Project	2014	North Centrel Province	18	
Galle Project	2015	Southern Province	8	296
			71	2,624

## 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.

## Value Creation: Community

An excellent corporate citizen"



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 organisation.

### Our Critical Success Factors

**106**

member participation for Youth "WIN" programs

**Rs. 100,000**

Worth Scholarships awarded by "Recognising Youth Programme" for University Students

**73**

Schools are benefited with school certificate project

### Where we Focus

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
- Community impacts

### Highlights for 2015

Supporting academic excellence of youth with the potential to become future leaders of the country's insurance industry and seeking further development of the Company, AAI entered into a far-reaching, mutually-beneficial agreement with the Department of Finance (DFin) of the University of Kelaniya.

### Being a Responsible Business

#### Anti-Corruption Safe Guards SO4

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.

**Confirmed Incidents of Corruption and Actions Taken**

Nature of incident	2015	2014
Misappropriation of funds	12 instances	2 instances
Non - compliances with company procedure	12 instances	3 instances
Total	12 instances	5 instances

**Confirmed incidents in which employees were dismissed or disciplined for corruption**

Nature of incident	2015	2014
Misappropriation of funds	4 instances	2 instances
Total	4 instances	2 instances

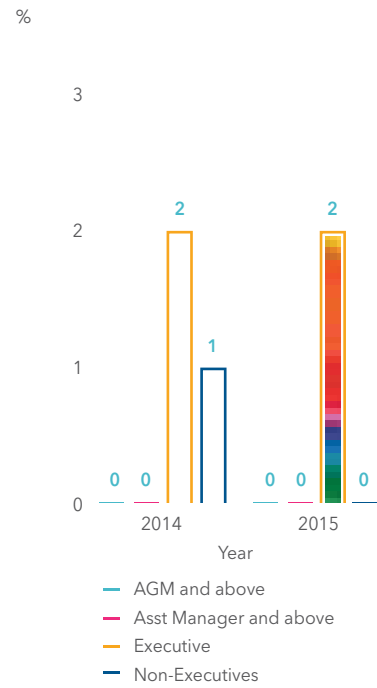
We do not have any incidents when contracts with business partners were terminated or not renewed due to violations related to corruption or public legal cases regarding corruption brought against the organisation or its employees during the reporting period.

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.

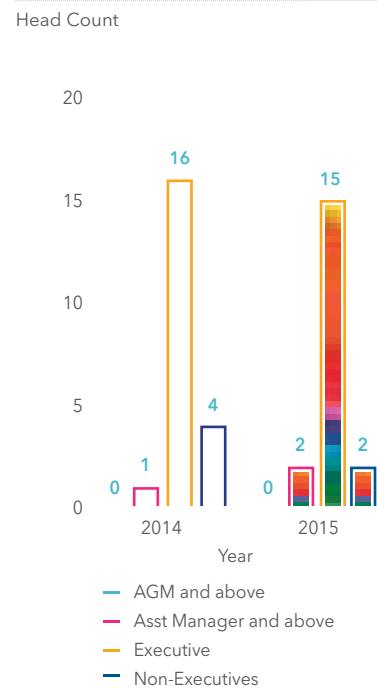


Environmental Social Responsibility Training

**Percentage of Anticorruption Training by Category**



**Employee Training on Anticorruption by Type**



## Value Creation: Community

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.

### 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 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.

### Non Discrimination

Since the Company has a formal policy on discrimination there were no incidents reported for discrimination and corrective actions taken with regard to them

### Community Impacts

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.



**Win CSR Highlights**  
[www.asianalliance.lk](http://www.asianalliance.lk)

### Youth “WIN” programs



A Unique Internship Programme was conducted for 106 upper school students and 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 Ampara, Polpithigama and Nuwara Eliya with contribution from Asian Alliance Insurance and Softlogic Finance staff.

Province	No. of Participants
North Western Province	39
Eastern Province	28
Central Province	39
	106

### Recognising Youth



The Memorandum of Understanding (MoU) signed with the Department of Finance (DFin) of the University of Kelaniya in order to support academic excellence of youth with the potential to become future leaders of the country's insurance industry and seeking further development of the Company.

Accordingly, AAI will award the 'Asian Alliance Gold Medal Award' to the best student in the unit of 'Risk and Insurance Service Management' of the Finance Degree Programme at the Annual General Convocation, as well as a Rs. 100,000 scholarship to assist the respective student to pursue further studies in the same subject area.

### 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 digitalising 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.

### 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 maximising 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 demoralising 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 realising the positive impact our initiative is having on motivating students, we have sustained our commitment to this project.

	2015	2014
No of certificated	73,055	66,870
Schools	73	80

## Value Creation: Community

### 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:** Markets 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.

**Customer Rights:** Respecting customer rights including the rights of redress, the right to information and the right to privacy which is discussed in the "Customer section" in this report

We are against advertising that scares customers into purchasing insurance policies by showing worst case scenarios. Instead, we invest in educating and familiarising 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.

Sponsorship provides a great means of broadening your competitive edge by

improving the 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.

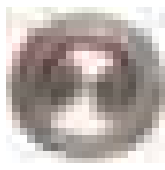
### Sponsorships and Marketing Campaigns for 2015

	AAI Sponsored "Style 2015" Organised by Old Girls Association of Ladies College
	Click2Claim A Fast Ride event featured DILANTHA MALAGAMUWA giving selected participants a fast ride in his Lamborghini. People could participate and stand a chance to experience a fast ride by clicking a selfie with the car tagging our Facebook Page and getting likes on their pictures.
	"Click 4 the Future" Event
	Our 'Travel Smart' marks its first year milestone. In celebration of the product's success and in appreciation of the efforts of the external partners - travel agents - who contributed towards it, we organised a 'Motor Fun Rally' commencing from its office in Ward Place and concluding at the Jetwing Blue - Negombo, at which the invited 100 top travel agents were hosted to cocktails. Around 30 vehicles participated in the rally

Employee Benefits	Benefits to AAI	Key Performance Measures
Socio-economic upliftment through education Greater inclusion and economic participation	Good corporate citizen status, thereby creating constructive relationships with policy makers	Corporate social investment spend and outcomes

# Awards

## Asia Insurance Awards



At the 19th Asia Insurance Industry Awards 2015, Asian Alliance Insurance was awarded the "Innovation of the Year" for the innovative motor product Click2Claim. Our Company was the only Sri Lankan insurer to win an award at the ceremony.

## National Business Excellence Award



AAI was honored with the Gold Award in the Insurance Sector National Business Excellence Awards 2015, which was organized by the National Chamber of Commerce Sri Lanka (NCCSL). The Company was also embellished with the Silver Award in the Large Companies Category.

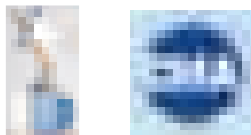
## Awards

### Annual Report Awards



At the 51st Annual Report Awards organised by the Institute of Chartered Accountants of Sri Lanka (ICASL), Asian Alliance Insurance clinched two Bronze Awards, for Integrated Reporting and for the Insurance Sector.

### CMA Excellence in Integrated Reporting Awards



AAI won an award at the "CMA Excellence in Integrated Reporting Awards" organized by the Institute of Certified Management Accountants of Sri Lanka (CMA), being one of the top ten best Integrated Reports presented during the year.

### SLIM Brand Excellence



Asian Alliance won the Bronze Award in the Life Insurance category at the 14th Sri Lanka Institute of Marketing (SLIM) Brand Excellence Awards 2015, organised by the SLIM.

## Future Outlook

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.

# Independent Assurance Report



**KPMG**  
(Chartered Accountants)  
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## INDEPENDENT ASSURANCE REPORT TO ASIAN ALLIANCE INSURANCE PLC

We have been engaged by the directors of Asian Alliance Insurance PLC ("the Company") to provide reasonable assurance and limited assurance in respect of the Assured Sustainability Parameters as identified below for the year ended 31 December 2015. The Assured Sustainability Parameters are included in the Asian Alliance Insurance PLC's annual report for the year ended 31 December 2015 (the "Report").

The Reasonable Assurance Sustainability Parameters covered by our reasonable assurance engagement are:

Assured Sustainability Parameters	Sustainability Report Page
Key Financial Highlights	15

The Limited Assurance Sustainability Parameters covered by our limited assurance engagement are:

Limited Assurance Sustainability Parameters	Sustainability Report Page
Key Non Financial Highlights	16
Stakeholder engagement	43-45
Information provided on following stakeholder groups	
• Value Creation: Investors	98,103
• Value Creation: Customer	105-121
• Value Creation: People	127-139
• Value Creation: Environment	144-149
• Value Creation: Community	150-154

### Our conclusions:

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusions.

### Reasonable Assurance Sustainability Parameters

In our opinion, the Reasonable Assurance Sustainability Parameters, as defined above, for the year ended 31 December 2015 are, in all material respects, are prepared and presented in accordance with the Global Reporting Initiative (GRI) G4 Content Index Guidelines.

### Limited Assurance Sustainability Parameters

Based on the limited assurance procedures performed and the evidence obtained, as described below, nothing has come to our attention that causes us to believe that the Limited Assurance Sustainability Parameters, as defined above, for the year ended 31

December 2015, have not in all material respects, been prepared and presented in accordance with the GRI G4 Content Index Guidelines.

### Management's responsibility

Management are responsible for the preparation and presentation of the Reasonable Assurance Sustainability Parameters and the Limited Assurance Sustainability Parameters in accordance with the GRI G4 Content Index Guidelines.

These responsibilities includes establishing such internal controls as management determines are necessary to enable the preparation of the Reasonable Assurance Sustainability Parameters and the Limited Assurance Sustainability Parameters that are free from material misstatement whether due to fraud or error.

Management is responsible for preventing and detecting fraud and for identifying and ensuring that the Company complies with laws and regulations applicable to its activities.

Management is also responsible for ensuring that staff involved with the preparation and presentation of the description and Report are properly trained, information systems are properly updated and that any changes in reporting encompass all significant business units.

### Our responsibility

Our responsibility is to express a reasonable assurance conclusion on the Company's preparation and presentation of the Reasonable Assurance Sustainability Parameters and a limited assurance conclusion on the preparation and presentation of the Limited Assurance Sustainability Parameters included in the Report, as defined above.

KPMG is 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. S. Mahipala FCA, P. S. Perera FCA, C. P. Jayasinghe FCA  
T. J. S. Rajaguru FCA, S. W. J. C. Perera FCA, M. S. Jayasinghe FCA  
M. S. N. D. Jayasinghe ACA, Y. K. D. Abeyaratne ACA, S. R. I. Perera FCA  
D. A. J. Karunaratne ACA, M. D. B. Rajapaksa ACA, M. R. S. P. H. Rodrigo ACA  
R. H. Rajan ACA  
Principal: S. R. I. Perera FCA, CA, LL.B. Attorney at Law, H. S. Gunawardena B.A.





We conducted our assurance engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information (SLSAE 3000) issued by the Institute of Chartered Accountants of Sri Lanka.

The Firm applies Sri Lanka Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the Code of Ethics issued by the Institute of Chartered Accountants of Sri Lanka, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

SLSAE 3000 requires that we plan and perform the engagement to obtain reasonable assurance about whether the Reasonable Assurance Sustainability Parameters are free from material misstatement and limited assurance about whether the Limited Assurance Sustainability Parameters are free from material misstatement.

**Reasonable assurance over Reasonable Assurance Sustainability Parameters**

The procedures selected in our reasonable assurance engagement depend on our judgment, including the assessment of the risks of material misstatement of the Reasonable Assurance Sustainability Parameters whether due to fraud or error.

In making those risk assessments, we have considered internal control relevant to the preparation and presentation of the Reasonable Assurance Sustainability Parameters in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of the Company's internal control over the preparation and presentation of the Report.

Our engagement also included assessing the appropriateness of the Reasonable Assurance Sustainability Parameters, the suitability of the criteria, being the GRI

G4 Content Index Guidelines, used by the Company in preparing and presenting the Reasonable Assurance Sustainability Parameters within the Sustainability Report, obtaining an understanding of the compilation of the financial and non-financial information to the sources from which it was obtained, evaluating the reasonableness of estimates made by the Company, and re-computation of the calculations of the Reasonable Assurance Sustainability Parameters.

**Limited assurance on the Assured Sustainability Parameters**

Our limited assurance engagement on the Limited Assurance Sustainability Parameters consisted of making enquiries, primarily of persons responsible for the preparation of the Limited Assurance Sustainability Parameters, and applying analytical and other 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 the Company's processes for determining material issues for the Company's key stakeholder groups;
- enquiries of relevant staff at corporate and selected site level responsible for the preparation of the Limited Assurance Sustainability Parameters;
- enquiries about the design and implementation of the systems and methods used to collect and report the Limited Assurance Sustainability Parameters, including the aggregation of the reported information;
- comparing the Limited Assurance Sustainability Parameters to relevant underlying sources on a sample basis to determine whether all the relevant information has been appropriately included in the Report;
- reading the Limited Assurance Sustainability Parameters presented in the Report to determine whether they are in line with our overall knowledge of, and experience with, the sustainability performance of the Company;

- reading the remainder of 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.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement, and consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained has a reasonable assurance engagement been performed. Accordingly, we do not express a reasonable assurance conclusion on the Limited Assurance Sustainability Parameters.

**Purpose of our report**

In accordance with the terms of our engagement, this assurance report has been prepared for the Company for the purpose of assisting the Directors in determining whether the Company's Reasonable and Limited Assurance Sustainability Parameters are prepared and presented in accordance with the GRI G4 Content Index Guidelines and for no other purpose or in any other context.

**Restriction of use of our report**

Our report should not be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Company, for any purpose or in any other context. Any party other than the Company who obtains access to our report or a copy thereof and chooses to rely on our report (or any part thereof) will do so at its own risk. To the fullest extent permitted by law, we accept or assume no responsibility and deny any liability to any party other than the Company for our work, for this independent assurance report, or for the conclusions we have reached.

**Chartered Accountants  
Colombo**

**16 February 2016**



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# Board of *Directors*



Ashok Pathirage

Chairman

Mohan Ray Abeywardena

Director

Johannes W. H. Richters

Director

Sujeewa Rajapakse

Director



**Jatinder Mukhi**  
Director

**Iftikar Ahamed**  
Managing Director

**Paul Ratnayeke**  
Deputy Chairman

**Ramal Jasinghe**  
Director

## Board of Directors

### Mr. Ashok Pathirage

#### Chairman

Mr. Pathirage is one of the co-founders of Softlogic and was appointed Chairman of Softlogic in 2000. He serves as Chairman/Managing Director of the Asiri Hospital chain, Softlogic Capital PLC, Softlogic Finance PLC, Asian Alliance Insurance PLC and Odel PLC, all listed entities, in addition to the private companies of the group operating in Leisure & Restaurants, Retail, Automobile and ICT industries. He is Deputy Chairman of the National Development Bank PLC and Chairman of NDB Capital Holdings PLC. Considering his wealth of business acumen and corporate leadership, he is one of the leading business leaders in the country.

### Mr. Paul Ratnayeke

#### Deputy Chairman

Mr. Paul Ratnayeke is a leading commercial lawyer and a Senior Partner and Founder of Paul Ratnayeke Associates, an established law firm in Sri Lanka. He 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. He specialises in corporate and commercial areas of law including in the fields of mergers and acquisitions, aviation, insurance and shipping. Currently, he holds directorships in several companies, in some of which he has been appointed Deputy Chairman or Chairman.

### Mr. Iftikar Ahamed

#### Managing Director

Mr. Iftikar Ahamed was appointed Managing Director of Asian Alliance Insurance PLC in January 2014. He heads the Financial Services Sector of the Softlogic Group and is the Managing Director of Softlogic Capital PLC, which is the Financial Services' Sector Holding

Company. He is an Executive Director of Softlogic Finance PLC and 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 Director at Deutsche Bank AG. He holds an MBA from University of Wales, UK.

### Mr. Ramal Jasinghe

#### Director

With experience exceeding over 30 years, which includes over 20 years in the Insurance sector, Mr. Jasinghe started his career in the manufacturing industry and thereafter in industrial marketing. He holds a MBA from the University of Sri Jayawardenepura and is a Chartered Marketer; Fellow of The Chartered Institute of Marketing, UK and the Academy of Marketing Sciences, USA. He obtained his Executive and Management Training at the Stanford University - Palo Alto, California and at the Indian Institute of Management (IIM), Ahmedabad. He was awarded the Platinum Honour in 2011 in recognition of Professional excellence in the field of Management by the Post Graduate Institute of Management Alumni (PIMA). He is a Past President of the Insurance Association of Sri Lanka (IASL) and has served on the Financial System Stability Consultative Committee of the Central Bank of Sri Lanka; on the Board of the Strike, Riot & Civil Commotion and Terrorism Fund (SR&CC). He 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 is a visiting lecturer at the University of Sri Jayawardenepura, University of Kelaniya, 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 Senior 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 Board of the National Cleaner Production Center (NCPC), in an honorary capacity.

### Mr. Sujeewa Rajapakse

#### Director

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

Mr. Rajapakse is a 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. Rajapakse represented the Monetary Policy Consultative Committee of the Central Bank of the Sri Lanka as a member and is a Board member of Haycarb PLC and Dipped Product PLC. Mr. Rajapakse was a member of the National Pay Commission and currently he is also a member of the Council of University of Sri Jayawardenepura. He is an old boy of Richmond College, Galle.

### Mr. 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 29 years

of work experience in the Capital markets in Sri Lanka, of which 23 years were spent in stockbroking. He has been in Investment Banking since 2009. He was appointed to the Board of Directors of the Colombo Stock Exchange in 2013. He is the Chairman of Acuity Stockbrokers (Pvt) Ltd and Acuity Securities Ltd, and he also holds Directorship's in Guardian Acuity Asset Management Ltd and Lanka Ventures PLC.

### Mr. Jatinder Mukhi

#### Director

Mr. 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 40 years of Insurance experience of which 20 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 to general management. He 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 USD 80m to USD 500m and to the No. 2 market share position in the direct channel. He has provided advice to insurance companies in Asia in order to improve operations and sales distribution. He 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.

### Mr. Johannes W. H. Richters

#### Director

Mr. 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 has 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



**Thilanka Kiriporuwa**  
Head of Human Resources

**Chula Hettiarachchi**  
Chief Operating Officer - Life

**Ramal Jasinghe**  
Director

**Iftikar Ahamed**  
Managing Director



**Mr. Iftikar Ahamed****Managing Director**

Detailed profile appears on page 164

**Mr. Ramal Jasinghe****Director**

Detailed profile appears on page 164

**Mr. Chula Hettiarachchi****Chief Operating Officer - Life**

He holds a B.Com. and a M.Com degrees from the University of Kelaniya and 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 35 years, 22 of which is in the Life Insurance field. He spearheads the Life Distribution Operations in an astute and professional manner.

**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 15 years' experience in Human Resources, Customer Service, Logistics, Administration, Facilities Management, Retail and General Operations. He overlooks the HR/Admin- Facilities and Legal aspects for Asian Alliance Insurance and HR for Financial Sector of the Softlogic Group.

# The Senior *Management*



**Amal Dharmapriya**  
DGM-ICT



**Annesly Arsakulasuriya**  
DGM - General Corporate Sales



**Dilan Christostom**  
DGM- Finance



**Kapila Suriyaarachchi**  
DGM - Life Sales (Panadura SBU)



**Lasitha Wimalaratne**  
DGM- Life Operations



**Nandana Premachandra**  
Head of GI - Retail Sales



**Pranama Perera**  
DGM - General Operations



**Sandamal Hettiarachchi**  
DGM - Colombo Central SBU



**Suranga Waduge**  
DGM- Actuarial



**Hiran Earl Gunawardena**  
AGM- Training & Knowledge  
Development



**Lal Hettige**  
AGM- Customer Relationship  
Development



**Mihilal Nishantha**  
AGM- Negombo SBU

## The Senior Management



**Soma Hettiarachchi**  
AGM - Kottawa SBU (Life)



**Dayan Ranasinghe**  
Chief Manager - Treasury



**Nuwan Damith Pushpakumara**  
Chief Manager - Finance



**Piyumal Bandara Wickramasinghe**  
Chief Manager - Motor Insurance &  
Customer Service

### **Amal Dharmapriya**

#### **Deputy General Manager - ICT**

B. Sc.(Applied Science), M. Sc. (Computer Science), MBA

Amal Dharmapriya joined Asian Alliance in June 2004 as a Systems Development Manager. He counts over 15 years of broad-based experience in the IT industry, consisting of Executive Management, Project Management, Application Design, Development and Implementation in Financial and Insurance and ERP systems with experience gained in Sri Lanka and Australia. The high point of his career in Asian Alliance is considered his spearheading in-house development of a complete insurance solution for the Company. He is a passed finalist of Certified Information Security Manager (CISM) - ISACA and a member of the Australian Computer Society (MACS). Amal has a B.Sc. in Applied Sciences from the University of Sri Jayewardenepura; M.Sc. in Computer Science, University of Colombo and holds an MBA from the University of Sri Jayewardenepura.

### **Annesly Arsakulasuriya**

#### **Deputy General Manager- General Corporate Sales**

He cut his teeth in the insurance industry fresh out of school, serving in various capacities. He counts valuable hands-on experience of 25 years in corporate insurance sales and is considered a veteran insurance salesman with an unblemished record of success. Client testimonials of his service levels have proved to be impeccable, which adds strength to the Company's distribution efforts.

### **Dilan Christostom**

#### **Deputy General Manager - Finance**

Dilan Christostom is an Associate Member of the Association of Chartered Certified Accountants (ACCA). His career spans over 13 years, of which 5 years was spent overseas. He has participated in many foreign and local training programmes on Insurance, Finance, Accounting and Risk Management including FALIA (Japan) and was a member of the Softlogic Team that won the international Asset & Liability Management competition conducted in Germany by DEG and FMO. His extensive knowledge and experience in Finance and Accounting brings a wider perspective to the Company.

### **Kapila Suriyaarachchi**

#### **Deputy General Manager, Life Sales Panadura SBU**

Diploma in Business Management

Kapila Suriyaarachchi commenced his career with Asian Alliance as a Regional Distribution Manager in 2001. A loyal employee since, he functions as a Deputy General Manager - Life Sales - Panadura SBU currently. Prior to joining the Company he had garnered 12 years experience in the insurance field.

He has consistently been conferred Best Regional Distribution Manager in 2004, 2005, 2007, 2009 and 2010. He won the runner up position for the same award in 2006. During his tenure with the Company, he has participated in many foreign and local training programmes in the realm of Life Insurance, having travelled to India, Japan and Malaysia.

### **Lasitha Niroshan Wimalaratne**

#### **Deputy General Manager - Life Operations**

B.A. (Hons), MBA, FCII, ANZIIF (Fellow), ACIM, Chartered Insurer

Lasitha commenced his career at Asian Alliance Insurance PLC as the Assistant General Manager -Life Operations in March 2014. He is a Chartered Insurer and a Fellow Member of the Chartered Insurance Institute, UK (FCII). He is also a Fellow of the Australian and New Zealand Institute of Insurance and Finance (ANZIIF) and an Associate Member of the Chartered Institute of Marketing, UK (ACIM). He holds an MBA from the University of Wales, UK and a B.A.(Hons) degree in Business Studies from the University of Sunderland, UK.

His career spans over 18 years, including 15 years in Life Operations and three years of Marketing and Sales in London. He is a Council Member of the Sri Lanka Insurance Institute since 2011 and currently holds the position of Honorary Assistant Secretary. He has published a book on Life Insurance titled "Jeevitha Rakshanaye Asiriya" in 2003.

### **Nandana Premachandra**

#### **Head Of General Insurance Retail Sales**

Nandana Premachandra holds a Diploma in Financial Services from Australia (RG 146) and has well over 18 years experience in insurance industry, having started his insurance career at Ceylinco Insurance- Life Division. During the time of privatisation of the industry, he rose to the level of Assistant General Manager-

## The Senior Management

Business Development in less than 7 years, gaining a number of promotions alone the way.

Subsequent to Nandana joining AAI in late 2014, the Company has shown a record growth in GWP, new business, productivity and is responsible for developing the regional business through a disciplined and a committed sales team.

### **Pranama Shalindra Perera** Deputy General Manager - General Operations

Mr. Pranama Perera is a Chartered Insurer (UK) and an Associate Member of the Chartered Insurance Institute London (ACII). He also holds a MBA from Sikkim Manipal University of India.

He commenced his career in the Insurance Industry as a school leaver at AIA Insurance Lanka PLC (which is formerly known as Aviva NDB/Eagle Insurance PLC). Having served in various capacities at AIA, he counts 20 years of hands-on experience in General Insurance operations.

He has participated in many foreign and local training programmes in the realm of General Insurance and currently overlooks the General Insurance Operations of Asian Alliance.

### **Sandamal Hettiarachchi** Deputy General Manager- Colombo SBU

Mr. Sandamal Hettiarachchi counts over 25 years of experience in the Insurance Sector with special emphasis on Sales and Distribution. Currently, he is responsible for the sales and distribution management of Colombo Central Strategic Business Unit at Asian Alliance.

Prior to rejoining Asian Alliance in 2014, he was attached to a multinational insurance giant and was instrumental in setting up their life business in Sri Lanka. Under his leadership the aforesaid Company achieved highest industry growth in the country for six consecutive years.

He started his professional career in the aeronautical field. Subsequently he entered the insurance industry as a sales consultant and moved up the ladder to represent the senior management in Sales & Distribution. Incidentally, he is one of the few industry professionals to reach the head of sales and distribution position, starting from the life sales consultant position.

He has also participated in foreign trainings in Japan, Australia, Singapore and India in Sales Management and Underwriting functions

### **Suranga Prasan Waduge** Deputy General Manager - Actuarial BSc (Hons), MS

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

Suranga began his career at Asian Alliance Insurance as a Management Trainee in 2004 and left for the US in 2006 to read for his MSc. Having gained foreign exposure for three years, he returned to Asian Alliance as Manager - Actuarial. During his nine-year career in Insurance, he has participated in many foreign and local training programmes on Life Insurance and Reinsurance including FALIA (Japan). At present, he is working towards becoming an Associate Member of the Institute and Faculty of Actuaries (UK).

### **Hiran Earl Gunawardena** Assistant General Manager - Training & Knowledge Development

BA (Defence), CIAM (USA), LUTC - Fellow (USA), CMFA (USA), AMTC (USA), Dip.LIM (USA), NLP Business Practitioner (India)

He joined the Company in 2014 and is responsible for all aspects pertaining to Training and Knowledge Management, which directly support the sales force of the Company.

He counts over 17 years' experience at Ceylinco Life as well as 10 years of military experience in the 8th Medium Regiment of the Sri Lanka Artillery. In his prior job, he was Assistant General Manager - Training & Development. In his illustrious military career, he was Officer Cadet, Troop Comander 23 Med. Battery, Machine Gun Platoon Comander, Intelligence Officer 8th (RFT) Regiment, Acting Adjutant 8th (RFT) Regiment, HQ Battery Captain, 25 Med. Battery Captain. He took part in the military operations conducted against LTTE Terrorists in North and East Operational Theater, such as Revirasa, Hayepara, Akunusara etc.

### **Lal Hettige** AGM - Customer Relationship Development

Dip - Systems Analysis, NCT - Electricity/Electronics, National Industrial Relation Laws, C.M.A. - Professional Management Development Programme.

Lal Hettige was initially a Research Assistant at National Aquatic Recourses Agency, Ministry of Fisheries (Sri Lanka) and then gained further exposure as an Inventory Analyst at Alghanim Industries a multinational group from General Motors -USA in Kuwait. He opted for a career as Executive Personal Assistant to the MD at El-Karaiji Corporation (KSA), a group Company of Saudia with a track record of HR management with over 5,000 multinationals. He then went on to serve as Former Project Coordinator, Eppawala Phosphate and SLT Fiber Optic at Novel International Pvt. Ltd (Sri Lanka), an NGO collaboration with Feeport Mc Moran (USA) and Tomen Corporation (Japan). Armed with exposure to multidisciplinary fields such as Marine, Automobile, IT, HR and Project management etc., he joined Asian Alliance as an Assistant Manager - Administration in 1999 and held subsequent positions of Manager - Administration, Manager - Credit Control and Manager - Policy Conservation, and now functions as AGM - Customer Relation Development.

### Mihilal Nishantha

#### Assistant General Manager, Negombo SBU

Masters in Business Administration (MBA)  
UK, Pgt.Dip.in Business Mgt.(UK)

Mr. Nishantha commenced his career at Asian Alliance Insurance as a Regional Distribution Manager in 2008. Leading an illustrious career, within a short period of time he rose to the position of Zonal Manager in 2010, Provincial Sales Manager in 2012 and became the Sales Manager in 2013. At present he functions as the Assistant General Manager - Strategic Business Unit (Negombo).

He has received extensive foreign and local training including FALIA (Japan) in the realm of Life Insurance within his career of 24 years in the Life Insurance Industry.

### Soma Hettiarachchi

#### Assistant General Manager, Kottawa SBU (Life)

Mr. Soma Hettiarachchi commenced his career as an Insurance Advisor and has held the positions of Financial Services Consultant, Team Leader, Team Manager, Regional Distribution Manager, Zonal Manager, Provincial Sales Manager, and has moved up to the position of Assistant General Manager for Kottawa SBU (Life) at Asian Alliance Insurance.

He possesses 24 years of experience in the industry.

Mr. Hettiarachchi has been conferred the Best Regional Distribution Manager award at Asian Alliance in 2008 and won the runner up award in 2013 and has made an immense contribution in developing leaders in the Life Insurance industry.

Prior to joining the insurance industry Mr. Hettiarachchi worked as the Sales

Manager in a reputed print media publication for 6 years in his career.

During his tenure with the Company, he has participated in many foreign and local training programmes in the realm of Life Insurance, including "Champions of Champions" Life Insurance Congress and "Asia Pacific Life Insurance Congress" in Thailand, OLIS - Japan and undergone through foreign training programmes at Indian National Insurance Academy in Pune, India.

### Dayan Ranasinghe

#### Chief Manager - Treasury

BA, ACMA, CGMA

Dayan Ranasinghe previously worked with several financial institutions including audit, leasing and hire purchase entities as well as investment houses and gained experience in treasury, research, factoring, auditing and marketing, prior to joining Asian Alliance in 2007. He joined AAI as a Financial Analyst and rapidly revamped the existing investments and processes to create a diversified portfolio, which combined with active management, resulted in profitable and sustainable returns.

He was subsequently promoted as Head of Treasury in 2012 and seconded to Softlogic Capital PLC to overlook the sector treasury function, whilst spearheading projects entered into with DFIs, which include FMO and DEG (Development Financial Institutions - equity and credit infusions), GuarantCo (a local credit guarantee provider) and TCX (special purpose fund providing OTC derivatives to hedge currency and interest rate risk).

Dayan is an alumnus of the University of Colombo and an Associate Member of the Chartered Institute of Management Accountants (U.K)

### Nuwan Damith Pushpakumara

#### Chief Manager - Finance

MBA PIM (SRI.J), Bachelor of Business  
Management Finance Sp, ACA, ACMA

Holds a Masters in Business Administration from the Postgraduate Institute of Management (PIM) of the University of Sri Jayawardenepura and a Special Degree in Business Management Finance. Member of the Institute of Chartered Accountants of Sri Lanka, Certified Management Accountants of Sri Lanka and the Finance Technical Sub Committee (FTSC) of the Insurance Association of Sri Lanka (IASL).

Joined Asian Alliance as Senior Manager in January 2014 and was subsequently promoted as Chief Manager. 11 years of previous experience in finance and audit areas at Union Assurance and KPMG. High point of career was spearheading in-house IFRS convergence and active participation on the Industry panel for IFRS convergence.

Served as an industry expert on the committee for drafting the Insurance syllabus for the Department of Finance, University of Kelaniya.

### Piyumal Bandara Wickramasinghe

#### Chief Manager - Motor Insurance & Customer Service

B.A (Hons) in Business Management  
- Middlesex University, London MBA -  
Cardiff Metropolitan University, Cardiff

Mr. Piyumal Wickramasinghe commenced his career at Asian Alliance General Insurance Ltd as Chief Manager in 2014. He holds a Master in Business Administration (Cardiff Metropolitan University), B.A (Hons) in Business Management (Middlesex University). He counts over 10 years' experience in Motor Underwriting, Motor Claims and Customer service.

## Corporate Governance

*“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.”*



**Ashok Pathirage**  
Chairman

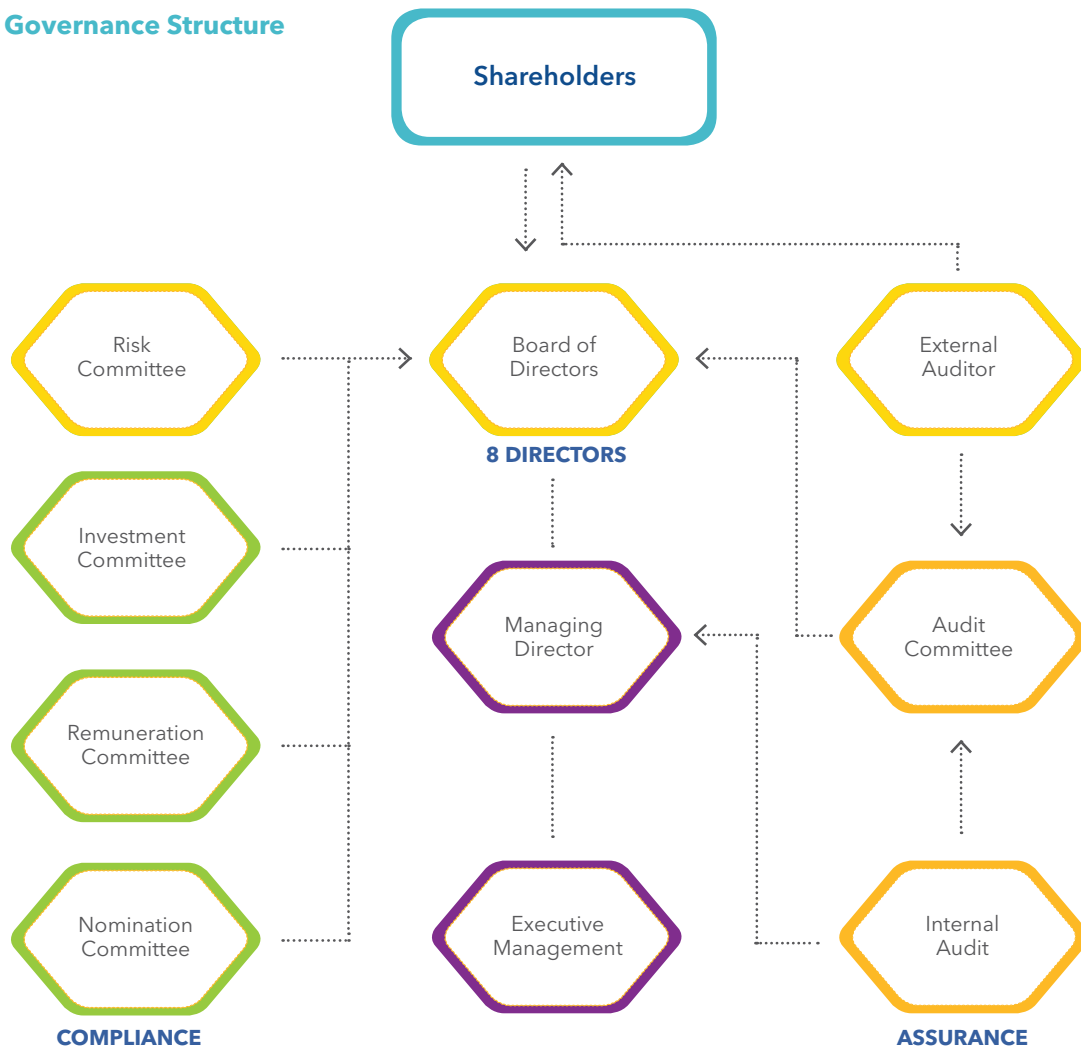
### STATEMENT OF COMPLIANCE

Asian Alliance Insurance PLC is fully compliant with the Code of Best Practice on 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 Colombo Stock Exchange (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 192-203. The Company has also included a table which summarizes the status of compliance with Rule No. 7.10 of the Listing Rules of the CSE, on pages 204-205.



## Internal Governance Structure



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 (AAI) encompasses a corporate governance framework inclusive of all aspects and functions.

### Shareholders

The Board and the Senior Management acknowledge their responsibility to represent the interests of all shareholders

and to maximise shareholder value. Therefore, one of the main objectives of the Board is to represent, formulate and realise the interests and expectations of shareholders, who are the owners of the Company. In fulfilling the expectations of the shareholders, the Company has the following primary objectives:

- Provide a reasonable return to shareholders maintaining a satisfactory Return on Equity
- Provide a satisfactory distribution of dividends out of the profits earned
- Communicate effectively and efficiently with the shareholders in

order to inform them regarding the affairs of the Company

### Communication with Shareholders

The techniques which Asian Alliance Insurance PLC uses to be in touch with its shareholders were discussed in the Stakeholder Engagement (Refer Pg 43). In general, the modes of communication could be listed as follows:

- Annual General Meeting
- Extraordinary General Meeting
- Annual Report
- Corporate Website

## Corporate Governance

### 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 and provide constructive feedback. The Investor Relations team headed by MD has regularly discuss with key institutional shareholders. However, the Board and the management strictly adhere to the statutory and ethical guidelines regarding their responsibility of maintaining confidentiality of price sensitive information.

### Communication with Other Investors

Individual shareholders are encouraged to carryout adequate analysis or seek independent advice on their investing, holding or divesting decisions. Also they are encouraged to participate at AGM and exercise their voting rights

### Annual General Meetings (AGM)

This is considered as a sturdy mode of communication, since 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 16th Annual General Meeting (AGM) of the Company held on 31st March 2015, at 4th Floor, Central Hospital (Private) Limited, No. 114, Norris Canal Road, Colombo 10.

### Matters Discussed

- 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.

- 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.
- 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.
- To transact any other business of which due notice had been given.

### Extraordinary General Meetings (EGM)

The most recent shareholders' meeting was of the Company held on 20th July 2015, at 4th Floor, Central Hospital (Private) Limited, No. 114, Norris Canal Road, Colombo 10.

**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 07, Sri Lanka

### 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 was introduced from the first Integrated Annual Report in 2013, which was continued in the preceding year and this provides the opportunity for the shareholders to comment on their prospects and initiatives for the Company. For the feedback form refer page 387.

### Enquiries by Shareholders

Shareholders are encouraged to maintain direct communication with the Company. They may raise enquiries and concerns with the Board by contacting the Company Secretary, P. R. Secretarial Services (Pvt) Ltd, through the below mentioned channels:

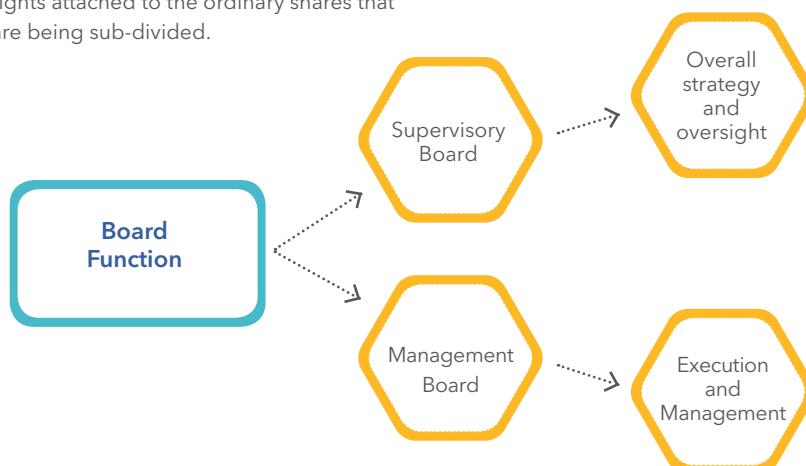
### Matters Discussed

To pass the resolution where each of the 37,500,000 ordinary issued shares of the Company, as at the end of trading on 20th July 2015, to be sub-divided into 10 ordinary shares, thereby increasing the ordinary shares in issue to 375,000,000 which ordinary shares shall rank pari-passu in respect of voting and other rights attached to the ordinary shares that are being sub-divided.

### Board of Directors

#### Structure of the Board

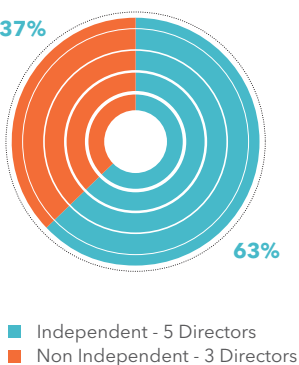
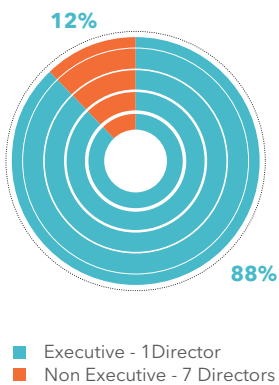
The primary function of the Board of Directors who acts as representatives of the shareholders is to oversee the performance of the organisation and ensure that it continues to operate in the best interests of all stakeholders.



At Asian Alliance Insurance PLC, the Board function has been apportioned over two formal bodies - a supervisory board and a management board. The supervisory board is responsible for overall strategy and oversight, whilst execution and management is carried out by the management board, which is led by the Managing Director (MD).

### Composition of Board

The board consists of 08 Directors. The Chairman is a Non-Executive Director and MD is an Executive Director whilst the other directors hold office in a Non-Executive capacity, whereas the five Non-Executive Directors are independent. The MD, 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.



### Powers, duties and responsibilities of the Board

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

### Responsibilities of the 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:

- Setting, reviewing, directing, approving and monitoring the corporate strategies.
- Providing guidance to Director/ MD and senior management and ensuring they possess the relevant skills, experience and knowledge to implement the strategies.
- Setting strategic targets and implementation plans and evaluate its effectiveness via periodic board meetings with the management
- Ensuring the effectiveness of internal controls and risk management via review of internal audit reports, compliance reports and management letters(external auditors)
- Appointing the MD and succession planning of senior management

- Discharging its duties through various sub committees of the main board
- Monitoring performance against budgets on a regular basis via monthly review of financial performance reports
- Compliance with laws, regulation (IBSL) and statutory payments via review of compliance reports
- Reporting to shareholders on their stewardship
- Reviewing the effectiveness of annual and interim Financial Statements for reporting purpose
- Reviewing company's values and standards that are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations
- Ensuring the integrity of financial information, internal controls, risk management and Financial Statements

### 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.

The Board consist of professionals in the field of Insurance, Accounting, Management, Economic, Marketing and Business.

Details of each director including his nature of expertise are provided in page 164 to 165 in Directors profile to this report

### Appointment and Re-election of Board Members

New Board appointments are governed by the 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

## Corporate Governance

balance of power, so that no one individual has unfettered powers of decision-making.

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.

### Policy on appointment of Directors

On appointment, each Director undertakes a comprehensive induction programme which introduces the Director to AAI's businesses and its senior management. 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:

- 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

On access to information and professional development, it is essential that the Directors are upto-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

### Training of New and Existing 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 when ever necessary.

### 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.

### Roles of Chairman and Chief Executive Officer

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).

### 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 224.

### 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.

### Maintaining Independence of Directors

Each Board member has a responsibility to determine whether he has a potential or actual conflict of interest arising from external associations, interest in material

matters and personal relationships which may influence his 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.

(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

### Submission of Independence Declaration

Declaration of independence has been submitted by all Directors.

The independence of the Non-Executive Directors was reviewed on the basis of criteria summarised below.

	Shareholding	Director/ Employee of another institute	Material Business relationship	Family member is 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	•	•	•	•	•	•
Mr. Sujeewa Rajapakse	•	•	•	•	•	•
Mr. Ray Abeywardena	•	•	•	•	•	•
Mr. Jatinder Mukhi	•	•	•	•	•	•
Mr. Johannes Richters	•	•	•	•	•	•

x do not meet independence criteria

• compliant

### 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
Chairman	Mr. Sujeewa Rajapakse	Mr. Ashok Pathirage	Mr. Ashok Pathirage	Mr. Jatinder K. Mukhi	Mr. Ashok Pathirage,
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 K. Mukhi
Agenda	Available	Available	Available	Available	Available
Circulation of the agenda and papers	One week in advance	One week in advance	One week in advance	One week in advance	One week in advance
Secretary	Board Secretary	Board Secretary	Board Secretary	Board Secretary	Board Secretary

## Corporate Governance

Description	Audit Committee	Remuneration Committee	Nomination Committee	Risk Committee	Investment Committee
Invitees	MD, Director/CEO, COO, GM Finance, DGM Finance, Group Head Audit, Risk and Compliance, SM Internal Audit, SM Compliance, SM Finance, DGM ICT DGM GI Operations, DGM Life, Operations, Manager ITSO, SM Life Claims, Representing FMO, Representing KPMG	MD, Head of HR	-	COO, GM Finance DGM Finance, Group Head, Audit, Risk and Compliance, SM Risk, DGM Life Operations, DGM General Operations, DGM Actuarial, SM Internal Audit, SM Compliance, Manager ITSO	GM Finance, DGM Finance, Head of Investment
Meeting Frequency	Bi Monthly	Yearly	When Required	Quarterly	Quarterly
Availability of Terms of Reference	Available	Available	Available	Available	Available
Objectives	Refer Audit Committee on report page no. 209	Refer Investment Committee on report page no. 214	Refer Remuneration Committee report on page no. 212	Refer Nomination Committee report on page no. 215	Refer Risk Committee report on page no. 216

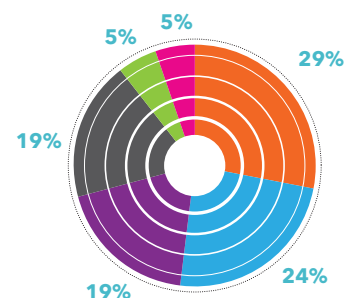
Composition of Board and Board Committees is depicted in the following table:

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	√	√	×	×	√	√

### 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.

Director	Board Meeting	Audit Committee	Nomination Committee	Remuneration Committee	Risk Committee	Investment Committee
<b>Number of Meetings Held</b>	<b>4</b>	<b>6</b>	<b>1</b>	<b>1</b>	<b>5</b>	<b>4</b>
Mr. Ashok Pathirage	4	N/A	1	1	N/A	4
Mr. Paul Ratnayake	3	N/A	1	1	N/A	N/A
Mr. Iftikar Ahammed	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	6	N/A	1	N/A	4
Mr. Ray Abeywardena	4	6	1	1	N/A	N/A
Mr. Jatinder Mukhi	4	6	N/A	N/A	5	4
Mr. Johannes Richters	4	5	N/A	N/A	4	4



## 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 285 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

### 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 Managing Director

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 best possible price	Purchasing asset of the right quality, at the right time and 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 a view to 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
Members	DGM Finance, DGM- General Operations	MD, COO, DGM General Operations, DGM Finance	MD, COO, DGM General, DGM Finance	DGM- Finance, COO, Head of HR	MD, Consultant Actuary, DGM – Life Operations, DGM Finance , COO, DGM – Actuarial	COO-Life, DGM General Operations, DGM Finance	DGM Actuarial, DGM-Life Operations, DGM SBU (Panadura and Kelaniya), ZM (Kiribathgoda, Gampaha), Sales M SBU (Negombo, Kottawa)	MD, COO, DGM Finance, Head of HR, Chief Manager- Finance
Frequency of meeting planned and held	As and when needs arise	As and when needs arise	Quarterly	Bi Annually	Monthly	Quarterly	Quarterly	Quarterly



## 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 recognised this, there is a performance evaluation procedure at AAI where the performance of the Board and its sub committees are evaluated by the Chairman.

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 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 2015, involving both Internal and External Auditors as well.

## Annual Appraisal of MD 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 2016 were;

- Market Share
- Grow Written Premium for Life and General Insurance
- Underwriting results
- Profitability
- Premium persistency
- Dividend payout
- Remuneration of employees
- Sustainability

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.

## 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 organisation of the need for risk management and establishing performance indicators that can monitor risks.

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

The Board takes responsibility for the overall risk framework of the Company. The Board Integrated Risk Management Committee ensures that the risks taken in Credit, Operational, Market, Strategic and other areas are within the approved risk appetite set out by the Board both the Company is exposed to internally and externally. The findings of the Board Integrated Risk Management Committee are submitted to the main Board for their review and further action if required.

The details of the strategies adopted to manage and mitigate risk exposed by the Company are disclosed in Risk Management report on page no 218 to 221 and Financial Statement note 39 page 319 to page 245 to this report.

## Access to independent professional advice

The Charter of the Board of Directors permits all Directors to seek independent professional advice, at the Company's expense, if considered appropriate and necessary, at any time. However, no such advice has been taken by any of the Directors during the year.

Code of Business Conduct & Ethics for Directors and members of senior management

## Corporate Governance

The Company introduced a Code of Business Conduct and Ethics for Directors. Further, the Company has in place a Code of Business Conduct and Ethics for all its employees, and has mandated that it should be followed without exception.

### Code of Business Ethics and Standard of Corporate Behaviour

A Code of Conduct and Ethics for Directors has been introduced with the intention of providing guidance on recognising and handling areas of ethical issues, information on how to report unethical conduct and to help foster a culture of openness and accountability.

### Business Focus, Objectives and strategies

The Company's Business objectives and details of business focus are disclosed in page no 66 to 68. Further details of the Company's strategies together with key value drivers which use for the business are analysed and presented in page 39 to this report

### 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:

- 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 and 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.
- Act professionally and with courtesy when conducting /conducted 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

Best Corporate Governance practices are adopted into business processes and activities and staff is 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:

### 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.

### 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 Manual of Financial Authority (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 customised 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 31st December 2015.

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 237. The Actuary's Report - life is available on page 236.

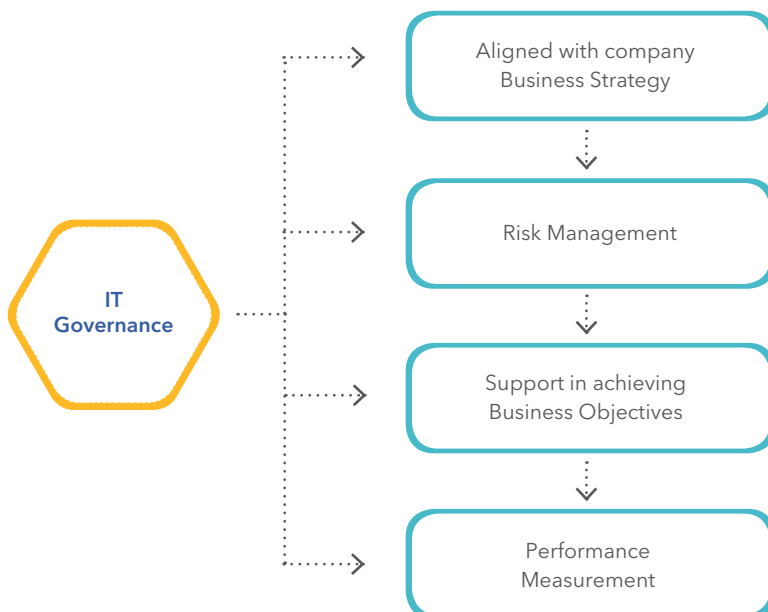
### Investment Governance

At AAI, it is believed 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 policyholders and shareholders.

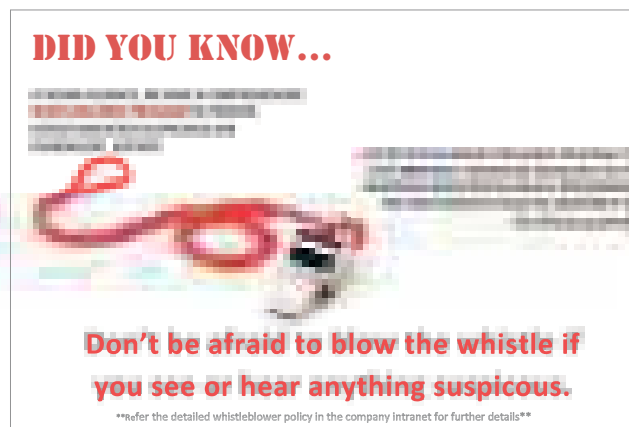
Investment Governance structure at AAI:

- Existence of critical decision making bodies
  - o E.g. Board of Directors, Investment Committee and In-house investment team
- Segregation of front office, middle office and back office functions

IT Governance Framework



## Corporate Governance



- 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 ongoing 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 thorough 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 organisation 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 interest. Breach of law, Breach of company policy, Frauds, Misuse of data, unfair discrimination and 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
- Head of 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 Head of 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 Head of Internal Audit unless the complaint is against any member of the Senior Management or against the Head of 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 Head of 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 there under 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 complies with the Rules issued by the Securities and Exchange Commission of Sri Lanka and the Colombo Stock Exchange
- To cooperate with the Company Secretaries and monitor compliance with the Companies Act No. 07 of 2007 and any Regulations made there under
- To cooperate 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 suspect 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 Whistleblower 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 organisational 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 not solely 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 (Pg 103 to 150.)

## Corporate Governance

### Sustainability Integration

**"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."**

**Iftikar Ahamed - Managing Director**

### 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 recognise that sustainability expertise and hotspots are to be found across the whole organisation and also in the nature of the products and services we provide.

Thus, our Corporate Governance and risk management 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 organisation, 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 policyholder
- 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 Page 177.

### 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 behaviours 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".

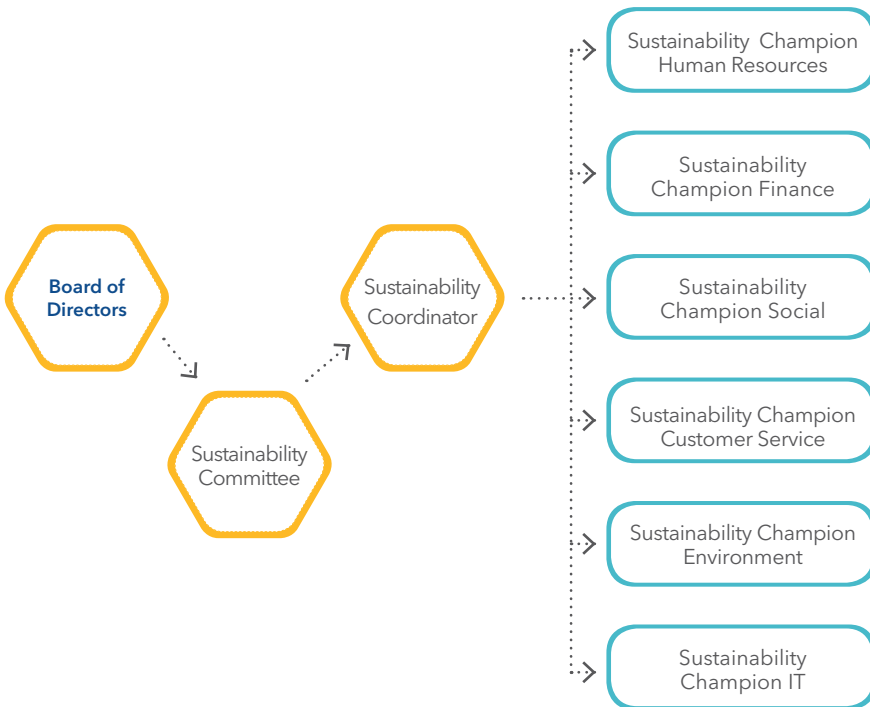
### Committing to the cause

In 2015, 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





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.

### 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, 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.

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.

### 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 him/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

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.



# Code of Best Practice on Corporate Governance

AAI: Compliance with the Code of best practice on Corporate Governance issued jointly by ICASL and SEC

Principle	Requirement	Status of Compliance	Comments
<b>A</b>	<b>Directors</b>		
<b>A.1</b>	<b>The Board</b>		
	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 179-180
A.1.2	Responsibilities of the Board	Compliant	For details of responsibilities and duties of the Board please refer to 177
A.1.3	The Board must act in accordance with the law and obtain independent professional advice where necessary	Compliant	The Board places utmost importance on compliance with all applicable laws and regulations. In addition to the in-house compliance function and legal department, the services of independent consultants is obtained, 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	The Board consist of a high calibre of professionals capable of exercising independent judgment in the Board decision-making process. The Board promote an environment where challenging contribution from the Non Executive Directors are welcomed and encouraged
A.1.6	Every director should dedicate adequate time and effort to matters of the Board	Compliant	Directors dedicate time and effort by attending Board meetings and Board Sub-Committee meetings (please refer page 180 for frequency of meetings). Directors evaluate all material relating to such meetings and make additional enquiries from the management. Further, directors transact business of the Board through Board Memorandums and circular resolutions
A.1.7	Training and continuous development of directors	Compliant	All directors have adequate knowledge and experience in the insurance industry, and management regularly updates directors of any developments in the insurance industry. In addition, directors engage in continuous professional development in their respective fields (please refer page 164-165 for a brief resume of each director)
<b>A.2</b>	<b>Chairman and Chief Executive Officer (CEO)</b>		
	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	The posts of Chairman and MD / CEO vested in one person should be justified	Compliant	The position of Chairman and MD/ CEO are segregated. The role of the Chief Executive is to manage the day to day running of the Company. The Board has delegated this responsibility to the Chief Executive and he then leads the Corporate Management team. The Chief Executive is also responsible for recommending strategies to the Board



Principle	Requirement	Status of Compliance	Comments
<b>A.3</b>	<b>Chairman's Role</b>		
	The Chairman should preserve order and facilitate the effective discharge of Board functions		
A.3.1	The Chairman's role in the conduct of Board meetings	Compliant	<p>The Chairman of Asian Alliance is a Non Executive Director. The a Chairman's role encompasses:</p> <ul style="list-style-type: none"> <li>- Ensuring that the new Board Members are given appropriate induction, covering terms of appointment, duties and responsibilities.</li> <li>- Leading the Board and managing the business of the Board while taking full account of the issues and concerns of the Board.</li> <li>- Approving the agenda for each meeting prepared by the Board Secretary.</li> <li>- Ensuring that the Board members receive accurate, timely and clear information, in particular about the Company's performance to enable the Board to take sound decisions, monitor efficiently and provide advice to promote success of the Company.</li> <li>- Ensuring regular meetings, the minutes of which are accurately recorded and where appropriate include the individual and collective views of the Directors.</li> <li>- Facilitates and encourages discussions amongst all Directors where decisions are needed on matters of risk and strategy.</li> <li>- Encouraging effective participation of all Directors in the decision making process to optimise contribution.</li> <li>- Representing the views of the Board to the public.</li> <li>- Initiates the process for self assessment of the Board from its members and uses the meaningful feedback to further improve the effectiveness of the Board.</li> </ul>
<b>A.4</b>	<b>Financial Acumen</b>		
A.4.1	The Board should have sufficient financial acumen	Compliant	Members of the Board possess the necessary financial knowledge to understand and provide guidance on financial matters of the Company (please refer page 164-165 for a brief resume of the directors)
<b>A.5</b>	<b>Board Balance</b>		
	Balance of executive and non-executive directors		
A.5.1	Number of non-executive directors	Compliant	All Directors are Non Executive Directors except for MD / CEO
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 the Annual Report of the Board of Directors on the Affairs of the Company on page 224) The requirement as per code has been complied with throughout 2015.
A.5.3	Determination of independence	Compliant	Please refer the Annual Report of the Board of Directors on the Affairs of the Company on page 224.

## Code of Best Practice on Corporate Governance

Principle	Requirement	Status of Compliance	Comments
A.5.4	Declaration of independence of non-executive directors	Compliant	Each non-executive director submits an annual declaration of his/her independence in the specified form
A.5.5	Determination of independence and disclosure in the Annual Report	Compliant	Please refer the Annual Report of the Board of Directors on the Affairs of the Company on page 224
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 period under review
A.5.7	In the event the Chairman and CEO is the same person, the Board should appoint a senior independent director	Not applicable	The Role of Chairman and CEO is segregated
A.5.8	The 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 presides over several Board Sub-Committees consisting of non-executive directors. In addition, the Chairman holds meetings 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	All proceedings at Board meetings are recorded by the Company Secretary. The Chairman fosters an environment in which decision are reached unanimously
<b>A.6</b>	<b>Supply of Information</b>		
	The Board should be provided with timely information		
A.6.1	Management has an obligation to provide the Board with appropriate and timely information	Compliant	The management provides the Board with monthly financial and management information. The Board Sub-Committees are provided with all necessary information by way of Board papers and proposals in the frequency in which meetings are held. In addition, information is provided whenever requested by the Board/ Board Sub-Committees
A.6.2	The minutes, agenda and papers required for Board meetings should be provided at least seven (7) days before the meeting	Compliant	The minutes, agenda and all other information required for Board and Board Sub-Committee meetings is circulated no less than seven(7) days before the meetings to study the related papers and prepare for a meaningful discussion at the respective meeting.

Principle	Requirement	Status of Compliance	Comments
<b>A.7</b>	<b>Appointments to the Board</b>		
	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 in order to make recommendations on all new appointments to the Board. The Chairman and members of the Nomination Committee should be identified in the Annual Report	Compliant	For details of the Nomination Committee and its functions please refer the Nomination Committee Report on page 215
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 direction of the Company. However, if there is any 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 new appointments to the Board in the period under review
<b>A.8</b>	<b>Re-election</b>		
	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	All directors are subject to retirement by rotation. At every AGM the longest standing director shall retire and the 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	According to the Articles of Association of the Company the Chairman and Managing Director (MD), while holding such office shall not be subject to retirement by rotation  Except Chairman and MD all other Directors are subject to election by shareholders.
<b>A.9</b>	<b>Appraisal of Board Performance</b>		
	Boards should periodically appraise their own performance		
A.9.1	The Board should annually appraise itself on its performance	Compliant	Goals and targets of the Board of Directors have been clearly set out and evaluated at the end of the year by the members. Further each member of the Board carries out a self assessment of his own effectiveness as an individual as well as effectiveness of the Board as a team for the year 2015. Please refer page 183 for details of the performance evaluation of the Board and its Sub-Committees
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	

## Code of Best Practice on Corporate Governance

Principle	Requirement	Status of Compliance	Comments
<b>A.10</b>	<b>Disclosure of Information in respect of Directors</b>		
	Shareholders should be kept advised of relevant details in respect of directors		
A.10.1	<p>The Annual Report should set out the following information on each director:</p> <ul style="list-style-type: none"> <li>name, qualifications and brief profile;</li> <li>the nature of expertise in relevant functional areas;</li> <li>immediate family and/or material business relationships with other directors of the Company;</li> <li>whether executive, non-executive and/or independent director;</li> <li>number/percentage of Board meetings of the Company attended during the year;</li> <li>names of listed companies in Sri Lanka in which the director serves as a director;</li> <li>names of other companies in which the director serves as a director;</li> <li>the total number of Board seats held by each director indicating listed and unlisted Companies and</li> <li>whether in an executive or non-executive capacity;</li> <li>names of Board Committees in which the director serves as Chairman or a member; and</li> <li>number/percentage of committee meetings attended during the year</li> </ul>	Compliant	<p>Please refer page 224-232</p> <p>Please refer page 180</p> <p>-</p> <p>Please refer page 224-232</p> <p>Please refer page 180</p>
<b>A.11</b>	<b>Appraisal of Chief Executive Officer (CEO)</b>		
	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 MD / CEO, should set financial and non-financial targets that should be met by the MD / CEO	Compliant	The Board in consultation with the MD set financial and non-financial targets in line with the objectives of the Company in every year (please refer page 183 for details of the performance evaluation of the MD)
A.11.2	The performance of the MD / CEO should be evaluated by the Board at the end of each fiscal year	Compliant	There is an ongoing process to evaluate the performance of MD / CEO against the financial and non financial targets as set out above, which is followed by a formal annual review by the Board at the end of each financial year

Principle	Requirement	Status of Compliance	Comments
<b>B</b>	<b>Directors' Remuneration</b>		
<b>B.1</b>	<b>Remuneration Procedure</b>		
	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	<p>Remuneration Committee is responsible for assisting the Board with regard to the remuneration policy for the Executive Director and the Corporate Management.</p> <p>The Committee determines and agrees with the Board, the broad policy framework for the remuneration of the MD / CEO. The MD / CEO participates at meetings when deciding the remuneration of the Corporate Management in order to recruit, retain and motivate the Corporate Management team.</p> <p>For details about the composition of the Remuneration Committee please refer to the page 212</p>
B.1.2	Remuneration Committee should consist exclusively of non-executive directors and a Chairman appointed by the Board	Compliant	Remuneration committee consist of all Non Executive Directors.
B.1.3	The Chairman and members of the Remuneration Committee should be listed in the Annual Report	Compliant	The Remuneration Committee Report is given page 212
B.1.4	The Board should determine the remuneration of non-executive directors, including members of the Remuneration Committee	Compliant	The Board as a whole determines the remuneration of the non-executive directors. The Non Executive Directors receive a fee for being a director of the Board and an additional fee for being a member of the committee. They do not received any performance relative incentive.
B.1.5	The Remuneration Committee should consult the Chairman and/or CEO and have access to professional advice	Compliant	<p>Input of the Chairman is obtained by his involvement as a member of the said Sub - Committee. External professional advice is sought by the Remuneration Committee, on a need basis through the Board Secretary.</p> <p>For details about the functions of the Remuneration Committee please refer the Remuneration Committee Report on page 213</p>
<b>B.2</b>	<b>The Level and Make-up of Remuneration</b>		
	Levels of remuneration should be sufficient to attract directors needed to run the Company successfully. A proportion of executive directors' remuneration should be linked to corporate and individual performance		

## Code of Best Practice on Corporate Governance

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	<p>The Board is mindful of the fact that the remuneration of Executive and the Non Executive Directors should reflect the market expectations and is sufficient enough to attract and retain the quality of Directors needed to run the Company. The remuneration package of the MD / CEO is structured to link rewards to corporate and individual performance.</p> <p>The Company's remuneration framework for the CEO is designed to create and enhance the value for all AAI's stakeholders and to ensure there is strong alignment between the short term and long term interest of the Company.</p> <p>For details of the Remuneration policy of the Company please refer the Remuneration Committee Report on page 212</p>
B.2.2	The Committee should judge where to position levels of remuneration of the Company, relative to other companies	Compliant	The Remuneration Committee in deciding the remuneration of the Directors (including the compensation package of the MD / CEO) takes into consideration the level of remuneration paid by the other comparable companies, performance and risk factors entailed in his job.
B.2.3	The Committee should be sensitive to remuneration elsewhere in the Company or Group of which it is a part	Compliant	The size and scale of the Company is not comparable with any other Group companies
B.2.4	The performance-related elements of remuneration of executive directors should be designed to align their interests with the Company	Compliant	Please refer to section B 2.1
B.2.5	Executive share options should not be offered at a discount	Not applicable	There is no executive share option scheme in the Company
B.2.6	In designing schemes of performance-related remuneration, the Committee should follow the provisions set out in this Code	Compliant	In deciding the remuneration of the MD / CEO the Company takes note of the provisions set out in Schedule E.
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	

Principle	Requirement	Status of Compliance	Comments
<b>B.3</b>	<b>Disclosure of Remuneration</b>		
	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 the Remuneration Committee Report on page 212. The Remuneration paid to the Board of Directors is disclosed (in aggregate) in note 15 in the Financial Statement on page 285.
<b>C</b>	<b>Relations with Shareholders</b>		
<b>C.1</b>	<b>Constructive use of the Annual General Meeting (AGM) and conduct of General Meetings</b>		
	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	All 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 Chairman were present at AGM 2015 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 the notice period as required by the Companies Act and the Articles of Association is strictly observed and the shareholders are served with all related papers 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 incorporate instructions for shareholders on voting
<b>C.2</b>	<b>Communication with Shareholders</b>		
	The Board should implement effective communication with shareholders		
C. 2. 1	There should be a channel to reach all shareholders in order to disseminate information	Compliant	The Company makes effective use of General Meetings to communicate with all its shareholders. Important announcements are published on the CSE and media. Further the Company maintains a dedicated section on its website for investor relations  Please refer page 104 to more information.
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 Share Information and Stakeholder Engagement sections of the Annual Report on pages 359 and 43
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	Shareholders may, at any time, direct questions, request for publicly available information and provide comments and suggestions to Directors or Management of the Company. Such questions, requests and comments should be addressed to the Company Secretary.

## Code of Best Practice on Corporate Governance

Principle	Requirement	Status of Compliance	Comments
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	The Company Secretary shall maintain a record of all correspondence received and will deliver as soon as practicable such correspondence to the Board or individual director/s as applicable. The Board or individual director/s, as applicable, will generate an appropriate response to all validly received shareholder correspondence and will direct the Company Secretary to send the response to the particular shareholder.
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 given on page 176
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
<b>C.3</b>	<b>Major and Material Transactions</b>		
	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 all major transactions (whether related or not) to be approved by shareholders by way of special resolution. In addition, with the CSE Listing Rule on Related Party Transactions coming into effect from 2016, all proposed non-recurrent related party transactions must be reviewed by a Board Sub-Committee and transactions exceeding threshold limits must be subject to shareholder approval by way of special resolution
<b>D</b>	<b>Accountability and Audit</b>		
<b>D.1</b>	<b>Financial Reporting</b>		
	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 responsibility for 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 certain declarations to the effect set out in the Code	Compliant	Please refer the Annual Report of the Board of Directors on the Affairs of the Company on page 224
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 the Statement of Directors' Responsibility to Financial Reporting, Independent Auditors' Report and Directors' Statement on Internal Controls on pages 233,241 and 190 respectively



Principle	Requirement	Status of Compliance	Comments
D.1.4	The Annual Report should contain a "Management Discussion & Analysis"	Compliant	Please refer the Our Business and Our Performance on page 36 - 157
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 the Affairs of the Company on page 224
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	Likelihood of such occurrence is remote. However, should the situation arise, an EGM will be called for and shareholders will be notified.
D.1.7	The Board should adequately disclose related party transactions in the Annual Report	Compliant	Please refer to Note 44 - Related Party Disclosures in Notes to the Financial Statements on page 349
<b>D.2</b>	<b>Internal Control</b>		
	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 conduct an annual review of the risks facing the Company and the effectiveness of the system of internal controls	Compliant	The Board is responsible for establishing a sound framework of risk management and internal controls and monitoring its effectiveness on a continuous basis. Through such an effective framework, AAI manages business risks and ensures that the financial information on which business decisions are made and published is reliable, and also ensures that the Company's assets are safeguarded against unauthorised use or disposition.
D.2.2	Company should have an internal audit function	Compliant	In the period under review, the internal audit function was completely brought under the in-house internal audit department (disengaging the services of Ernest & Young Advisory Services (Pvt) Ltd). Accordingly, the resource and staff requirements of the internal audit department were enhanced
D.2.3	Audit Committee should carry out a review of the effectiveness of risk management and internal controls	Compliant	The Internal Audit Division of the Company carries out regular reviews on the internal control system including internal control over financial reporting. The Audit Committee monitors, reviews and evaluates the effectiveness of the risk management and internal control system including the internal controls over financial reporting.
D.2.4	Responsibility of directors in maintaining a system of internal controls	Compliant	Please refer Directors' Statement on Internal Controls on page 207 - 208
<b>D.3</b>	<b>Audit Committee</b>		
	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. The Chairman of the committee is an independent Non Executive Director. The Board secretary function as the secretary to the committee the directors, MD / CEO, CFO, Senior Manager Internal Audit, Senior Manager Risk, Senior Manager Compliance and external auditors attend meeting by invitation. For details of the composition of the Committee please refer the Audit Committee Report on page 209

## Code of Best Practice on Corporate Governance

Principle	Requirement	Status of Compliance	Comments
D.3.2	The duties of the Audit Committee	Compliant	For details of the duties of the Audit Committee and its Terms of Reference please refer the Audit Committee Report on page 209
D.3.3	The Audit Committee should have a written Terms of Reference, dealing with its authority and duties	Compliant	
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 209
<b>D.4</b>	<b>Code of Business Conduct &amp; Ethics</b>		
	Companies must adopt a Code of Business Conduct & 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  The Board is not aware of any material violations of any of the provisions of the Code of business conduct and ethics by any Director or Corporate Management member of the Company.  Please refer page 181
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 Chairman's Statement on page 20
<b>D.5</b>	<b>Corporate Governance Disclosures</b>		
	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 part forms a part of the Corporate Governance Report, which commences from page 174
<b>E</b>	<b>Institutional Investors</b>		
<b>E.1</b>	<b>Shareholder Voting</b>		
	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 management and Board maintain a regular dialogue with the institutional shareholders and their views are considered on all major transactions  Please refer page 176
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 views of institutional shareholders, especially FMO and DEG (which are internationally renowned development finance institutions) have been instrumental in shaping current governance arrangements of the Company

Principle	Requirement	Status of Compliance	Comments
<b>F</b>	<b>Other Investors</b>		
<b>F.1</b>	<b>Investing/ Divesting Decision</b>		
	Individual shareholders should be encouraged to carry out adequate analysis or seek independent advice in investing or divesting decisions	Compliant	The information disseminated by the Company is adequate for individual shareholders to undertake an analysis of the Company and/or seek independent investment advice regarding the prospects of the Company  Please refer page 176
<b>F.2</b>	<b>Shareholder Voting</b>		
	Individual shareholders should be encouraged to participate in General Meetings of companies and exercise their voting rights	Compliant	All shareholders are given adequate notice of General Meetings and provided with all the necessary information to make informed decisions at Meetings  Please refer page 176
<b>G</b>	<b>Sustainability Reporting</b>		
<b>G.1</b>	<b>Principles of Sustainability</b>		
G.1.1	Principle 1 – Economic Sustainability  How the organisation takes responsibility for the impacts of their activities on economic performance	Compliant	For detail coverage of these principles please refer to the Sustainability Approach of the Company on pages 65-69
G.1.2	Principle 2 – The Environment  An organisation should adopt an integrated approach that takes into consideration the direct and indirect economic, social, health and environmental implications of their activities	Compliant	Please refer Value Creation: Environment on page 144 - 149
G.1.3	Principle 3 – Labour Practice  All policies and practices relating to work performed by or on behalf of the organisation	Compliant	Please refer Value Creation: People on page 127 - 140
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	Please refer Value Creation: Society/ Community on page 150 - 154
G.1.5	Principle 5 – Product Responsibility  Manufacturing quality products and ensuring that the products are safe for the consumers and the environment	Not applicable	
G.1.6	Principle 6 – Stakeholder Identification, engagement & effective communication with stakeholders	Compliant	For details of the stakeholder engagement policy of the Company please refer the section on Stakeholder Engagement on page 43
G.1.7	Principle 7 – Sustainable Reporting	Compliant	Please refer to the Sustainability Approach of the Company on pages 65

## Continuing Listing Requirements

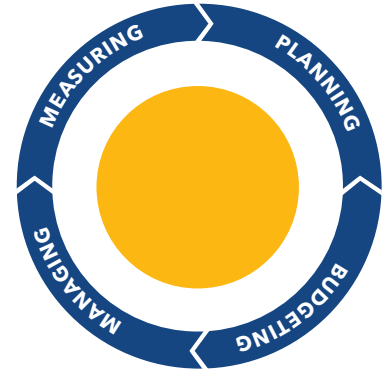
Rule	Requirement	Status of Compliance	Comments
7.10.1	<b>Number of non-executive directors</b> One-third of the total number of directors	Compliant	The Board consists of eight directors, of which seven are non-executive directors
7.10.2(a)	<b>Number of independent directors</b> One-third of the non-executive 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 the Affairs of the Company on page 226)
7.10.2(b)	<b>Declaration of independence</b> Each non-executive director is required to submit to the Board annually a declaration of his/her independence or non-independence	Compliant	All non-executive directors have submitted a declaration in the specimen form provided under the Rule.
7.10.3	<b>Disclosures relating to directors</b>		
	(a) The names of non-executive directors determined to be 'independent'	Compliant	Please refer Annual Report of the Board of Directors on the Affairs of the Company on page 224
	(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 Annual Report of the Board of Directors on the Affairs of the Company on page 224
	(c) A brief resume of each director including information on the nature of his/her expertise in relevant functional areas	Compliant	Please refer pages 162 for 165
	(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 under review
7.10.5	<b>Remuneration Committee</b>		
7.10.5(a)	<b>Composition</b> Non-executive directors, a majority of whom shall be independent; and one of the non-executive directors shall be appointed as the Chairman	Compliant	The Remuneration Committee comprises of three non-executive directors, of which two are independent and Mr. Ashok K Pathirage, who is a non-executive director acts as the Chairman
7.10.5(b)	<b>Functions</b> The Committee shall recommend to the Board the remuneration payable to the executive directors and Chief Executive Officer.	Compliant	Please refer the Remuneration Committee Report on page 212
7.10.5(c)	<b>Disclosures in the Annual Report</b>		
	Names of directors comprising the Remuneration Committee	Compliant	Please refer the Remuneration Committee Report on page 212
	Statement of the remuneration policy	Compliant	
	The aggregate remuneration paid to executive and non-executive directors	Compliant	Please refer Annual Report of the Board of Directors on the Affairs of the Company on page 224

Rule	Requirement	Status of Compliance	Comments
<b>7.10.6</b>	<b>Audit Committee</b>		
<b>7.10.6(a)</b>	<p><b>Composition</b> Non-executive directors, a majority of whom shall be independent and 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 recognised professional accounting body</p>	Compliant	<p>The Audit Committee comprises of four independent non-executive directors and Mr. Sujeewa Rajapakse acts as the Chairman</p> <p>The CEO/MD and CFO attend meetings of the Committee by invitation</p> <p>The Chairman is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka</p>
<b>7.10.6(b)</b>	<p><b>Functions</b> 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</p> <p>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 the Audit Committee Report on page 209
<b>7.10.6(c)</b>	<b>Disclosures in the Annual Report</b>		
	The names of the directors comprising the Audit Committee	Compliant	Please refer the Audit Committee Report on page 209
	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

## 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 to set 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 broad objectives for the year from the top line and profitability perspective. Based on these requirements, the Executive Committee reviews the Company's vision, mission and values and analyses the market position, competitive and macro environment, competitor positioning and organisational strengths, weaknesses, opportunities and threats (SWOT analysis). Based on these information, the Executive Committee identifies the issues and challenges during the planned period and formulates broad strategies and objectives.

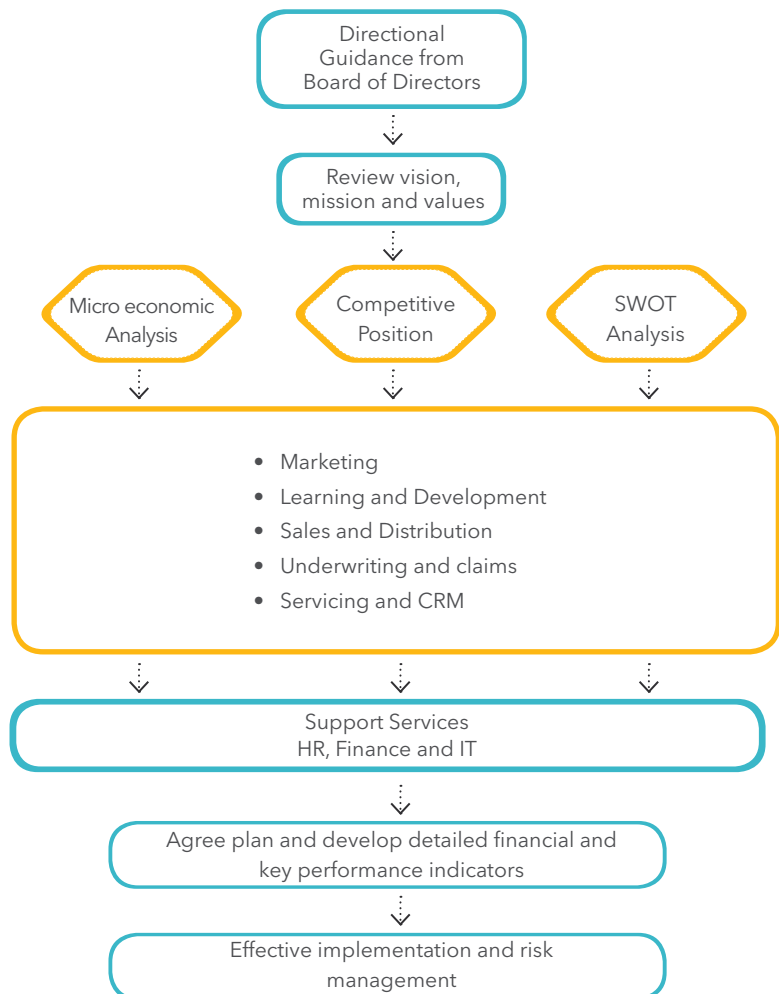
### Financials and key performance indicators

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.



### Effective implementation

The CEO and the Executive Committee review the strategic plan deliverables 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

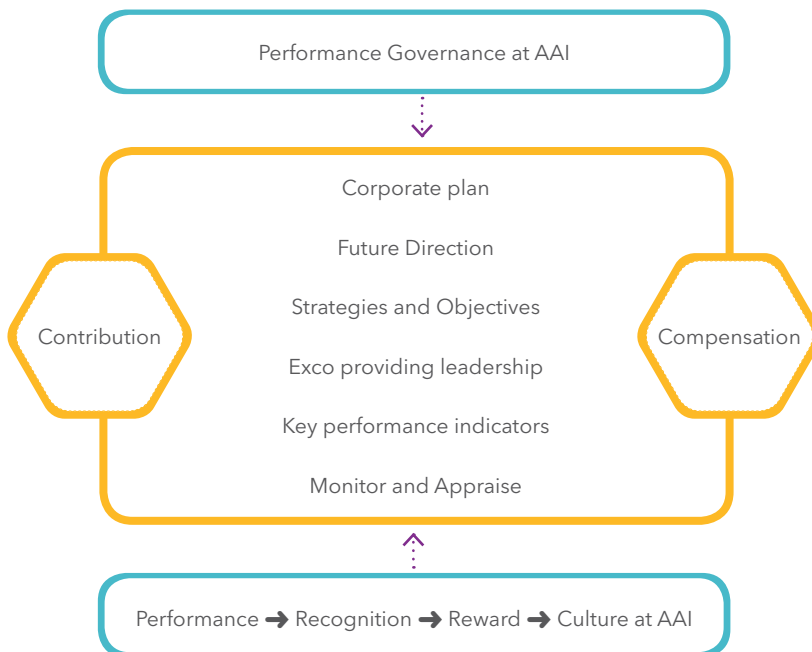
linked to performance. Some mechanisms used to evaluate performance are stated below:

- Discussion of company performance at Executive committee meetings based on monthly management information.
- Submission of monthly financial information to the board, including 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 has 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 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 encompasses strategy, technology, governance and people in the Company. Asian Alliance prides itself on its ethical operations and remains committed to strengthening its 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.



## Performance Governance

### Life Insurance strategic objectives and key performance indicators

Strategic objectives	Key performance indicator	Relevance	2015 Update
Expansion of distribution network with productivity and efficiency	GWP generated from regular business	Allocate investments for further expansions	Use Softlogic outlets to locate the life branches
	Location wise expense ratio	To manage expenses	Added 4 new life branches to the distribution network Set up policy conservation unit
Continuous improvement in service standards	Number of innovations	To reduce lead time	The operational dashboard
Enhance learning and development	Training hours by staff category	Measure the training inputs received	9 training hours per employee
New product development	GWP generated from new products	Ultimate measure of success of a new product update	Launched "Alliance protected investment plan" Product
Operational excellence	Life surplus and embedded value	Measures current and future profitability of the business	Increase in underwriting results by 77%
	Underwriting profit Results	Measure profit generated from the core function of the business	
	Average Policy Value		

### General insurance strategic objectives and key performance indicators

Strategic objectives	Key performance indicator	Relevance	2015 Update
Expand distribution in cost effective manner	GWP generated from regular business	Allocate investments for further expansions	Use Softlogic outlets to locate the general branches
	Location wise expense ratio	To manage expenses	Added 8 new general branches to the distribution network
Improve service standards	Measure customer feedback	Identify the gaps in the service	Maintain a customer complaint register in every branch
	The time takes to settle a claim	To improve the claim settlement time	Introduction of Drive thru
	Number of innovations	To reduce lead time	Introduction of Click2Claim system
Enhance learning and development	Training hours by staff category	Measure the training inputs received	9 training hours per employee
New product development	GWP generated from new products	Ultimate measure of success of a new product update	Rebranded 4 products
Achieving operational excellence	GWP mix	Measure GWP generated from various classes of business	14% Increase in the motor GWP Portfolio
	Claims ratio		



# Director's Statement on Internal Controls

## Introduction

The following statement fulfills the requirement to publish the Director's Statement on Internal Controls as per the Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka (ICASL) and the Securities of Exchange Commission (SEC) of Sri Lanka.

## Responsibility

The Board of Directors ("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 principle risks impacting the business and mitigating actions taken by management.

The Board has established an on-going process for identifying, evaluating and managing the significant risk faced by the Company and this process includes enhancing the system of internal controls as and when there are changes to the business environment or regulatory guidelines. This process is put in place for the year and is reviewed periodically by the Board through its Audit Committee and Risk Management Committee which is supported by the Internal Auditors.

The Board with the assistance of its sub committees reviewed deficiencies identified in internal controls during the year and has taken appropriate actions to improve the control environment.

The management assists the Board in implementing policies and procedures on risk and control by identifying and assessing the risks faced by the Company, as well as in the design, operation and monitoring of suitable internal controls to mitigate these risks. While the system of internal controls covers risk management as well as financial, organisational, operational and compliance controls, it is nevertheless acknowledged that such systems of internal control are designed to manage, rather than to eliminate,

risks that may impede the achievement of the Company's objectives. In this light, the system of internal controls can only provide reasonable, but not absolute, assurance against the material misstatement of financial information, records, financial loss or fraud.

## Key Activities Review During the year

The Board is of the view that the system of internal controls in place is sound and adequate to provide a reasonable assurance regarding the reliability of the financial reporting, and that the preparation of Financial Statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

Key Processes of the internal control system for financial reporting

The key processes established to review the adequacy and integrity of the system of internal controls related to financial reporting include the following:

- Various committees are established by the Board to assist in ensuring the effectiveness of the Company's daily operations and its alignment with strategies, corporate objectives, annual corporate budget, and approved policies.
- The Company established an in-house Internal Audit Department with the focus of establishing a risk-based internal audit approach with the view of further strengthening the controls of the Company. Instituted an effective Internal Audit Department to review and report on the internal control environment in the Company including critical IT systems of the Company,
- The Audit Committee reviews, approves and follows up the completion of 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,

- The Audit Committee reviewed the reports submitted by the Internal Audit Department where 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 minimize any risks,
- The minutes of the Audit Committee meetings are tabled at the regular Board meetings. The report of the Audit Committee is provided on page 209 to page 211 of the Annual Report,
- 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 above, engage the external auditors to review the critical components of the IT environment as part of the statutory audit,
- A Risk management committee assist the Board in overseeing the risk management framework of the Company. The management has prepared a Risk Register identifying all key risks faced by the Company. The implementation of the proposed new controls is followed up by the risk and compliance department. The report of the Risk Committee is provided on page 216 to page 217 of the Annual Report,
- An ongoing, bottom up process is in place for identifying, evaluating and managing the risks faced by the Company,
- New risks, mitigating actions and changes of risk status of earlier identified risks are highlighted separately,

## Director's Statement on Internal Controls

- Contemplating robust security measures and risk management, the Company has appointed an independent IT security officer,
- Improvements in line with industry and/or non-industry best practices are also implemented on an on-going basis

### Confirmation

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.)

**Ashok K. Pathirage**  
Chairman

(Sgd.)

**Iftikar Ahamed**  
Managing Director

(Sgd.)

**Sujeewa Rajapakse**  
Chairman - Audit Committee

Colombo, Sri Lanka  
16th February, 2016

# Audit Committee Report

## Introduction

The Board Audit Committee (“the committee”) of Asian Alliance Insurance PLC (the Company) is a standing committee of the Board of Directors (“Board”).

## Composition of the committee

The Board Audit Committee (“the committee”) appointed by and responsible to the Board of Directors with comprises of four (4) Independent Non-Executive Directors.

The Chairman of the Audit Committee 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. The members bring a multitude of varied expertise and knowledge to the Audit Committee, which enables the effective conduct of operations. The following members serve / served on Audit Committee;

Name	Position
Mr. Sujeewa Rajapakse (Chairman)	Independent Non - Executive Director
Mr. Ray Abeywardena	Independent Non - Executive Director
Mr. J. K. Mukhi	Independent Non - Executive Director
Mr. J. W. H. Richters	Independent Non - Executive Director

The Managing Directors / CEO and CFO attend meetings by invitation.

The committee conducted proceedings in accordance with the terms of reference approved by the Board. The Board has determined that the committee possesses an adequate blend of financial and industry expertise in order to efficiently carry out its duties.

## Expertise of the committee

Each of the members of the Committee has a depth of financial expertise and collectively the Committee has considerable financial experience on which to draw. More information on experience of and brief profiles of the members are given on pages 164 to 165 of the Annual Report.

## Objectives

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

The Committee is mainly responsible for:

- I. To ensure that the financial reporting system is able to present accurate and timely financial information to the Board of Directors, regulators and shareholders,
- II. To ensure that the Financial Statements are prepared in accordance with Sri Lanka Accounting standards (LKAS), Sri Lanka financial reporting standards (SLFRS), companies Act No 7 of 2007, Regulation of Insurance Industry Act No 43 of 2000 and other relevant laws and regulations
- III. Monitoring the Company's internal controls including controls relating to financial statement reporting; and
- IV. To liaise with Risk Management Committee and the management to ensure that the risk management framework of the Group is implemented effectively to mitigate risks reporting
- V. To review the design and implementation of internal control systems and to take steps to strengthen them where necessary
- VI. To ensure that the conduct of the business is in compliance with the applicable laws and regulations of the country and the policies and procedures of the Company
- VII. Monitoring and reviewing the activities and performance of the

internal, external and outsourced auditor/s, including monitoring their independence and objectivity.

- VIII. To evaluate ability to continue as a going concern into the foreseeable future

The Audit Committee is empowered to seek any information it so desires from the management and staff of the Company or from external parties. The Committee is also authorized to meet the management and staff, External and Internal Auditors, Consultant Actuaries, regulators or outside counsel in order to achieve the objectives stated above.

## Meetings

The Audit Committee conducted six (6) meetings during the year. Attendance by the Committee members at each of these meetings is given in the table on page 180 of the Annual Report.

The Managing Director, the Director / CEO and the Deputy General Manager Finance, attended the meetings by invitation. Members of the Executive Committee, Compliance Officer, the External Auditors, the Senior Manager Internal Audit, other senior management team members and the Internal Audit Consultants attended meetings as and when required.

The Company's board secretary 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.

Any individual member of the Committee had the opportunity to raise specific issue at the meetings. The undersigned was in regular contact with the management including the Chief Financial Officer and Senior Manager - Internal Audit during 2015 on matters coming under the purview of the Committee.

## Knowledge updation

The Committee is conscious of the need to keep its knowledge up to date and Committee members participated at

## Audit Committee Report

presentations and workshops conducted internally and externally on relevant topics

Summary of Activities Carried out during the year

The Committee carried out the following activities during the year;

### Financial Reporting

The Committee, in acknowledgement of its responsibility to monitor the financial reporting process of the group, reviewed the following areas, in consultation with the External Auditors and the management where necessary:

- Significant accounting and reporting issues
- Development in the financial reporting framework (SLFRS / LKAS)
- Reviewed the consistency and appropriateness of the accounting policies adopted by the Company to ensure compliance with Sri Lanka Accounting Standards (SLFRS),
- Lanka Accounting standards (LKAS) and Financial Reporting Standards (SLFRS)
- Disclosure requirements and other applicable accounting and financial reporting requirements such as the Companies Act, No. 07 of 2007 and the Regulation of Insurance Industry Act, No. 43 of 2000 and amendments thereto
- Reviewed the all four (4) Quarterly Financial Statements and the Annual Financial Statements for the year 2015 of the Company prior to its publication,

### Compliance with Rules and Regulations

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

in order to ensure that the Company adheres with all statutory requirements, including those stipulated by the Regulation of Insurance Industry Act, No. 43 of 2000 and amendments thereto.

### External Audit

The Committee conducted meetings with the External Auditors to discuss the audit scope and plan. Discussions were also carried out between the Committee, the management and the External Auditors regarding the coordination of the audit effort to assure the External Auditors of access to required information and co-operation from all employees and regularly overlooked the implementation of the prescribed corrective actions.

The External Auditors were given adequate access to the Audit Committee as well as to all relevant information required. 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 (SLFRS / LKAS) 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 and objectivity of the External Auditors

The Audit Committee undertook the annual evaluation of the independence and objectivity of the external auditor and the effectiveness of the audit process.

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 and Exchange Commission of Sri Lanka and the Guidelines for Listed Companies on Audit and Audit Committees issued by the Securities and Exchange Commission of Sri Lanka.

In addition the lead Audit Partner is rotated for every five years.

### 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 2016 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

During the year 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 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.

### Internal Controls

During its meetings the committee reviewed the effectiveness of the internal control systems to ensure that processes are in place to safeguard the assets of the organisation and to ensure that the financial reporting system can be relied upon in preparation and presentation of Financial Statements. The Committee noted that a comprehensive Financial Review Report and Financial Statements are produced at month end highlighting all key performance 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 and Exchange Commission of Sri Lanka (SEC) and the Institute of Chartered Accountants of Sri Lanka (CASL).

### Risk Management

The Risk Management Committee provides information pertaining to the risk management function including the

minutes of Committee meetings to the Audit Committee, with the purpose of keeping the Audit Committee abreast of the latest developments and in order to carry out its statutory, regulatory and other responsibilities. A detailed report of the Risk Management Committee is given on pages 216 and 217.

### Whistle-Blower Policy

Whistle-Blower policies have been introduced and regular follow up was done with education and encouraging all staff members. Investigations/ inspections into incidents reported through the Whistle-Blowing mechanism also has been carried out and appropriate actions have been taken while the identity of the Whistle-Blowers were keeping with the strict confidential.

### Segregation of Insurance Business

The Company successfully segregated its business into two companies on 01st January 2015. Accordingly, the General Insurance business which was previously under AAI PLC was transferred to AAGI. Financial Statements as at 01st January 2015 were prepared after the segregation and were audited by the External Auditors Messrs. KPMG, as required by the Segregation Guidelines issued by the Insurance Board of Sri Lanka (IBSL).

### Committee Evaluation

The annual evaluation of the Committee was conducted by the Independent Non - Executive Chairperson, with contributions from the individual assessments by the members of the Audit Committee, Managing Director / CEO, Chief Operating Officer, Chief Financial Officer, Senior Manager - Internal Audit and the external auditor in accordance with international best practices and was deemed to be satisfactory.

### Professional Advice

The committee has the authority to seek external professional advices on matters within purview.

### 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. The Company's External Auditors have been effective and independent throughout the year.

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. The committee is also satisfied that the application of appropriate accounting policies provide reasonable assurance that the Financial Statements of the group are true and fair.

(Sgd.)

**Sujeewa Rajapakse**  
Chairman - Audit Committee

Colombo, Sri Lanka  
16th February, 2016

# Remuneration Committee Report

## Composition of the Committee

The Human Resources & Remuneration Committee ("the Committee"), appointed by and responsible to the Board of Directors comprises four (4) Non - Executive Directors of whom three (3) are Independent Directors. The following Directors serve on the HR and Remuneration Committee:

Name	Position
Mr. Ashok Pathirage (Chairman)	Non - Executive Director - Non-Independent Director
Mr. Sujeewa Rajapakse	Independent Non - Executive Director
Mr. Paul Ratnayake	Independent Non - Executive Director
Mr. Ray Abeywardena	Independent Non - Executive Director

Brief profiles of the Directors are given on pages 164 to 165 of the Annual Report.

The Managing Director / Chief Executive Officer (MD / CEO) who is responsible for the overall management of the Company, attends meetings and participates in the committee meetings by invitation. The MD / CEO took part in all deliberations except when his own interest, performance and compensation were discussed.

The Head of Human Resource functions as the Secretary to the Committee.

## 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

## Remuneration of MD / CEO

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.

## Remuneration Package

### a. 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 is 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 performance are key factors that determine an individual's base pay.

### Variable Components

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

## Other Employee Benefits

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

## Retirement Benefits

There are no retirement benefits to employees other than gratuity.

### b. 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'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 285 to this report

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 361.

## Personal Loans for Directors

No Director is entitled for Company loans.

## Remuneration Committee Charter

The committee is governed by a formal charter approved by the Board. The charter defines the objectives, duties and responsibilities, composition, etc of the committee. The committee during its last meeting decided to review and amend the Charter by expanding its scope.

## Responsibilities / objectives of the Remuneration Committee:

- The Committee deliberates upon and recommends to the Board of Directors the remuneration packages, annual increments and bonuses of the MD / CEO, COO, members of the corporate management and senior management staff, having evaluated their performance against the set goals and targets.
- 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 Director, 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
- Ensuring that no Director is involved in setting his own remuneration package

## Remuneration Committee Meetings

The committee met once during the year 2015. Other Board members may attend meetings on invitation. Attendance at the meetings is given in table on page 180 of the Annual Report.

## Professional Advice

The committee has the authority to seek external professional advice on matters within its purview.

## Committee Evaluation

The committee completed the evaluation process with self-assessment in 2015, which was conducted by the Chairman and Committee Members and was deemed to be satisfactory.

(Sgd.)

**Ashok Pathirage**  
Remuneration Committee

Colombo, Sri Lanka  
16th February 2016



# Investment Committee Report

## Composition of the Board

### Chairman

Mr. Ashok Pathirage - NED

### Members

Mr. Iftikar Ahamed - ED

Mr. Sujeewa Rajapakse - INED

Mr. Ramal Jasinghe - NED

Mr. Jatinder Mukhi - INED

Mr. Johannes Richters - INED

### Secretary to Committee

PR Secretarial Services (Pvt) Ltd

## Composition of the Committee

The Committee consists of six directors and out of that three Directors serve as Independent Non Executive capacity. The Chairman is Non Executive Director 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

- Recommended policy for approval by the Board, to ensure that investments are undertaken as per the said policy and monitor performance on a quarterly basis.

NED - Non Executive Director

ED - Executive Director

INED - Independent Non Executive Director

- 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.

## Objectives

- Maximize net rate of return
- Maximize safety of investments
- Meet liabilities
- Meet regulatory requirements
- Meet working capital requirements
- Asset and Liability Management

## 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, Sri Lanka  
16th February, 2016



# Nomination Committee Report

## Composition of the Nomination Committee

The Nomination Committee ("the Committee") comprises of three (3) Non-Executive Directors appointed by the Board of Directors of the Company. The following Directors serve / served on the Nomination Committee during the year under reference;

### Chairman

Mr. Ashok Pathirage- Non Independent Non-Executive Director

### Members

Mr. Paul Ratnayake - Independent Non-Executive Director

Mr. Mohan Ray Abeywardena- Independent Non-Executive Director

Brief profiles of the members of the Committee are given on pages 164 to 165 of the Annual Report.

The Board Secretary functions as the Secretary to the Nomination Committee.

The Terms of Reference (TOR) of the Nomination Committee which was adopted by the Board of Directors.

## Terms of Reference of the Board Nominations Committee

The Terms of Reference (TOR) of the Nomination Committee which was adopted by the Board of Directors. The Nomination Committee was established to ensure 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.

## Objectives of Nomination committee

- 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

## Professional Advice

The committee has the authority to seek external professional advice on matters within its purview whenever required.

## Committee Attendance

Attendance by the Committee members at the meetings is given in the table on page 180 of the Annual Report. The MD/ CEO also attended meeting by invitation.

Re-election / Re-appointment of Director at the 17th Annual General Meeting

The name of Director - Mr. J.H.P. Ratnayake was proposed for re - election

/ re - appointment at the 17th Annual General Meeting to be held on 31st March 2016 and the Committee decided to recommend the said name to be approved by the full Board.

## Committee Effectiveness

The performance of the Committee is reviewed each year as part of the Board effectiveness review. The Committee completed the self - assessment for the year 2015, which was conducted by the Chairman and Committee Members and the review concluded that the Committee continues to operate effectively.

(Sgd.)

**Ashok Pathirage**

**Chairman - Nomination Committee**

Colombo, Sri Lanka  
16th February, 2016

# Risk Committee Report

## Members

### Chairman

Mr. Jatinder Mukhi

### Members

Mr. Iftikar Ahamed

Mr. Ramal Jasinghe

Mr. Johannes 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. Membership of executive directors are limited to 50% of total members.

### Objective

The Risk Management Committee (the "Committee") of Asian Alliance Insurance PLC ("the Company") is a 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.

	13th February 2015	5th March 2015	15th May 2014	7th August 2015	13th November 2015
Jatinder Mukhi	√	√	√	√	√
Iftikar Ahamed	√	√	√	√	√
Ramal Jasinghe	√	√	√	√	√
Johannes 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 reinsurance treaties annually and advise the board on their suitability 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 advise on applicable strategies.

### Objectives

- 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 suitability or otherwise
- Review reinsurance treaties annually and advise the board on their sustainability or otherwise

### 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 reinsurance treaties annually
- The Committee shall make 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.

(Sgd.)

**Jatinder Mukhi**

**Chairman - Risk Committee**

Colombo, Sri Lanka  
16th February, 2016

# Integrated Risk Management

## 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 Group. The purpose of risk management is to identify, measure and effectively manage the risks through adequate monitoring, analysis and mitigation strategies.

The management of these potential exposures is vital for the Group's operation as it can affect the achievement of the Group's strategic, financial and operational objectives.

Please refer pages 318 to 346 for detailed Risk Management disclosure

## Risk Management Objectives

The Group's key objectives towards managing and mitigating these risks 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
- 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 Governance Structure

In order to achieve its mission and objectives, the Group relies on its risk governance structure. The interplay of the individual functions and bodies within the overall system is vital to an efficient risk management system. The roles and responsibilities are clearly defined and ensure smooth interaction. Please see below the Risk governance structure of Asian Alliance Insurance PLC.



## Risk Management Process

### Risk Policy

The Group is equipped with a detailed Risk Management policy which is the foundation of the Group's risk identifying, monitoring and reporting process. The policy outlines the risk framework that will be applied at Asian Alliance Insurance PLC. The design of the ERM framework 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 approved by the Board Risk Committee and is reviewed on an annual basis.

### Risk Landscape of the Group

The risk landscape of the group is provided below;

#### Risks

Insurance	Strategic	Market	Operational	Credit	External Risks
Life Insurance	Competitor Risk	Interest Rate Risk	Business Continuity	Premium Receivable Risk	Economic Risks
		Equity Risk	People Risk	Reinsurance Risk	Political Risks
General Insurance		Asset Quality Risk	IT & Technological Risk		Regulatory Risks
		Concentration Risk	Fraud Risks		
			Reputation Risks		

## Risk Identification and Mitigation Strategies

Risks are identified by 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.

The identified risks are reviewed by the Internal Risk Committee after which they are submitted to the Board Risk Committee for review.

## Risk Register

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.

### Rating of identified risks

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 Group. 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. As such the levels

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 as the likelihood of an event occurring in a particular time period. As such we have defined six probabilities of occurrence as given below.

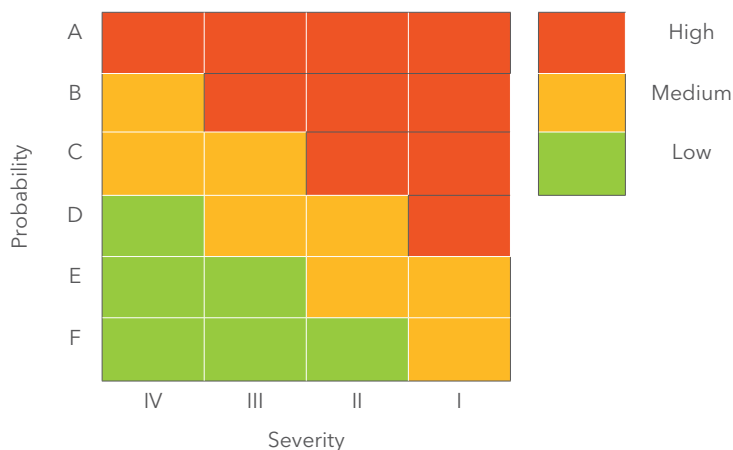
Probability	Description	Definition
A	Very High	< 1 Week
B	High	1 Week < 3 Months
C	Occasional	3 Months < 1 Year
D	Low	1 Year < 15 Years
E	Very Low	15 Years < 100 Years
F	Almost Impossible	>100 Years

of severity have also been defined as Marginal, Significant, Critical and Catastrophic as shown below.

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%

## Integrated Risk Management

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.

### 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.

### Net Risk Landscape as at 31st December 2015

Risk Indicator	AAI PLC	AAGI
<b>Strategic Risks</b>		
i Competitive Risk	●	●
ii Co-operation and awareness of common direction	●	●
<b>Regulatory Risks</b>		
iii Compliance with statutory requirements	●	●
<b>Insurance Risks</b>		
vi Premium Persistency	●	●
v Expense Ratio	●	●
vi Quality of Agents	●	●
vii Business concentration amongst agents	●	●
viii Unproductive Staff	●	●
<b>Operational Risks</b>		
ix Business Continuity	●	●
x Internal Controls	●	●
xi Fraud Risk	●	●
xii IT Risks	●	●
xiii Occupational Health and Safety	●	●
ix Environmental and Social Risks	●	●
x Reputational Risks	●	●
<b>Market &amp; Investment Risks</b>		
xxvi Equity Risk	●	●
xxvii Interest Rate Risk	●	●

## Mitigation Strategies adopted at both AAI PLC and AAGI to address risk landscape

### Strategic Risks

Constant monitoring and reporting of competitor activities

Reviewing pricing strategies

Communication of the Corporate strategy, goals and initiatives to all staff

### Regulatory Risks

Reviewing and monitoring of all regulatory requirements by the Compliance Department

Performing forward forecasts on a quarterly basis in order to ascertain if key regulatory requirements such as solvency and determination are in line with requirements.

### Operational Risks

Extensive awareness sessions were conducted on the procedures to be followed in the event of a disaster for staff of both Asian Alliance Insurance PLC and Asian Alliance General Insurance Limited. Disaster simulation exercises were carried out successfully and it revealed that business continuity may be restored within the required recovery time objectives.

Extensive testing was also carried out on IT disaster recovery. As such improvements were carried out to further strengthen the Company's IT DR site and a full cut over of essential systems were carried out successfully. The testing revealed that systems were recoverable well within the stipulated recovery time objectives.

Stringent monitoring of processors and controls by the Internal Audit Department

Detailed analysis on staff turnover so that HR strategy may be aligned to mitigate issues revealed through analysis.

Dedicated personnel to handle reputational issues that could arise owing to adopting social media marketing

### Market & Investment Risks

The Treasury Function at AAI PLC was segregated (Front Office, Middle Office and Back office) in order to reflect best practices. As such the Treasury Middle office function was formulated under the Risk Department and is an integral part of the Company's Treasury & Investment function. The primary responsibility of the unit is to identify, measure and manage all Treasury Specific Risks on a day to day basis and ensuring the Company does not engage in investment activities that could be detrimental to the overall health of the Company.

The unit has established market risk limits in line with the overall risk appetite of the Company and carries out daily monitoring and reporting of the portfolio and all loss limits.

The Company uses the historical Value-at-Risk (VaR) approach to derive quantitative measures for market risk under normal conditions. VaR measures the expected loss of a financial position over a given holding period for a specific confidence level. Market risk exposures for the Company's equity portfolio are monitored using VaR methodology. AAI uses a 1 day, 95% VaR for equity positions to reflect the 95% probability that the daily loss will not exceed the reported VaR.

# Financial *Reports*

## Financial Calendar

Requirement	Target date in 2016	Achievement in 2015
Interim Financial Statement		
1st Quarter	May 2016	15 May 2015
2nd Quarter	August 2016	07 August 2015
3rd Quarter	November 2016	13 November 2015
4th Quarter	February 2017	16 February 2016
Annual Report and Financial Statement to Shareholders		
2015		March 2016
2016	March 2017	
Annual General Meeting		
17th Annual General Meeting		31 March 2016
18th Annual General Meeting	March 2017	





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# 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 (the Company) 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 31 December 2015 and the Auditors' Report thereon.

The Financial Statements were accepted and approved by the Board of Directors on 16 February 2016.

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 insurance business remained unchanged during the financial year. There were no significant changes in the nature of the principal activities of the holding Company during the financial year under review except for transfer of general Insurance operation to Asian Alliance General Insurance Limited as a fully owned subsidiary as required by the Regulation of Insurance Industry amendment Act No. 03 of 2011.

## VISION, MISSION, VALUES AND CORPORATE CONDUCT

The corporate vision and mission are provided on page 9 of this report. In achieving its vision and mission all Directors and employees conduct their activities with the highest level of ethical standards and integrity as set out in the Code of Conduct.

## 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 01 January 2015. In order to comply with this requirement, Asian Alliance Insurance PLC incorporated a fully owned subsidiary of Asian Alliance General Insurance Limited and obtained the registration.

Upon obtaining all due approvals from the regulators, Asian Alliance Insurance PLC transferred its General Insurance business to Asian Alliance General Insurance Limited making it a fully owned subsidiary with effect from 01 January 2015. Accordingly, Asian Alliance Insurance PLC became a Life Insurance Company with effect from 01 January 2015.

In addition to running a Life Insurance Business, Asian Alliance Insurance PLC from 01 January 2015 onwards is providing shared services to Asian Alliance General Insurance Limited based on an agreement signed by the two companies.

The Group structure and names of the Directors are available on pages 10 and 162 to 165 respectively.

## REVIEW OF PERFORMANCE

A review of the Company's financial and operational performance during the year is contained in the Chairman's Statement on (pages 20 to 23), The Company's business, strategy and performance is on (pages 72 to 156). These reports, together

with the Financial Statements, reflect the state of affairs of the Company and form an integral part of this integrated report.

## 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 Statement is on (pages 20 to 23), the Managing Director's Statement is on (pages 24 to 27) and The Company's business, strategy and performance report is on (pages 72 to 156).

## COMPANY ACTIVITIES AND STRUCTURE

Asian Alliance Insurance PLC is a public limited liability Company incorporated in Sri Lanka on 21 April 1999 under the Companies Act No 17 of 1982 and re-registered as per the Companies Act No. 07 of 2007 (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 in the Diri Savi Board of the Colombo Stock Exchange. The Company commenced General Insurance business on 1 December 1999 and Life Insurance business on 1 April 2000.

The Company's ultimate parental Company is Softlogic Holdings PLC which has a direct holding of 0.05 % and indirect holding of 43.05% which amounts to 43.55 % in total as at 31 December 2015.

## FINANCIAL STATEMENTS

The aforementioned Financial Statements of the Company and Group have been prepared in accordance with the 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 31 of December 2015, duly signed by two Directors and the Chief Financial Officer of the Company, are given on page 244 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 259 to 276 comply with section 168 (1) (d) of the Companies Act.

#### **DIRECTORS RESPONSIBILITY FOR FINANCIAL REPORTING**

The Board of 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 242 to 353 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 234 and forms an integral part of this report.

#### **GOING CONCERN**

The Board of Directors 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.

The financial results of the General Insurance Business have not been included in the Financial Statement of the Company in the year 2015 due to the segregation of General insurance and Life insurance businesses. However, the results of both Life and General Insurance Businesses are included in the Consolidated Financial Statements of the Group.

#### **INDEPENDENCE OF AUDITORS**

The Financial Statements for the year ended 31 December 2015 have been audited by Messrs. KPMG, Chartered Accountants who offer themselves for re-appointment.

A resolution relating to their re-appointment and authorising the Directors to determine their remuneration will be proposed at the Annual General Meeting.

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 15 on page 285 to the Financial Statements.

#### **AUDITORS REPORT**

The Financial Statements for the Year Ended 31 December 2015 have been audited by Messrs KPMG, Chartered Accountants and their Report on Financial Statements given on page 241 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 of Directors are 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 207 to 208 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, are on pages 209 and pages 216 respectively.

## Annual Report of the Board of Directors on the Affairs of the Company

### 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 174 to 206.

### TURNOVER / GROSS WRITTEN PREMIUM (GWP)

The total turnover of the Group 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	2015 Rs. million	2014 Rs. million
Life Insurance	4,091	3,048
General Insurance	1,962	1,725
Total	6,053	4,773

A Detailed Analysis of the total GWP recorded by the Company is given in Note 7 to the Financial Statements on page 278.

### FINANCIAL RESULTS AND APPROPRIATIONS

The Statement of Profit and Loss and Other Comprehensive Income of the Company and Group is given on page 242. Transfers to/from Reserves of the Company are shown in the Statement of Changes in Equity appearing on page 246.

A synopsis of the Company's performance is presented below.

Financial Results Rs. '000	Group		Company	
	2015	2014	2015	2014
Profit after taxation	924,309	755,281	992,562	752,111
Profit brought from previous years	1,043,193	654,531	1,040,523	654,531
Un-appropriated profit brought forward	1,967,502	1,409,812	2,033,085	1,406,642
Appropriations				
Re-measurement of Defined Benefit (liability) / Asset (Net of tax)	(3,641)	1,381	71	1,381
Dividend paid	(187,500)	(367,500)	(187,500)	(367,500)
Share issue related cost	-	(500)	-	-
Un-appropriated profit carried forward	1,776,361	1,043,193	1,845,655	1,040,523

### THE BOARD OF DIRECTORS

The Board of Directors of the Company consists of eight (08) (2014 - 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 164 to 165 of this report

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

Mr. J.H.P. Ratnayake who has served on the Board of the Company continuously for a period exceeding ten 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 of Directors, 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.

- Audit Committee
- Remuneration Committee
- Nomination Committee
- Investment Committee
- Risk Management Committee
- Related Party Transaction Review Committee\*

\* Effective from 1 January 2016 onwards

The composition of each Board sub-committee is given on page 180 which is a part of the Annual Report of the Board.

#### ROTATION OF DIRECTORS

Mr. J. H. P. Ratnayake 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 180 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. Further the transactions entered with following Companies during the year are disclosed in Note 44 on page 349.

Name of Director	Position	Company	Relationship
Asoka K. Pathirage	Chairman	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	Director	Softlogic Stock Brokers (Pvt) Ltd	Group Company of Softlogic Holdings PLC
Asoka K. Pathirage	Director	National Development Bank PLC	Director related entity

## Annual Report of the Board of Directors on the Affairs of the Company

Name of Director	Position	Company	Relationship
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
Asoka K. Pathirage	Chairman Managing Director	Asiri Central Hospital Ltd	Group Company of Softlogic Holdings PLC
Asoka K. Pathirage	Chairman Managing Director	Central Hospital Ltd	Group Company of Softlogic Holdings PLC
Asoka K. Pathirage	Chairman Managing Director	Asiri Hospital Kandy Ltd	Group Company of Softlogic Holdings PLC
Asoka K. Pathirage	Chairman Managing Director	Softlogic Retail Pvt Ltd	Group Company of Softlogic Holdings PLC
Asoka K. Pathirage	Chairman Managing Director	Ceysand Resort Limited	Group Company of Softlogic Holdings PLC
Asoka K. Pathirage	Chairman	Softlogic Properties Pvt Ltd	Group Company of Softlogic Holdings PLC
Asoka K. Pathirage	Chairman	Softlogic Australia Pvt Ltd	Group Company of Softlogic Holdings PLC
Asoka K. Pathirage	Chairman	Softlogic City Hotels Pvt Ltd	Group Company of Softlogic Holdings PLC
Asoka K. Pathirage	Chairman	Softlogic Brands Pvt Ltd	Group Company of Softlogic Holdings PLC
Asoka K. Pathirage	Chairman	Odel PLC	Group Company of Softlogic Holdings PLC
Asoka K. Pathirage	Managing Director	Abacus International Lanka Pvt Ltd	Group Company of Softlogic Holdings PLC
Sujeewa Rajapakse	Director	Haycrab PLC	Director Related Entity
Sujeewa Rajapakse	Director	Dipple Products PLC	Director Related Entity
Sujeewa Rajapakse	Director	Comucopia Lanka Pvt Ltd	Director Related Entity
Sujeewa Rajapakse	Director	Lanka Holdings Pvt Ltd	Director Related Entity
Sujeewa Rajapakse	Director	Sanken BP Developers Pvt Ltd	Director Related Entity
Mohan Ray Abeywardena	Chairman	Acuity Securities Ltd	Director Related Entity
Mohan Ray Abeywardena	Chairman	Acquity Stock Borkers Ltd	Director Related Entity
Mohan Ray Abeywardena	Director	Lanka Ventures PLC	Director Related Entity
Iftikar Ahamed	Director	Softlogic Corporate Services Pvt Ltd Capital reach Portfolio Management Pvt Ltd	Director Related Entity

## DIRECTORS' INTEREST IN SHARES

Name of Director	As at 31 December 2015	As at 31 December 2014
Asoka Pathirage	Nil	Nil
Paul Ratnayake	Nil	Nil
Iftikar Ahamed	Nil	Nil
Ramal Jasinghe	Nil	Nil
Sujeewa Rajapakse	Nil	Nil
Mohan Ray Abeywardena	Nil	Nil
Johannes W. H. Richters	Nil	Nil
Jatinder Mukhi	Nil	Nil

## USE OF COMPANY INFORMATION BY DIRECTORS

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

## DIRECTORS FEES AND REMUNERATION

The amount of the Directors fees and Remuneration paid during the year is 57,058 (Rs. '000) - Group.

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 44 on Page 350 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 31 of December 2015 amounted to Rs. 7,744 million (2014 - Rs. 8,464 million). A detailed description of the financial investments is enclosed in Note 21 to the Financial Statements on pages 296 to 304.

## INTANGIBLE ASSETS

The carrying value of intangible assets as at the Reporting Date amounted to Rs. 22 million (2014 - Rs. 31 million). Movement of intangible assets from the balance as at the 1 of January 2015 to the balance as at the 31 of December 2015, additions and disposals

made, together with the amortisation charge for the year, are set out in Note 19 to the Financial Statements on pages 291 to 292.

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 292 to 295.

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

## MARKET VALUE OF FREEHOLD PROPERTIES

The land and building owned by the company in Colombo and at No. 283, R. A De Mel Mawatha, Colombo 3 were revalued as at 31 December 2015 to reflect its market value as per Company Policy.

The revaluation was performed by Mr. P B Kalugalagedera and Associates, Chartered Valuation Surveyor. The details of the revaluation and relevant accounting policies are provided in Note 20.14 & 4.8 to the financial statements respectively.

## STATED CAPITAL

The Stated Capital of the Company as at 31 December 2015 was Rs. 1,062,500,000 comprising 375,000,000 fully paid ordinary shares. The Company sub divided its ordinary shares from 37,500,000 to 375,000,000 with effect from 20 July 2015. The details are provided in Note 29 to the financial statements respectively.

## 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. with effect from 11 February 2015.



## Annual Report of the Board of Directors on the Affairs of the Company

Asian Alliance Insurance PLC has an issued and fully paid stated capital of Rs. 1,062.5 million (2014 - 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 with effect from 1 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 2015.

### LIABILITIES AND PROVISIONS

The Board of Directors have taken all responsible steps to ensure adequate provisioning has been made for unearned premiums, unexpired risks and claims, including claims incurred but not reported and not enough reserved (IBNR / IBNER).

The Board of 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 4.14 on page 270 to the Financial Statements.

As at the date of the Report, the Directors are not aware of any circumstances, which would render inadequate the amounts provided for in the Financial Statements.

### RESERVES

The reserves consist of Available for Sale Reserve, Revaluation and Retained Reserves. The details and movements of reserves are disclosed in Note 30 & 31 to the Financial Statements on Page 310 and in the Statement of Changes in Equity on Page 245 and 246 to 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% (2014 - 28%).

The provision for taxation is computed at the rates as disclosed in Note 16 on page 287 to the Financial Statements.

As further explained in Note 16.3 to the Financial Statements, no deferred tax asset is recognised in Life insurance 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 temporary taxable differences in the Life Insurance business. The unrecognised Deferred Tax asset as at 31st December 2015 in the Life Insurance business amounted to Rs. 1,222 million (2014 - Rs. 1,350 million).

As explained in Note 16.3 to the Financial Statements, a deferred tax asset has been recognised in Asian Alliance General Insurance Limited due to the probable extent that future Taxable profits will be available.

### STATUTORY PAYMENTS

The Directors confirm that to the best of their knowledge and belief, all statutory payments in relation to all relevant regulatory and statutory authorities have been paid. A statement of compliance by the Board of Directors in relation to statutory payments is included in the Statement of Directors' Responsibilities on page 233 to 234.

### 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 have submitted all the returns and the details to the relevant parties by the due dates.

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

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

The Audit Committee Report is disclosed in Page 209 to 211.

### 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 successfully implemented RBC framework.

#### CONTINGENT LIABILITIES

There were no material contingent liabilities outstanding as at 31 December 2015, except as disclosed in Note 43 to the Financial Statements.

#### EVENTS AFTER THE REPORTING PERIOD

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 have acknowledged the responsibility to maintain an effective Corporate Governance Structure and process and to be in compliance with all relevant rules, regulations and best practices.

The Company being listed on the Colombo Stock Exchange is fully compliant with the rules on Corporate Governance under listing rules of the CSE. In addition, the Company is substantially in compliance with the Best Practices on Corporate Governance issues jointly by the Securities & Exchange Commission of the Colombo Stock Exchange of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka. (CA Sri Lanka)

Company's compliance with rules on corporate governance are given in Corporate Governance Report on pages 174 to 206.

#### 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 31 December 2015 was 1,288. The distribution and analysis of shareholdings were as follows:

##### Distribution of shareholders'

Number of Shares	As At 31 December 2015			As At 31 December 2014		
	No. of Share Holders	No. of Shares	% of Total	No. of Share Holders	No. of Shares	% of Total
1-1,000	628	248,832	0.06	535	113,461	0.30
1,001-10,000	479	2,008,503	0.54	99	319,585	0.85
10,001-100,000	163	4,614,396	1.23	17	355,654	0.95
100,001-1,000,000	14	3,695,454	0.99	2	268,019	0.71
1,000,001- & Over	4	364,432,810	97.18	4	36,443,281	97.18
Total	1,288	375,000,000	100	657	37,500,000	100

##### Resident / Non Resident Distribution

	As At 31 December 2015			As At 31 December 2014		
	No of Share Holders	No of Shares	% of Total	No of Share Holders	No of Shares	% of Total
Resident	1,280	232,467,490	61.99	650	23,064,508	61.51
Non Resident	8	142,532,510	38.01	7	14,435,492	38.49
Total	1,288	375,000,000	100	657	37,500,000	100

##### Individual / Institutional Distribution

	As At 31 December 2015			As At 31 December 2014		
	No of Share Holders	No of Shares	% of Total	No of Share Holders	No of Shares	% of Total
Individual	1,195	8,041,085	2.14	606	892,862	2.38
Institutional	93	366,958,915	97.86	51	36,607,138	97.62
Total	1,288	375,000,000	100	651	37,500,000	100

## Annual Report of the Board of Directors on the Affairs of the Company

### SHARE INFORMATION

Information relating to earnings, dividends, net assets market price per share and information on share trading appears on page 359 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

A brief description of the Company's HR Policy and the Remuneration Methodology given in the Remuneration Committee Report on pages 212 to 213.

### EMPLOYMENT POLICY

The Company policy is to respect the merits of the individuals and provide career opportunities, irrespective of sex, race or religion. The Company's strength of manpower as at 31 December 2015 was 469 (2014 - 730). 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 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 16 February 2016. 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	209
HR and Remuneration Committee	212
Investment Committee	214
Risk Management Committee	216
Nomination Committee	215

### 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 31 March 2016 at 10.00 a.m. The notice of Annual General Meeting is given on page 382.

(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  
16 February 2016

# Statement of Directors' Responsibility to Financial Reporting

The responsibility of the Directors in relation to the Financial Statements 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 / Consolidated Financial Statements are set out in the Report of the Auditors, given on page 241 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 Company as at end of each financial year and of the financial performance of the Company for each financial year and place them before a general meeting.

The Financial Statements comprise of the Statement of Financial Position as at December 31, 2015, the Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows for the year then ended and Notes thereto.

The Financial Statements of the Company give a true and fair view of:

1. The state of affairs of the Company 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 31 December 2015.

In preparing these Financial Statements / the Directors are required to ensure that:

1. Appropriate accounting policies have been selected and applied in a consistent manner and material departures, if any, have been disclosed and explained;

2. Judgments and estimates have been made and that they are reasonable and prudent;
3. All applicable accounting standards as relevant have been followed; and
4. It provides the information required by and otherwise comply with the Companies Act, No. 07 of 2007, Regulation of Insurance Industry Act, No. 43, of 2000 and subsequent amendments thereto and the Listing Rules of the Colombo Stock Exchange (CSE) or requirements of any other regulatory authority 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.

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 of the Company has been certified by the Company's Chief Financial Officer, the officer responsible for their preparation, as required by the Companies Act. In addition, the Financial Statements of the Company has been signed by two Directors the Company on 16 February 2016 as required by the Companies Act and other regulatory requirements. Under the Section 148 (1) of the Companies Act, the Directors are also responsible for ensuring that proper accounting records which correctly record and explain the Company's transactions are maintained and that the Company's financial position, with reasonable accuracy, at any point of time is determined by the Company, enabling preparation of the Financial Statements, in accordance with the Act to facilitate proper audit of the Financial Statements.

The Financial Statements for the year 2015, 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 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 Financial Statements of the Company 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 241)

The Board of Directors also wishes to confirm that, as required by the Sections 166 (1) and 167 (1) of the Companies Act, they have prepared this Annual Report in time and ensured that a copy thereof is sent to every shareholder of the Company, who have expressed desire to receive a hard copy or to other

## Statement of Directors' Responsibility to Financial Reporting

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 of the Group and the Company.

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  
*Chairmen*

(Sgd.)  
Iftikar Ahamed  
*Managing Director*

Colombo  
16 February 2016

## CEO's and CFO's Responsibility Statement

The Financial Statements are prepared in compliance with the Sri Lanka Accounting Standards (SLFRS/LKAS) 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 recognised 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.

We also confirm that the Company has complied with the following IBSL requirements;

- a). The Company has complied with all the legal and regulatory provisions of the Regulation of Insurance Industry act.
- b). The Company has arranged treaty and facultative reinsurance with approved reinsurers as per IBSL guidelines, for all risk commitments exceeding retention limits.

c). Reserving and solvency guidelines have been complied with and total reserves are backed by matching admissible assets.

d). The equity capital meets the set minimum capital requirement in accordance with the applicable regulations.

e). The Company has implemented the necessary processes to implement the premium warranty clause.

(Sgd.)  
T.M.Iftikar Ahamed  
*Managing Director / Chief Executive Officer*

(Sgd.)  
Dilan Christostom  
*Chief Financial Officer*

Colombo  
16 February 2016

## Actuary's Report - Life



### Actuarial & Management Consultants (Pvt) Limited

2015-16-8, 2015-16-8, 2015-16-8, 2015-16-8, 2015-16-8, 2015-16-8, 2015-16-8, 2015-16-8, 2015-16-8, 2015-16-8

#### TO THE SHAREHOLDERS OF ASIAN ALLIANCE INSURANCE PLC

#### ACTUARIAL VALUATION OF THE LONG TERM INSURANCE BUSINESS AS AT 31 DECEMBER 2015

We have carried out an actuarial valuation of the Long Term Insurance Business as at 31 December, 2015. We hereby certify that, in our opinion,

- 1) Proper records have been kept by the Company which are appropriate for the purpose of the actuarial valuation of the liabilities of the Long Term Insurance Fund;
- 2) Adequate and proper reserves have been provided as at 31 December, 2015, for all liabilities in respect of the Long Term Insurance Fund, taking into account all current and contingent liabilities as at that date.
- 3) The Long Term Insurance Fund as included in the audited accounts as at 31 December, 2015, exceed the required actuarial reserves as at 31 December 2015 by Rs. 646.586 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. 298.172 million, including the solvency margin for the new reversionary bonus allotted as at 31 December 2015, and is fully provided for.

M POOPALANATHAN  
ACTUARY  
16 February 2016

# Certification of Incurred But Not Reported (IBNR) Claims and Liability Adequacy Test (LAT) - General



## TO THE SHAREHOLDERS OF ASIAN ALLIANCE GENERAL INSURANCE LIMITED

### ASIAN ALLIANCE GENERAL INSURANCE LIMITED 31 DECEMBER 2015 NET IBNR AND LAT CERTIFICATION

I hereby certify that the Central Estimate of the IBNR provision of LKR 88,758,217 is adequate in relation to the Claim Liability of Asian Alliance Insurance PLC as at 31 December 2015, 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, excluding the claim handling expenses, in respect of the Company's incurred claims obligations as at 31 December 2015, 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 1,033,457,050 set by the Company, net of reinsurance, is adequate in relation to the unexpired risks of Asian Alliance Insurance PLC as at 31 December 2015, 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.

Matthew Maguire  
Fellow of the Institute of Actuaries of Australia (FIAA)  
For and on behalf of NMG Financial Services Consulting

Dated 1 February 2016

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65, Raffles Street, #27-02/04/05, Raffles City Centre, Singapore

# Report on the Liability Adequacy Test (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, 2015. In forming our opinion on projected contract cash flows, we relied upon data prepared by the Actuarial Department of Asian Alliance Insurance PLC as to existing business records, actuarial experience studies and certain other data. We evaluated that data for reasonableness and consistency and our examination included such review of the actuarial assumptions and actuarial methods used and such tests of the projected contract cash flow calculations as we considered prudent and necessary.

In our opinion the projected contract cash flows and associated discounted cash flow reserves at a risk free yield for non-participating business and 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 5,899.4 million when compared to the discounted present value of future projected cash flow with a provision for adverse deviation amounting to LKR 3,822.3 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.  
16 February 2016



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# 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 31 December 2015, and the income statement, 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 notes set out on pages 242 to 358.

### 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 controls 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 auditors consider 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 31 December 2015, 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. 7 of 2007, we state the following:

- a) The basis of opinion, 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 the financial position as at 31 December 2015, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards, and
  - the financial statements of the Company and the Group comply with the requirements of Section 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, as far as appears from our examination, the accounting records of the Company have been maintained in the manner required by the rules issued by the Insurance Board of Sri Lanka, so as to clearly indicate the true and fair view of the financial position of the Company.

Chartered Accountants  
16 February 2016  
Colombo

KPMG is a member firm of the KPMG network, which is a global organization of member firms, each of which is a separate legal entity. The KPMG network is not a legal entity and is not subject to audit or other regulatory requirements. The KPMG network is not a legal entity and is not subject to audit or other regulatory requirements.

As required by Section 163(2) of the Companies Act No. 7 of 2007, we state the following:

# Income Statement

			Group		Company		Change
	Note	Page	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014* Rs. '000	Group %
For the year ended 31 December							
Gross Written Premium	7	278	6,053,425	4,773,295	4,091,042	4,773,295	27%
Net Change in Reserve for Unearned Premium	7.3	278	(131,590)	(108,998)	-	(108,998)	21%
Gross Earned Premium	7.4	278	5,921,835	4,664,297	4,091,042	4,664,297	27%
Premiums Ceded to Reinsurers	8	279	(692,550)	(552,563)	(501,471)	(552,563)	25%
Net Change in Reserve for Unearned Reinsurance Premium	8.1	279	(56,544)	28,333	-	28,333	-300%
Net Earned Premium	8.2	280	5,172,741	4,140,067	3,589,571	4,140,067	25%
<b>Other Revenue</b>							
Net Finance Income	9	280	724,761	826,090	621,083	822,187	-12%
Net Realised Gains / (Losses)	10	282	148,709	765,268	126,329	765,268	-81%
Net Fair value Gains / (Losses)	11	282	84,437	359,284	80,514	359,284	-76%
Other Operating Income			106,316	15,638	39,828	15,638	580%
			1,064,223	1,966,280	867,754	1,962,377	-46%
<b>Total Net Income</b>			<b>6,236,964</b>	<b>6,106,347</b>	<b>4,457,325</b>	<b>6,102,444</b>	<b>2%</b>
<b>Net Benefits, Claims and Expenses</b>							
Net Insurance Benefits and Claims Paid	12	283	(1,594,332)	(1,403,402)	(411,179)	(1,403,402)	14%
Net Change in Insurance Claims Outstanding	13	284	(34,826)	(145,259)	(22,553)	(145,259)	-76%
Change in Insurance Contract Liabilities - Life Fund	32.1	311	(966,452)	(1,253,098)	(966,452)	(1,253,098)	-23%
Underwriting and Net Acquisition Cost	14	285	(1,149,112)	(833,325)	(992,572)	(833,325)	38%
Other Operating and Administrative Expenses	15	285	(1,565,578)	(1,677,304)	(1,046,670)	(1,676,572)	-7%
Finance Cost			(33,199)	(25,840)	(25,337)	(25,840)	28%
<b>Total Benefits, Claims and Expenses</b>			<b>(5,343,499)</b>	<b>(5,338,228)</b>	<b>(3,464,763)</b>	<b>(5,337,496)</b>	<b>0%</b>
<b>Profit Before Taxation</b>			<b>893,465</b>	<b>768,119</b>	<b>992,562</b>	<b>764,948</b>	<b>16%</b>
Income Tax Reversal / (Expense)	16	287	30,844	(12,838)	-	(12,838)	340%
<b>Profit for the year</b>			<b>924,309</b>	<b>755,281</b>	<b>992,562</b>	<b>752,110</b>	<b>22%</b>
<b>Profit attributable to:</b>							
Owners of the Company			924,309	755,281	992,562	752,110	
Non-controlling interests			-	-	-	-	
<b>Profit for the year</b>			<b>924,309</b>	<b>755,281</b>	<b>992,562</b>	<b>752,110</b>	
<b>Earnings per Share</b>							
Basic Earnings per Share (Rs)	17.1	289	2.47	2.01**	2.65	2.01**	
Diluted Earnings per Share (Rs)	17.2	289	2.47	2.01**	2.65	2.01**	

\*\*Earnings Per Share (EPS) and Diluted Earnings per share have been computed based on post sub division weighted average no of shares as at 31 December 2015.

\* 2014 Company results replicate the composite insurance performance whereas 2015 reflect segregated Company. The Notes to the Financial Statements on pages 256 to 353 are an integral part of these Financial Statements

# Statement of Profit or Loss and other Comprehensive Income

			Group		Company	
	Note	Page	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014* Rs. '000
For the year ended 31 December						
<b>Profit for the year</b>			924,309	755,281	992,562	752,110
<b>Other Comprehensive Income</b>						
<b>Items that will never be reclassified to Income Statement</b>						
Remeasurement of defined benefit (liability) / asset	34.2.1		(5,084)	1,381	71	1,381
Revaluation of Land and Buildings	20.2		24,903	-	24,903	-
Related Tax			1,443	-	-	-
			21,262	1,381	24,974	1,381
<b>Items that are or may be reclassified to Income Statement</b>						
Available for sale financial asset -net change in fair value	30	310	(521,957)	15,783	(364,298)	15,783
Available for sale financial asset-net change in fair value changes - Life	30	310	(515,523)	407,875	(515,523)	407,875
Available for sale financial assets reclassified to Income Statement	30	310	(67,818)	(82,849)	(68,507)	(82,849)
Related Tax			9,386	-	-	-
			(1,095,912)	340,809	(948,328)	340,809
<b>Other Comprehensive Income, net of tax</b>			(1,074,650)	342,190	(923,354)	342,190
<b>Total comprehensive income for the year</b>			(150,341)	1,097,471	69,208	1,094,300
<b>Total comprehensive income attributable to:</b>						
Owners of the Company			(150,341)	1,097,471	69,208	1,094,300
Non - controlling interests			-	-	-	-
			(150,341)	1,097,471	69,208	1,094,300

\* 2014 Company results replicate the composite insurance performance whereas 2015 reflect segregated results.  
The Notes to the Financial Statements on pages 256 to 353 are an integral part of these Financial Statements

# Statement of Financial Position

As at 31 December	Note	Page	Group		Company	
			2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
<b>Assets</b>						
Intangible Assets	19	291	22,219	31,493	21,982	31,493
Property Plant and Equipment	20	292	518,911	377,875	427,519	377,875
Investment in Subsidiary	40.2	346	-	-	800,000	100,000
Financial Investments	21	296	9,265,451	8,567,946	7,744,020	8,464,071
Loans to Life Policy Holders and Others	22	305	145,314	133,846	143,640	133,846
Reinsurance Receivables	23	305	122,169	159,712	62,643	159,712
Premium Receivables	24	306	550,995	460,196	67,274	460,196
Amounts due from Related Companies	25	307	865	662	634	2,044
Receivables and Other Assets	26	308	434,345	341,222	354,790	341,022
Insurance Contract - Deferred Expenses	27	308	125,922	100,956	-	100,956
Deferred Tax Assets	16.3	288	61,904	-	-	-
Cash and Cash Equivalents	28	309	223,936	130,283	192,118	130,255
<b>Total Assets</b>			<b>11,472,031</b>	<b>10,304,191</b>	<b>9,814,620</b>	<b>10,301,470</b>
<b>Equity and Liabilities</b>						
<b>Equity</b>						
Stated Capital	29	309	1,062,500	1,062,500	1,062,500	1,062,500
Available for Sale Reserves	30	310	(640,440)	455,472	(495,123)	455,472
Revaluation Reserve			24,903	-	24,903	-
Retained Earnings	31	310	1,776,361	855,693	1,845,655	853,022
<b>Total Equity</b>			<b>2,223,324</b>	<b>2,373,665</b>	<b>2,437,935</b>	<b>2,370,994</b>
<b>Liabilities</b>						
Insurance Contract Liabilities - Life	32	310	6,192,615	5,223,695	6,192,615	5,223,695
Insurance Contract Liabilities - General	33	312	1,322,011	1,138,694	-	1,138,694
Employee Benefits	34	314	63,358	53,028	45,796	53,028
Current Tax Liabilities			12,325	11,980	-	11,980
Reinsurance Payable	35	316	139,946	131,308	92,972	131,308
Insurance Contract-Deferred Revenue	36	316	10,738	25,779	-	25,779
Amounts due to Related Companies			-	-	31,603	-
Other Liabilities	37	317	496,966	872,254	382,735	872,204
Short Term Borrowings	38	317	269,700	154,483	269,700	154,483
Deferred Tax Liabilities	16.3	288	7,905	-	-	-
Bank Overdraft	28	309	733,143	319,305	361,264	319,305
<b>Total Liabilities</b>			<b>9,248,707</b>	<b>7,930,526</b>	<b>7,376,685</b>	<b>7,930,476</b>
<b>Total Equity and Liabilities</b>			<b>11,472,031</b>	<b>10,304,191</b>	<b>9,814,620</b>	<b>10,301,470</b>
<b>Net Asset per Share (Rs.)</b>			<b>5.93</b>	<b>6.32</b>	<b>6.50</b>	<b>6.32</b>

The Notes to the Financial Statements on pages 256 to 353 are an integral part of these Financial Statements  
These Financial Statements are in compliance with the requirement of the Companies Act No 07 of 2007.

\* 2014 Company results replicate the composite insurance financial position whereas 2015 reflect segregated results.

(Sgd.)  
Dilan Christostom  
Chief Financial Officer

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.  
Signed for and on behalf of the Board :

(Sgd.)  
Asoka K Pathirage  
Chairman

(Sgd.)  
Iftikar Ahamed  
Managing Director

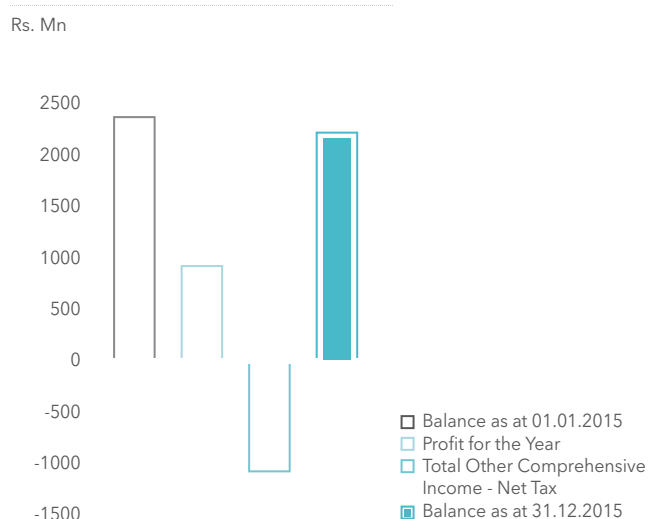
Colombo  
16 February 2016

## Statement of Changes in Equity - Group

For the year ended 31 December 2015	Stated Capital Rs. '000	Available for sale reserve Rs. '000	Revaluation reserves Rs. '000	Retained earnings Rs. '000	Total Rs. '000
<b>Balance as at 01 January 2014</b>	1,062,500	114,663	-	654,531	1,831,694
<b>Profit for the year</b>	-	-	-	755,281	755,281
<b>Other Comprehensive Income for the year</b>					
Available for sale financial asset -net change in fair value	-	15,783	-	-	15,783
Available for sale financial asset - net change in fair value - Life fund	-	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
<b>Total Other Comprehensive income</b>	-	340,809	-	1,381	342,190
<b>Total Comprehensive income for the Year</b>	-	340,809	-	756,662	1,097,471
<b>Transactions with the Owners of the Company, recognised directly in Equity</b>					
First and final dividend - 2013	-	-	-	(180,000)	(180,000)
Interim dividend - 2014	-	-	-	(375,000)	(375,000)
Share issue transaction cost - Subsidiary	-	-	-	(500)	(500)
<b>Balance as at 31 December 2014</b>	1,062,500	455,472	-	855,693	2,373,665
<b>Balance as at 01 January 2015</b>	1,062,500	455,472	-	855,693	2,373,665
<b>Profit for the year</b>	-	-	-	924,309	924,309
<b>Other Comprehensive Income for the year</b>					
Available for sale financial asset -net change in fair value	-	(521,957)	-	-	(521,957)
Available for sale financial asset - net change in fair value - Life fund	-	(515,523)	-	-	(515,523)
Available for sale financial assets reclassified to income statement	-	(67,818)	-	-	(67,818)
Remeasurement of Defined Benefit (liability) / asset	-	-	-	(5,084)	(5,084)
Revaluation gain on Land and Buildings	-	-	24,903	-	24,903
Tax on Other Comprehensive Income	-	9,386	-	1,443	10,829
<b>Total other Comprehensive Income net of tax</b>	-	(1,095,912)	24,903	(3,641)	(1,074,650)
<b>Total Comprehensive income for the Year</b>	-	(1,095,912)	24,903	920,668	(150,341)
<b>Balance as at 31 December 2015</b>	1,062,500	(640,440)	24,903	1,776,361	2,223,324

The Notes to the Financial Statements on pages 256 to 353 are an integral part of these Financial Statements

### Development of Total Equity - Group



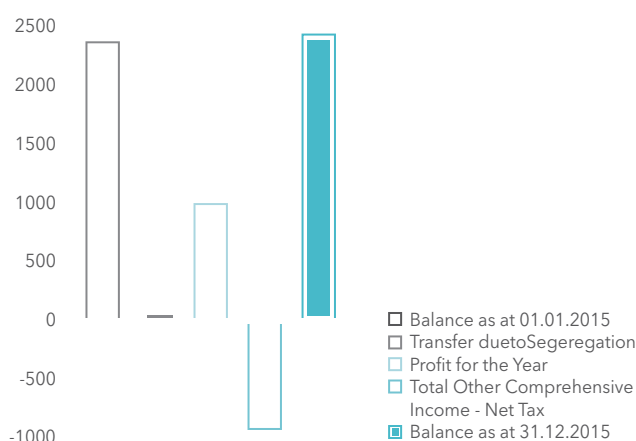
## Statement of Changes in Equity - Company

For the year ended 31 December 2015	Stated Capital	Other Reserves Available for sale reserve	Revaluation reserves	Retained earnings	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 01 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 - Life fund	-	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					
First and final dividend - 2013	-	-	-	(180,000)	(180,000)
Interim Dividend - 2014	-	-	-	(375,000)	(375,000)
Balance as at 31 December 2014	1,062,500	455,472	-	853,022	2,370,994
Transfer due to Segregation	-	(2,267)	-	-	(2,267)
Balance as at 01 January 2015	1,062,500	453,205	-	853,022	2,368,727
Profit for the year	-	-	-	992,562	992,562
Other Comprehensive Income for the year					
Available for sale financial asset - net change in fair value	-	(364,298)	-	-	(364,298)
Available for sale financial asset - net change in fair value - Life fund	-	(515,523)	-	-	(515,523)
Available for sale financial assets reclassified to income statement	-	(68,507)	-	-	(68,507)
Remeasurement of defined benefit (liability) / asset	-	-	-	71	71
Revaluation gain on land and buildings	-	-	24,903	-	24,903
Total other Comprehensive Income net of tax	-	(948,328)	24,903	71	(923,354)
Total Comprehensive income for the Year	-	(948,328)	24,903	992,633	69,208
Balance as at 31 December 2015	1,062,500	(495,123)	24,903	1,845,655	2,437,935

The Notes to the Financial Statements on pages 256 to 353 are an integral part of these Financial Statements

### Development of Total Equity - Company

Rs. Mn





# Statement of Cash Flows

	Group		Company	
For the year ended 31 December	2015	2014	2015	2014*
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Cash Flows from Operating Activities</b>				
Profit before Taxation	893,465	768,119	992,562	764,948
Adjustments for :				
Notional tax Income	(43,282)	(196,693)	(37,213)	(196,693)
Depreciation of Property, Plant and Equipment	68,342	38,675	48,052	38,675
Amortisation of Intangible Assets	11,293	9,503	11,280	9,503
Provision for Employee Benefits	14,142	13,427	10,638	13,427
Provision for impairment of premium receivable	6,182	-	-	-
Net Realised (Gains)	(148,709)	(765,268)	(126,329)	(765,268)
Net Fair value (Gains)	(84,437)	(359,284)	(80,514)	(359,284)
Loss on Sale of Property, Plant and Equipments	445	-	445	-
	717,441	(491,521)	818,921	(494,692)
Change in Operating Assets	A	(300,566)	(218,021)	(127,883)
Change in Operating Liabilities	B	842,003	1,964,651	1,480,697
<b>Cashflows from Operating Activities</b>		1,258,878	1,255,109	2,171,735
Gratuity paid		(8,895)	(5,174)	(7,438)
Income tax paid		(4,245)	(3,787)	-
<b>Net Cash Generated from Operating Activities</b>		1,245,738	1,246,148	2,164,297
<b>Cash Flows from Investing Activities</b>				
Acquisition of Subsidiary		-	(100,000)	(100,000)
Net Acquisition of Financial Securities		(1,324,709)	(772,162)	(1,385,734)
Net Acquisition of Property, Plant and Equipment		(184,871)	(283,767)	(149,804)
Acquisition of Intangible Assets		(3,114)	(15,739)	(2,864)
Proceeds from sale of property, plant and equipment		155	-	155
<b>Net Cash used in Investing Activities</b>		(1,512,539)	(1,171,668)	(2,238,247)
<b>Cash Flows Financing Activities</b>				
Dividend Paid		(168,600)	(346,597)	(168,569)
Net Short Term Borrowings		115,216	99,930	115,216
<b>Net Cash (used in) / Generated from Financing Activities</b>		(53,384)	(246,667)	(53,353)
<b>Net Increase / (Decrease) in Cash and Cash Equivalents</b>	C	(320,185)	(172,187)	(127,303)
Net cash and cash equivalents as at the beginning of the year		(189,022)	(16,835)	(41,843)
<b>Net cash and cash equivalents as at the end of the year</b>		(509,207)	(189,022)	(169,146)
<b>Notes to the Cashflow Statement</b>				
<b>A. Change in Operating Assets</b>				
(Increase) in Loans to Life Policyholders		(11,468)	(26,757)	(7,536)
(Increase) / Decrease in Reinsurance Receivables		37,543	(15,653)	10,673
(Increase) / Decrease in Premium Receivables		(84,619)	4,257	(17,106)
(Increase) in Deferred Expenses		(24,966)	(11,653)	-
(Increase) in Receivable and Other Assets		(217,056)	(168,215)	(113,914)
		(300,566)	(218,021)	(127,883)
<b>B. Change in Operating Liabilities</b>				
Increase in Insurance Contract Liabilities - Life		968,920	1,253,098	968,920
Increase in Insurance Contract Liabilities - General		183,317	217,473	-
Increase / (Decrease) in Reinsurance Payables		8,638	(6,275)	78,268
Increase / (Decrease) in Other Liabilities		(318,872)	500,355	433,509
		842,003	1,964,651	1,480,697
<b>C. Increase in Cash and Cash Equivalents</b>				
Cash and Cash Equivalents		223,936	130,283	192,118
Bank Overdrafts		(733,143)	(319,305)	(361,264)
Net cash and cash equivalents as at 31 December		(509,207)	(189,022)	(169,146)
Net cash and cash equivalents as at the beginning of the period		(189,022)	(16,835)	(41,843)
Decrease in Cash and Cash Equivalents		(320,185)	(172,187)	(127,303)

\* 2014 Company results replicate the composite insurance cashflows whereas 2015 reflect segregated company cashflows. The Notes to the Financial Statements on pages 256 to 353 are an integral part of these Financial Statements

## Income Statement - Segment Review 2015

	Life Insurance	General Insurance	Elimination	Group
For the Year Ended 31 December 2015	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Written Premium	4,091,042	1,977,003	(14,620)	6,053,425
Net Change in Reserve for Unearned Premium	-	(131,590)	-	(131,590)
<b>Gross Earned Premium</b>	<b>4,091,042</b>	<b>1,845,413</b>	<b>-</b>	<b>5,921,835</b>
Premiums Ceded to Reinsurers	(501,471)	(191,079)	-	(692,550)
Net Change in Reserve for Unearned Premium - Reinsurance	-	(56,544)	-	(56,544)
<b>Net Earned Premium</b>	<b>3,589,571</b>	<b>1,597,790</b>	<b>-</b>	<b>5,172,741</b>
<b>Other Revenue</b>				
Net Finance Income	621,083	103,678	-	724,761
Net Realised Gains / (Losses)	126,329	22,380	-	148,709
Fair value Gains / (Losses)	80,514	3,923	-	84,437
Other Operating Income	39,828	66,488	-	106,316
	867,754	196,469	-	1,064,223
<b>Total Net Income</b>	<b>4,457,325</b>	<b>1,794,259</b>	<b>-</b>	<b>6,236,964</b>
<b>Net Benefits, Claims and Expenses</b>				
Net Insurance Benefits and Claims Paid	(411,179)	(1,183,153)	-	(1,594,332)
Net Change in Insurance Claims Outstanding	(22,553)	(12,273)	-	(34,826)
Change in Insurance Contract Liabilities - Life Fund	(966,452)	-	-	(966,452)
Underwriting and Net Acquisition Cost	(992,572)	(156,540)	-	(1,149,112)
Other Operating and Administrative Expenses	(1,046,670)	(533,528)	14,620	(1,565,578)
Finance Cost	(25,337)	(7,862)	-	(33,199)
<b>Total Benefits, Claims and Expenses</b>	<b>(3,464,763)</b>	<b>(1,893,356)</b>	<b>-</b>	<b>(5,343,499)</b>
<b>Profit / (Loss) before Taxation</b>	<b>992,562</b>	<b>(99,097)</b>	<b>-</b>	<b>893,465</b>
Income Tax Expense	-	30,844	-	30,844
<b>Profit / (Loss) for the year</b>	<b>992,562</b>	<b>(68,253)</b>	<b>-</b>	<b>924,309</b>

## Income Statement - Segment Review 2014

	Life Insurance	General Insurance	Group Total	Life Insurance	General Insurance	Company Total
For the Year Ended 31 December 2014	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	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	-	(108,998)	(108,998)	-	(108,998)	(108,998)
<b>Gross Earned Premium</b>	<b>3,048,148</b>	<b>1,616,149</b>	<b>4,664,297</b>	<b>3,048,148</b>	<b>1,616,149</b>	<b>4,664,297</b>
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
<b>Net Earned Premium</b>	<b>2,816,593</b>	<b>1,323,474</b>	<b>4,140,067</b>	<b>2,816,593</b>	<b>1,323,474</b>	<b>4,140,067</b>
<b>Other Revenue</b>						
Net Finance Income	655,842	170,248	826,090	655,842	166,345	822,187
Net Realised Gains / (Losses)	519,866	245,402	765,268	519,866	245,402	765,268
Fair value Gains / (Losses)	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
<b>Total Net Income</b>	<b>4,293,915</b>	<b>1,812,432</b>	<b>6,106,347</b>	<b>4,293,915</b>	<b>1,808,529</b>	<b>6,102,444</b>
<b>Net Benefits, Claims and Expenses</b>						
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 Cost	(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)
<b>Total Benefits, Claims and Expenses</b>	<b>(3,453,816)</b>	<b>(1,884,412)</b>	<b>(5,338,228)</b>	<b>(3,453,816)</b>	<b>(1,883,680)</b>	<b>(5,337,496)</b>
<b>Profit / (Loss) before Taxation</b>	<b>840,099</b>	<b>(71,980)</b>	<b>768,119</b>	<b>840,099</b>	<b>(75,151)</b>	<b>764,948</b>
Income Tax Expense	-	(12,838)	(12,838)	-	(12,838)	(12,838)
<b>Profit / (Loss) for the year</b>	<b>840,099</b>	<b>(84,818)</b>	<b>755,281</b>	<b>840,099</b>	<b>(87,989)</b>	<b>752,110</b>

## Statement of Financial Position - Segment Review 2015

As at 31 December 2015	General Insurance	Life Insurance	Elimination	Group
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Assets</b>				
Intangible Assets	237	21,982		22,219
Property Plant and Equipment	91,392	427,519		518,911
Investment in Subsidiary	-	800,000	(800,000)	-
Financial Investments	1,521,431	7,744,020		9,265,451
Loans to Life Policy holders and Other Loans	1,674	143,640		145,314
Reinsurance Receivables	59,526	62,643		122,169
Premium Receivables	483,721	67,274		550,995
Amounts due from Related Companies	231	634		865
Receivables and Other Assets	111,158	354,790	(31,603)	434,345
Insurance Contract - Deferred Expenses	125,922	-		125,922
Deferred Tax Assets	61,904	-		61,904
Cash and Cash Equivalents	31,818	192,118		223,936
<b>Total Assets</b>	<b>2,489,014</b>	<b>9,814,620</b>	<b>(831,603)</b>	<b>11,472,031</b>
<b>Equity &amp; Liabilities</b>				
<b>Equity</b>				
Stated Capital	800,000	1,062,500	(800,000)	1,062,500
Available for Sale Reserves	(145,317)	(495,123)		(640,440)
Revaluation Reserve	-	24,903		24,903
Retained Earnings	(69,294)	1,845,655		1,776,361
<b>Total Equity</b>	<b>585,389</b>	<b>2,437,935</b>	<b>(800,000)</b>	<b>2,223,324</b>
<b>Liabilities</b>				
Insurance Contract Liabilities - Life	-	6,192,615		6,192,615
Insurance Contract Liabilities - General	1,322,011	-		1,322,011
Employee Benefits	17,562	45,796		63,358
Current Tax Liabilities	12,325	-		12,325
Reinsurance Payable	46,974	92,972		139,946
Insurance Contract - Deferred Revenue	10,738	-		10,738
Amounts due to Related Companies	-	31,603	(31,603)	-
Other Liabilities	114,231	382,735		496,966
Short Term Borrowings	-	269,700		269,700
Deferred Tax Liabilities	7,905	-		7,905
Bank overdraft	371,879	361,264		733,143
<b>Total Liabilities</b>	<b>1,903,625</b>	<b>7,376,685</b>	<b>(31,603)</b>	<b>9,248,707</b>
<b>Total Equity and Liabilities</b>	<b>2,489,014</b>	<b>9,814,620</b>	<b>(831,603)</b>	<b>11,472,031</b>

# Statement of Financial Position - Segment Review 2014

As at 31 December 2014	General Insurance	Life Insurance	Elimination	Group
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Assets</b>				
Intangible Assets	16,484	15,009	-	31,493
Property Plant and Equipment	88,150	289,725	-	377,875
Investment in Subsidiary	-	100,000	(100,000)	-
Financial Investments	1,925,268	6,642,678	-	8,567,946
Loans to Life Policy holders and Other Loans	(506)	134,352	-	133,846
Reinsurance Receivables	86,396	73,316	-	159,712
Premium Receivables	410,027	50,169	-	460,196
Amounts due from Related Companies	662	1,382	(1,382)	662
Receivables and Other Assets	134,178	211,423	(4,379)	341,222
Insurance Contract - Deferred Expenses	100,956	-	-	100,956
Cash and Cash Equivalents	25,255	105,028	-	130,283
<b>Total Assets</b>	<b>2,786,870</b>	<b>7,623,082</b>	<b>(105,761)</b>	<b>10,304,191</b>
<b>Equity &amp; Liabilities</b>				
<b>Equity</b>				
Stated Capital	662,500	500,000	(100,000)	1,062,500
Available for Sale Reserves	2,266	453,206	-	455,472
Retained Earnings	405,512	450,181	-	855,693
<b>Total Equity</b>	<b>1,070,278</b>	<b>1,403,387</b>	<b>(100,000)</b>	<b>2,373,665</b>
<b>Liabilities</b>				
Insurance Contract Liabilities - Life	-	5,223,695	-	5,223,695
Insurance Contract Liabilities - General	1,138,694	-	-	1,138,694
Employee Benefits	27,304	25,724	-	53,028
Current Tax Liabilities	11,980	-	-	11,980
Reinsurance Payable	116,604	14,704	-	131,308
Insurance Contract - Deferred Revenue	25,779	-	-	25,779
Other Liabilities	223,797	654,218	(5,761)	872,254
Short Term Borrowings	-	154,483	-	154,483
Bank overdraft	172,434	146,871	-	319,305
<b>Total Liabilities</b>	<b>1,716,592</b>	<b>6,219,695</b>	<b>(5,761)</b>	<b>7,930,526</b>
<b>Total Equity and Liabilities</b>	<b>2,786,870</b>	<b>7,623,082</b>	<b>(105,761)</b>	<b>10,304,191</b>

## Statement of Cash Flows - Segment Review 2015

As at 31 December 2015		General Insurance Rs. '000	Life Insurance Rs. '000	Elimination	Group Rs. '000
<b>Cash Flows Operating Activities</b>					
Profit before Taxation		(99,097)	992,562	-	893,465
<b>Adjustments for :</b>					
Notional tax Income		(6,069)	(37,213)	-	(43,282)
Depreciation of Property, Plant and Equipments		20,290	48,052	-	68,342
Amortisation of Intangible Assets		13	11,280	-	11,293
Provision for Employee Benefits		3,504	10,638	-	14,142
Provision for Impairment of Premium Receivable		6,182	-	-	6,182
Net Realised (Gains)		(22,380)	(126,329)	-	(148,709)
Net Fair value (Gains)		(3,923)	(80,514)	-	(84,437)
(Profit)/Loss on Sale of Property, Plant and Equipments		-	445	-	445
		(101,480)	818,921	-	717,441
Change in Operating Assets	A	(141,078)	(127,883)	(31,605)	(300,566)
Change in Operating Liabilities	B	(670,299)	1,480,697	31,605	842,003
<b>Cash flows from Operating Activities</b>		(912,857)	2,171,735	-	1,258,878
Gratuity paid		(1,457)	(7,438)	-	(8,895)
Income tax paid		(4,245)	-	-	(4,245)
<b>Net Cash Generated from Operating Activities</b>		(918,560)	2,164,297	-	1,245,738
<b>Cash Flows Investing Activities</b>					
Acquisition of Subsidiary		-	(700,000)	700,000	-
Net Acquisition of Financial Securities		61,025	(1,385,734)	-	(1,324,709)
Net Acquisition of Property, Plant and Equipment		(35,067)	(149,804)	-	(184,871)
Acquisition of Intangible Assets		(250)	(2,864)	-	(3,114)
Proceeds from sale of property, plant and equipment		-	155	-	155
<b>Net Cash (used in ) / Generated from Investing Activities</b>		25,708	(2,238,247)	700,000	(1,512,539)
<b>Cash Flows Financing Activities</b>					
Proceeds from share issue		700,000	-	(700,000)	-
Dividend paid		(29)	(168,571)	-	(168,600)
Net Short Term Borrowings		-	115,216	-	115,216
<b>Net Cash (used in ) / Generated from Financing Activities</b>		699,971	(53,353)	(700,000)	(53,384)
<b>Net Increase / (Decrease) in Cash and Cash Equivalents</b>	C	(192,882)	(127,303)	-	(320,185)
<b>Net cash and cash equivalents as at the beginning of the year</b>		(147,179)	(41,843)	-	(189,022)
<b>Net cash and cash equivalents as at the end of the year</b>		(340,061)	(169,146)	-	(509,207)
<b>Notes to the Cash flow Statement</b>					
<b>A. Change in Operating Assets</b>					
(Increase) / Decrease in Loans to Life Policyholders		(3,932)	(7,536)	-	(11,460)
(Increase) / Decrease in Reinsurance Receivables		26,870	10,673	-	37,543
(Increase) / Decrease in Premium Receivables		(67,513)	(17,106)	-	(84,619)
(Increase) / Decrease in Deferred Expenses		(24,966)	-	-	(24,966)
(Increase) / Decrease in Receivable and Other Assets		(71,537)	(113,914)	(31,605)	(221,056)
		(141,078)	(127,883)	(31,605)	(300,566)
<b>B. Change in Operating Liabilities</b>					
Increase / (Decrease) in Insurance Contract Liabilities - Life		-	968,920	-	968,920
Increase / (Decrease) in Insurance Contract Liabilities - General		183,317	-	-	183,317
Increase / (Decrease) in Reinsurance Payables		(69,630)	78,268	-	8,638
Increase / (Decrease) in Other Liabilities		(783,986)	433,509	31,605	(318,872)
		(670,299)	1,480,697	31,605	842,003s
<b>C. Increase in Cash and Cash Equivalents</b>					
Cash and Cash Equivalents		31,818	192,118	-	223,936
Bank overdrafts		(371,879)	(361,264)	-	(733,143)
Net cash and cash equivalents as at 31 December		(340,061)	(169,146)	-	(509,207)
Net cash and cash equivalents as at the beginning of the period		(147,179)	(41,843)	-	(189,022)
Increase / (Decrease) in Cash and Cash Equivalents		(192,882)	(127,303)	-	(320,185)

# Statement of Cash Flows - Segment Review 2014

	Group				Company		
	General Rs. '000	Life Rs. '000	Elimination	Total Rs. '000	General Rs. '000	Life Rs. '000	Total Rs. '000
For the year ended 31 December							
<b>Cash Flows Operating Activities</b>							
Profit before Taxation	(71,980)	840,099	-	768,119	(75,151)	840,099	764,948
<b>Adjustments for :</b>							
Notional tax	(46,859)	(149,835)	-	(196,693)	(46,859)	(149,835)	(196,693)
Depreciation of Property,							
Plant and Equipments	13,095	25,580	-	38,675	13,095	25,580	38,675
Amortisation of Intangible Assets	7,643	1,860	-	9,503	7,643	1,860	9,503
Provision for Employee Benefits	5,289	8,138	-	13,427	5,289	8,138	13,427
Net Realised (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)/Loss on Sale of Property,							
Plant and Equipments	-	-	-	-	-	-	-
	(405,685)	(85,837)	-	(494,692)	(408,855)	(85,837)	(494,692)
Change in Operating Assets	A (56,902)	(161,118)	-	(218,021)	(56,902)	(161,118)	(218,021)
Change in Operating Liabilities	B 395,785	1,568,866	-	1,964,018	395,152	1,568,866	1,964,018
Cash flows from Operating Activities	(66,802)	1,321,911	-	1,251,306	(70,605)	1,321,911	1,251,306
Gratuity paid	(3,636)	(1,538)	-	(5,174)	(3,636)	(1,538)	(5,174)
Income tax paid	(3,787)	-	-	(3,787)	(3,787)	-	(3,787)
Net Cash Generated from							
Operating Activities	(74,225)	1,320,373	-	1,242,345	(78,028)	1,320,373	1,242,345
<b>Cash Flows Investing Activities</b>							
Acquisition of Subsidiary	(100,000)	(100,000)	100,000	(100,000)	-	(100,000)	(100,000)
Net Acquisition of Financial Securities	50,697	(822,859)	-	(768,386)	54,473	(822,859)	(768,386)
Net Acquisition of Property,							
Plant and Equipment	(60,153)	(223,614)	-	(283,767)	(60,153)	(223,614)	(283,767)
Acquisition of Intangible Assets	-	(15,739)	-	(15,739)	-	(15,739)	(15,739)
Net Cash (used in ) / Generated from							
Investing Activities	(109,456)	(1,162,212)	100,000	(1,167,892)	(5,680)	(1,162,212)	(1,167,892)
<b>Cash Flows Financing Activities</b>							
Proceeds from share issue	100,000	(100,000)	-	-	-	-	-
Dividend paid	-	(346,598)	-	(346,598)	-	(346,598)	(346,598)
Net Short Term Borrowings	-	99,930	-	99,930	-	99,930	99,930
Net Cash (used in ) / Generated							
from Financing Activities	100,000	(246,668)	(100,000)	(246,668)	-	(246,668)	(246,668)
Net Increase / (Decrease) in Cash							
and Cash Equivalents	C (83,680)	(88,508)	-	(172,215)	(83,707)	(88,508)	(172,215)

## Statement of Cash Flows - Segment Review 2014

	Group			Company			
	General Rs. '000	Life Rs. '000	Elimination	Total Rs. '000	General Rs. '000	Life Rs. '000	Total Rs. '000
For the year ended 31 December							
Net Cash and Cash Equivalents as at The beginning of the Year	(63,500)	46,665	-	(16,835)	(63,500)	46,665	(16,835)
Net Cash and Cash Equivalents as at the end of the Year	(147,180)	(41,843)	-	(189,050)	(147,207)	(41,843)	(189,050)

### Notes to the Cash flow Statement

#### A. Change in Operating Assets

(Increase) / Decrease in Loans to Life Policyholders	978	(27,735)	-	(26,757)	978	(27,735)	(26,757)
(Increase) / Decrease in Reinsurance Receivables	(4,112)	(11,541)	-	(15,653)	(4,112)	(11,541)	(15,653)
(Increase) / Decrease in Premium Receivables	8,341	(4,084)	-	4,257	8,341	(4,084)	4,257
(Increase) / Decrease in Deferred Expenses	(11,653)	-	-	(11,653)	(11,653)	-	(11,653)
(Increase) / Decrease in Receivable and Other Assets	(50,456)	(117,759)	-	(168,215)	(50,456)	(117,759)	(168,215)
	(56,902)	(161,118)	-	(218,021)	(56,902)	(161,118)	(218,021)

#### B. Change in Operating Liabilities

Increase / (Decrease) in Insurance Contract Liabilities - Life	-	1,253,098	-	1,253,098	-	1,253,098	1,253,098
Increase / (Decrease) in Insurance Contract Liabilities - General	217,473	-	-	217,473	217,473	-	217,473
Increase / (Decrease) in Reinsurance Payables	61,010	(67,285)	-	(6,275)	61,010	(67,285)	(6,275)
Increase / (Decrease) in Other Liabilities	117,302	383,053	-	499,722	116,669	383,053	499,722
	395,785	1,568,866	-	1,964,018	395,152	1,568,866	1,964,018

#### C. Increase in Cash and Cash Equivalents

Cash and Cash Equivalents	25,255	105,028	-	130,255	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 31 December	(147,179)	(41,843)	-	(189,050)	(147,207)	(41,843)	(189,050)
Net Cash and Cash Equivalents as at beginning of the period	(63,500)	46,665	-	(16,835)	(63,500)	46,665	(16,835)
Increase / (Decrease) In Cash and Cash Equivalents	(83,679)	(88,508)	-	(172,215)	(83,707)	(88,508)	(172,215)



# Insurance Revenue Account

For the year ended 31 December	2015 Rs. '000	2014* Rs. '000
<b>Life Insurance</b>		
Gross Written Premium	4,091,042	3,048,148
Premiums Ceded to Reinsurers	(501,471)	(231,555)
Net Written Premium	3,589,571	2,816,593
Finance and Other Income	699,249	1,001,660
Net Benefits and Claims	(433,740)	(312,491)
Change in Insurance Contract Liabilities	(966,451)	(1,253,098)
Underwriting and Net Acquisition Costs (Including Reinsurance)	(992,559)	(714,531)
Expenses	(1,086,070)	(1,001,257)
Surplus from Life Insurance Fund	810,000	536,876
Finance and Other Income Not Attributable to Policyholders	182,562	303,223
<b>Profit for the Year Company</b>	<b>992,562</b>	<b>840,099</b>
<b>General Insurance</b>		
Gross Written Premium	1,977,002	1,725,147
Outward Reinsurance	(191,077)	(321,008)
Net Written Premium	1,785,925	1,404,139
Net Change in Reserve for Unearned Premium	(188,134)	(80,665)
Net Earned Premium	1,597,791	1,323,474
Policy Fee Income	23,935	5,837
<b>Total Income</b>	<b>1,621,726</b>	<b>1,329,311</b>
Net Insurance Benefits and Claims Paid	(1,183,159)	(1,094,603)
Net Change in Insurance Claims Outstanding	(12,273)	(141,567)
Underwriting and Net Acquisition Costs (Including Reinsurance)	(156,534)	(118,794)
Expenses	(517,898)	(491,266)
<b>Total Benefits and Expenses</b>	<b>(1,869,864)</b>	<b>(1,846,230)</b>
<b>Underwriting Loss</b>	<b>(248,138)</b>	<b>(516,919)</b>
Finance and Other Income	172,530	479,218
Non Technical Expenses	(23,489)	(37,450)
Income Tax Reversal / (Expense)	30,844	(12,838)
<b>Loss for the Year Company</b>	<b>(68,253)</b>	<b>(87,989)</b>
<b>Profit for the Year - Group</b>	<b>924,309</b>	<b>752,110</b>
<b>Key ratios General insurance</b>		
Net loss ratio	75%	93%
Net expense ratio**	41%	46%
Net combined ratio	116%	139%

\*\* Net of policy fee income

\* Shareholders assets notionally allocated to each segments for the year 2014.

# 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 and the ordinary shares of the Company are listed on the Colombo Stock Exchange (CSE). 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 and the registered office is situated at 283, R.A De Mel Mawatha, Colombo -03.

For further information please refer the 'Inner Back cover' of this Annual Report.

### 1.2. Financial Statements

The Financial Statements for the year ended and as at 31 December 2015, comprise " the Company" referring to Asian Alliance Insurance PLC as the holding Company and the " the Group" referring to Asian Alliance Insurance PLC and its subsidiary has been consolidated therein.

Asian Alliance General Insurance Limited is a fully owned subsidiary of Asian Alliance Insurance PLC

### 1.3. Principal Activities and Nature of Operations and ownership by the Company and it's subsidiary

Entity	Principal Business Activities	Ownership as at 31 December 2015	Ownership as at 31 December 2014
Asian Alliance Insurance PLC	Primarily involved in the Life insurance business	N/A	N/A
Asian Alliance General Insurance Limited - Subsidiary	Providing a general insurance business	100%	100%

In compliance with the requirements of the Regulation of Insurance Industry (Amendment) Act No 3 of 2011, the Company completed the segregation of the life and general insurance businesses on 1 January 2015.

The company continues to carry on the life insurance business and its general insurance business operates under Asian Alliance General Insurance Limited (AAGI) with effect from 1 January 2015.

### 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 31 December 2015 were authorised for issue by the Board of Directors on 16 February 2016.

### 1.6. Responsibility for Financial Statements

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 Group and Company as at December 31, 2015 was 782 and 469 respectively (2014 was 730).

## 2. BASIS OF PREPARATION

### 2.1 Statement of Compliance

The 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 Financial Statements include the following components:

- Statement of Financial Position providing the information on the financial position of the Company and Group as at the year-end (Refer page 244);
- Income Statement and Statement of Profit or Loss and Other Comprehensive Income providing the information on the financial performance of the Company and Group for the year under review (Refer page 243);
- Statement of Changes in Equity depicting all changes in shareholders' Equity during the year under review of the Company and Group (Refer page 245 & 246);
- 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 247); and
- Notes to the Financial Statements comprising accounting policies and other explanatory information(Refer pages 256 to 353).

## 2.2 Basis of Measurement

The Financial Statements have been prepared on the historical cost basis except for the following material items in the Statement of Financial Position:

Item	Basis of measurement	Note	Page reference
Non - derivative financial instruments at fair value through profit or loss	At fair value	21.4	300
Available for Sale Financial Assets	At fair value	21.3	298
The net defined benefit liability	Present value of the defined benefit obligation, plus unrecognised actuarial gains, less unrecognised past service cost and unrecognised actuarial losses.	34	314
Policyholders' liabilities	Actuarial-determined values based on actuarial guidelines issued by IBSL	32 and 33	310 and 312
Land and Building	At fair value	20	292

The Group presents its Statement of Financial Position broadly in order of liquidity. No adjustments have been made for inflationary factors affecting 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 354 to 358 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 Financial Statements are presented in Sri Lankan Rupees (LKR), which is the Company's functional currency.

Financial information presented in Sri Lankan Rupees have 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 Financial Period

The Financial Statements are prepared to a common financial year ended 31 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 reclassified wherever necessary to confirm with the current year's classification in order to provide a better presentation. The details of such reclassifications have been provided in Note 46 in page 353.

As explained in note 41 to the Financial Statements, Company segregated its operation from General business by transferring the related assets and liabilities into the Company's 100% owned Subsidiary AAGI. Accordingly the comparatives of the separate Financial Statements refers to the composite operation while the current year refers to segregated operations. A reconciliation of comparative is provided in Note 41 to the Financial Statements.

## 3. USE OF JUDGMENTS AND ESTIMATES

The preparation of the Financial Statements in conformity with SLFRS / LKAS requires Management to make judgments, estimates and assumptions that affect the application of accounting

## Notes to the Financial Statements

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 recognised prospectively.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included from following notes.

### 3.1 Valuation of Insurance Contract Liabilities - Life Insurance

The valuation of the Long Term insurance business as at 31 December 2015 was carried out by the Consultant Actuary based on the assumptions set out in Note 32 to the Financial Statements on Page 310.

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. 32.3 to the Financial Statements on Page 312.

### 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 33 to the Financial Statements on Page 312.

### 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 34.4 to the Financial Statements.

### 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 Group 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 Group 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

Group measures its Fair values as specified under SLFRS 13 - "Fair Value Measurement". A comprehensive explanation is provided in Note 39.2 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 Income Statement. 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 Fair value of Land and Buildings

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. The Valuation was carried out by Mr. P.B Kalugalagedara, Chartered Valuation Surveyor. For further details please refer to the Note 20.14 to the Financial Statements on Page 295.

### 3.9 Provisions for Liabilities and Contingencies

The Group 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 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 this report which discusses the estimates in detail.

Critical Accounting Estimate / Judgment	Disclosure Reference	
	Note	Page
Going Concern	2.6	257
Impairment of Reinsurance Receivables	4.5.1.2.d	263
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#### 4. SIGNIFICANT ACCOUNTING POLICIES

Set out below is an index of the significant accounting policies, the details of which are available on the pages that follow.

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## Notes to the Financial Statements

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### 4.1 Changes in Accounting Policies

The Group has consistently applied the accounting policies to all periods presented in these Financial Statements.

## 4.2 Basis of Consolidation

The Financial Statements comprise the Financial Statements of the Company and its subsidiary as at 31 December 2015. Business combinations are accounted for using the acquisition method when control is transferred to the Group.

### 4.2.1 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. 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 has been aligned with the policies adopted by the Group.

### 4.2.2 Non-Controlling Interest

The Non-controlling Interest are measured at their appropriate share of acquiree's identifiable net assets at the date of acquisition. NCI is not applicable to the Group as the company owns 100% of its subsidiary.

### 4.2.3 Loss of Control

Upon the loss of control, the Group de-recognises 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 Income Statement. 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.

### 4.2.4 Intra-Group Transactions

Intra-group balances, intra-group transactions and resulting unrealised profits are eliminated in full in the Consolidated Financial Statements. Unrealised losses resulting from intra-group transactions are eliminated unless the cost cannot be recovered.

### 4.2.5 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.

## 4.3 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 recognised in Income Statement. 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

recognised in OCI are reclassified to Income Statement);

- 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

### 4.4 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.

#### 4.4.1 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 Group issues and reinsurance contracts that the Group holds.



## Notes to the Financial Statements

### 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 Group, 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 Income Statement 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 Group 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 Group, 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 Group

All product sold by the Group are insurance contracts and therefore classified as Insurance Contracts thus the Group does not have any investment contracts within its portfolio as at reporting date.

### 4.4.2 Impact of unrealised gains and losses on available-for-sale assets on liabilities from insurance contracts

Unrealised gains or losses arise on available - for - sale assets, the adjustment to the liabilities arising from insurance contracts is equal to the effect that the realisation of those gains or losses at the end of the reporting period would have had on those liabilities (and related assets) and is recognised directly in Other Comprehensive Income.

## 4.5 Financial assets and financial liabilities

### 4.5.1 Non-derivative financial assets

#### 4.5.1.1. Initial recognition and measurement

The Group initially recognises loans and receivables, and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

In the case of financial assets not at fair value through profit or loss, a financial asset is measured initially at fair value plus transaction costs that are directly attributable to its acquisition or issue.

The Group 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 Group 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 Group 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.



Depending on the intention and ability to hold the invested assets, the Group 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 Group's existing non derivative financial assets and their classifications are summarised in the table below.

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			√	

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 Group's trading activity.

#### 4.5.1.2 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. Attributable transaction costs are recognised in Income Statement as incurred.

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 Income Statement.

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 Group will evaluate its financial assets at fair value through profit or loss (held for trading) by considering whether the intent to sell them in the near term is still appropriate.

##### 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 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 Income Statement 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 in the Statement of Profit or Loss and Other Comprehensive Income is transferred to the Income Statement.

If the asset is determined to be impaired, the cumulative loss is recognised in the Income Statement and removed from the available-for-sale reserve.

##### 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 Group has the intention and ability to hold until maturity. After initial measurement, held to maturity financial assets are measured at amortised cost, using the EIR, less any impairment losses.

## Notes to the Financial Statements

The EIR amortisation is included in Finance Income in the Income Statement and losses arising from impairment are recognised as finance cost in the Income Statement. Gains and losses are recognised in the Income Statement 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. 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 Finance Income in the Statement of profit or loss and losses arising from impairment are recognised as an expense in the Income Statement.

Gains and losses are recognised in the Income Statement when the investments are derecognised or impaired, as well as through the amortisation process.

Loans and receivables comprise of investments in unquoted debentures, commercial papers, reverse repos, reinsurance receivables, premium receivables, cash and cash equivalents and Policy loans and other loans.

- Reinsurance Receivables

The Group cedes insurance risk in the normal course of business for all of its businesses. Reinsurance receivables represent balances due from reinsurance companies. 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.

These assets consist of short-term balances due from reinsurers that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts.

- 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 recognised 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 Group policy.

- 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.

### 4.5.2 Non-derivative financial liabilities

The Group initially recognises loans and receivables and debt securities issued on the date when they are originated. All other financial liabilities are initially recognised on the trade date when the entity becomes a party to the contractual provisions of the instrument.

A financial liability is classified as at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognised in profit or loss as incurred. Financial liabilities at fair value through profit or loss are measured at fair value and changes therein, including any interest expense, are recognised in profit or loss.

Other non-derivative financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

### 4.5.3 Derivative Financial Instruments

The Group holds derivative financial instruments to hedge its interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met.

Derivatives are initially measured at fair value; any directly attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss.

#### 4.5.4 De-recognition of Financial Instruments

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

#### 4.5.5 Offsetting

Financial assets and 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 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 Group's trading activity.

#### 4.5.6 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.

#### 4.5.7 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability or,
- In the absence of the principal market, in the most advantageous market for the asset or liability

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When available, the Group 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.

If a market for a financial instrument is not active, then the Group 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 Group, 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 Group 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.

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

## Notes to the Financial Statements

price. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group 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 Group believes a third-party market participant would take them into account in pricing a transaction.

The fair value hierarchy of financial instruments is given below :

**Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities.

**Level 2:** inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

**Level 3:** inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Please refer fair value hierarchy disclosed in Note 39.2.3 page 332.

### 4.5.8. Reclassification of Financial Assets

Reclassifications of financial assets, other than as set out below, or of financial liabilities between measurement categories are not permitted following initial recognition.

Held for trading non-derivative financial assets are transferred out of the held at fair value through profit or loss category in the following circumstances: to the available-for-sale category, where, in rare circumstances, they are no longer held for the purpose of selling or repurchasing in the near term; or to the loans and receivables category, where they are no longer held for the purpose of selling or repurchasing in the near term and they would have met the definition of

a loan and receivable at the date of reclassification and the Group has the intent and ability to hold the assets for the foreseeable future or until maturity.

Financial assets are transferred out of the available-for-sale category to the loans and receivables category where they would have met the definition of a loan and receivable at the date of reclassification and the Group has the intent and ability to hold the assets for the foreseeable future or until maturity.

Held-to-maturity assets are reclassified to the available-for sale category if the portfolio becomes tainted following the sale of other than an insignificant amount of held-to-maturity assets prior to their maturity.

Financial assets are reclassified at their fair value on the date of reclassification. For financial assets reclassified out of the available-for-sale category into loans and receivables, any gain or loss on those assets recognised in shareholders' equity prior to the date of reclassification is amortised to the income statement over the remaining life of the financial asset, using the effective interest method.

### 4.6 Identification and Measurement of Impairment

#### Impairment of Financial Assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Objective evidence that financial assets (including equity securities) are impaired may 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 reorganisation,
- adverse changes in the payment status of issuers or debtors in the Group, and
- 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 Group considers evidence of impairment for financial assets measured at amortised cost (loans and receivables and held-to-maturity financial assets) at a specific asset.

#### 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 Income Statement 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 Income Statement.

#### d. Impairment of Financial Assets - Available-for-sale

For available for sale financial investments, the Group 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 Group 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 Income Statement.

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 Income Statement, the impairment loss is reversed through the Income Statement.

#### 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 Group 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 Group will receive from the reinsurer.

The impairment loss is recorded in the Income Statement.

#### 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 recognised in the Income Statement.

### 4.7 Intangible Assets

#### 4.7.1 Basis of recognition and Measurement

An Intangible Asset is recognised if it is probable that future economic benefits that are attributable to the asset will flow to the Group and the cost of the asset can be measured reliably.

#### Software

Software acquired by the Group is initially measured at cost and subsequently stated at cost less accumulated amortisation and accumulated impairment losses. Expenditure on internally developed software is recognised as an asset when the Group 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.

#### 4.7.2 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.

#### 4.7.3 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.

#### 4.7.4 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 Income Statement come when the item is derecognised.

#### 4.7.5 Research and Development Cost

Expenditure on research activities is recognised in profit or loss as incurred. Development expenditure is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortisation and any accumulated impairment losses.

## Notes to the Financial Statements

### 4.8 Property Plant and Equipment

The Group 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.

#### 4.8.1. 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 Group and cost of the asset can be measured reliably.

#### 4.8.2. Basis of Measurement

An item of Property, Plant & Equipment that qualifies for recognition as an asset is initially measured at its cost.

Subsequent to the initial measurement items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses except for the Land and Buildings.

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 Group 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 capitalised 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 Income Statement. 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 Group 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 Income Statement as incurred

#### Repairs and maintenance

Repairs and maintenance are charged to the Income Statement 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 Group 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 Income statement, in which case the increase is recognised in the Income Statement. A revaluation deficit is recognised in the Income Statement, 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.

#### Depreciation

The Group 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	5	20 years
Office Equipment	20	05 Years
Computer Equipment	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 & 20.2 on page 293.

#### 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 Income Statement.

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.

#### De - recognition

An item of Property, Plant and Equipment is de-recognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset is included in the Income Statement in the year the asset is de - recognised.

When replacement costs are recognised in the carrying amount of an item of Property, Plant and Equipment, the remaining carrying amount of the replaced part is de - recognised. Major inspection costs are capitalised. At each such capitalisation the remaining carrying amount of the previous cost of inspections is derecognised.

#### 4.9 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 Group 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 Income Statement.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group 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 Group substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the Income Statement on a straight line basis over the lease term.

#### 4.10 Deferred expenses

##### 4.10.1 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.

##### 4.10.2 Reinsurance commissions - Unearned commission reserve (UCR) - Non life

Commissions receivable on outwards reinsurance contracts are deferred and amortised on a straight line basis over the term of the expected premiums payable.

#### 4.11 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 for impairment.

## Notes to the Financial Statements

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 recognised in Income Statement. 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 amortisation, if no impairment loss had been recognised.

### 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 Income Statement.

### 4.12 Inventories

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

### 4.13 Equity Movement

#### 4.13.1 Ordinary Shares

The Group has issued ordinary shares that are classified as equity instruments.

#### 4.13.2 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

#### 4.14 Insurance Contract Liabilities

##### 4.14.1. 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 recognised life insurance liabilities are adequate net by using an existing liability adequacy test.

### Liability Adequacy Test (LAT)

At each reporting date, an assessment is made of whether the recognised life insurance liabilities are adequate by using an existing liability adequacy test as laid out under SLFRS 4. The liability value is adjusted to the extent that it is insufficient to meet future benefits and expenses. In performing the adequacy test, current best estimates of future contractual cash flows, including related cash flows such as claims handling and policy administration expenses, policyholder options and guarantees, as well as investment income from assets backing such liabilities, are used. A number of valuation methods are applied, including discounted cash flows to the extent that the test involves discounting of cash flows, the interest rate applied based on management's prudent expectation of current market interest rates.

Any deficiency shall be recognised in the Income Statement by setting up a provision for liability adequacy.

Life insurance liability adequacy is decided by an independent external actuary.



#### 4.14.2. 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 Premiums (UPR)

The reserve for unearned premiums represents that portion of premiums received or receivable that relates to risks that have not yet expired at the reporting date. The provision is recognised when

contracts are entered and is brought to account as premium income over the term of the contract in accordance with the pattern of insurance service provided under the contract.

Provision for unearned premium is calculated on a 1/365 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 Group reviews its unexpired risk and a liability adequacy test is performed as laid out in SLFRS 4 to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. The calculation uses current estimates of future cash flows after taking account of the investment return expected to arise from assets relating to the relevant General insurance technical provisions.

If the assessments show that the carrying amount of the unearned premiums (less related Deferred Acquisition Costs) is inadequate, the deficiency shall be recognised in the Statement of Income by setting up a provision for liability adequacy.

#### 4.15 Employee Benefits

##### 4.15.1 Short-term employee benefits

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus if the Group 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.

##### 4.15.2 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 Income Statement in the periods when they incurred.

##### Employee Provident Fund (EPF)

All employees of the Group are member of the Employees' Provident Fund. The Group and employees contribute 12% and 8% respectively of the salary to EPF.

##### Employees Trust Fund (ETF)

All employees of the Group are members of the Employees Trust Fund. The Group contributes 3% of the salary of each employee to ETF.

#### 4.15.3 Defined benefit plans

##### Measurement

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group'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 Group recognises all actuarial gains and losses arising from defined benefit plans immediately in Statement of Profit or Loss and Other Comprehensive Income.

## Notes to the Financial Statements

Current Services Cost and Interest Cost related to defined benefit plans in employee benefit are expensed in Income Statement.

### 4.16 Provisions (other than insurance provisions)

A provision is recognised if, as a result of a past event, the Group 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.

### 4.17 Capital Commitments

Capital Commitments of the Group are disclosed in the Note 42.

### 4.18 Events Occurring after the Reporting Date

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 date events have been considered and where appropriate, adjustments or disclosures have been made in the respective notes to the Financial Statements.

## INCOME STATEMENT

### 4.19 Revenue Recognition

#### 4.19.1 Gross Written Premium (GWP)

##### a. General Insurance GWP

Gross written premiums comprise the total premiums received/receivable for the whole period of cover provided by contracts entered into during the accounting period. They are recognised on the date on which the policy commences.

Rebates that form part of the premium rate, such as no-claim rebates, are deducted from the gross written premium.

##### Unearned premium reserve (UPR)

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. UPR represents the portion of the premium written in the year but relating to the unexpired term of coverage.

Unearned premiums are calculated on the 1/365 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 premiums which is included under liabilities.

##### b. Life Insurance GWP

Gross recurring premiums 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 recognised as income. Benefits and expenses are provided against such revenue to recognise profits over the estimated life of the policies. For single premium business, revenue is recognised on the date on which the policy is effective.

#### 4.19.2 Reinsurance Premium

Gross reinsurance premiums 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 premiums written comprise the total premiums payable for the whole cover provided by contracts entered into the period and are recognised on the date on which the policy incept. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods.

##### Unearned Reinsurance Premium

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses occurring contracts. Unearned reinsurance premiums are calculated on the 1/365 basis except for the marine policies which are computed on a 60:40 basis.

The proportion attributable to subsequent periods is deferred as a provision for unearned premiums which is included under Insurance contract liabilities - General.

#### b. Life Insurance Reinsurance Premium

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.

#### 4.19.3 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 Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

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

Dividend income is recognised 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 profit or loss 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.

#### 4.19.4 Realised gains and losses

Realised gains and losses recorded in the Income Statement 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 amortised cost and are recorded on occurrence of the sale transaction.

#### 4.19.5 Fair value gains and losses

Fair value gains and losses recorded in the Income Statement on investments include fair value gains on financial assets at fair value through profit or loss and investment properties.

#### 4.19.6 Other Income

Other income is recognised on an accrual basis.

#### 4.19.7 Reinsurance Commission Income

Reinsurance commission income on outwards reinsurance contracts are recognised as revenue when receivable. Subsequent to initial recognition, reinsurance commission income on outwards reinsurance contracts are deferred and amortised on a straight line basis over the term of the expected premiums payable.

### 4.20 Benefits, Claims and Expenses

#### 4.20.1 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.

#### 4.21 Reinsurance claims

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

## Notes to the Financial Statements

### 4.22 Actuarial Valuation of Life Insurance Fund

The Directors agree to the long term insurance provision for the Group 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.

### 4.23 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.

### 4.24 Expenditure Recognition

Expenses are recognised in the Income Statement 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 Income Statement.

For the purpose of presentation of the Income Statement the directors are of the opinion that function of expenses method presents fairly the elements of the Group's performance, and hence such presentation method is adopted.

### 4.25 Operating lease payments

Where the Group has the use of assets under operating leases, payments made under the leases are recognised in the Income Statement on a straight line basis over the term of the lease. Lease incentives received are recognised in the

Statement of Income as an integral part of the total lease expense over the term of the lease.

### 4.26 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.

### 4.27 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.

#### 4.27.1 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 Income Statement.

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.

### 4.27.2 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 Group 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.

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.

#### 4.27.3 Withholding Tax on Dividends

Withholding tax that arises from the distribution of dividends by the Group is recognised at the same time as the liability to pay the related dividend is recognised.

#### 4.27.4 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 Group 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.

#### 4.27.5 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.

#### 4.28 Earnings Per Share (EPS)

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

#### 4.29 Proposed Dividends

Dividend proposed by the Board of Directors after the reporting date is not recognised as a liability and is only disclosed as a Note to the Financial Statements.

#### 4.30 Cash Flow Statements

The cash flow statement has been prepared using the "Indirect method" in accordance with Sri Lanka Accounting Standards (LKAS -7) "Cash Flow Statements". 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 Statement of Cash Flows.

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

### 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 Group 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 1 January 2018 with early adoption permitted.

The Group is assessing the potential impact on its 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 1 January 2018.

Since SLFRS 4 - Insurance Contracts is scope out from this standard. Therefore, we may not have a significant impact to insurance transactions from the standard. However, there could be an impact to other revenue transaction with the implementation of this standard. The group is assessing potential impact on its consolidated financial statements resulting from application of this standard.

## Notes to the Financial Statements

### 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 Financial Statements.

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

### 6. OPERATING SEGMENTS

An operating segment is a component of the Group 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 Group's other components. All operating results are reviewed regularly by the MD / 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 MD / CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

Operating Segment	Category of Information	Details
Life Insurance	Nature of product	Protection and other long-term contracts both with and without discretionary participating features.
	Classification of products	It comprises a wide range of whole life, term assurance, guaranteed pensions, pure endowment pensions and mortgage endowment products.
	Revenue derived from	Insurance premium and fees charged from policyholders Commission income, Investment income and fair value gains and losses on investments.
Operating Segment	Category of Information	Details
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	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.

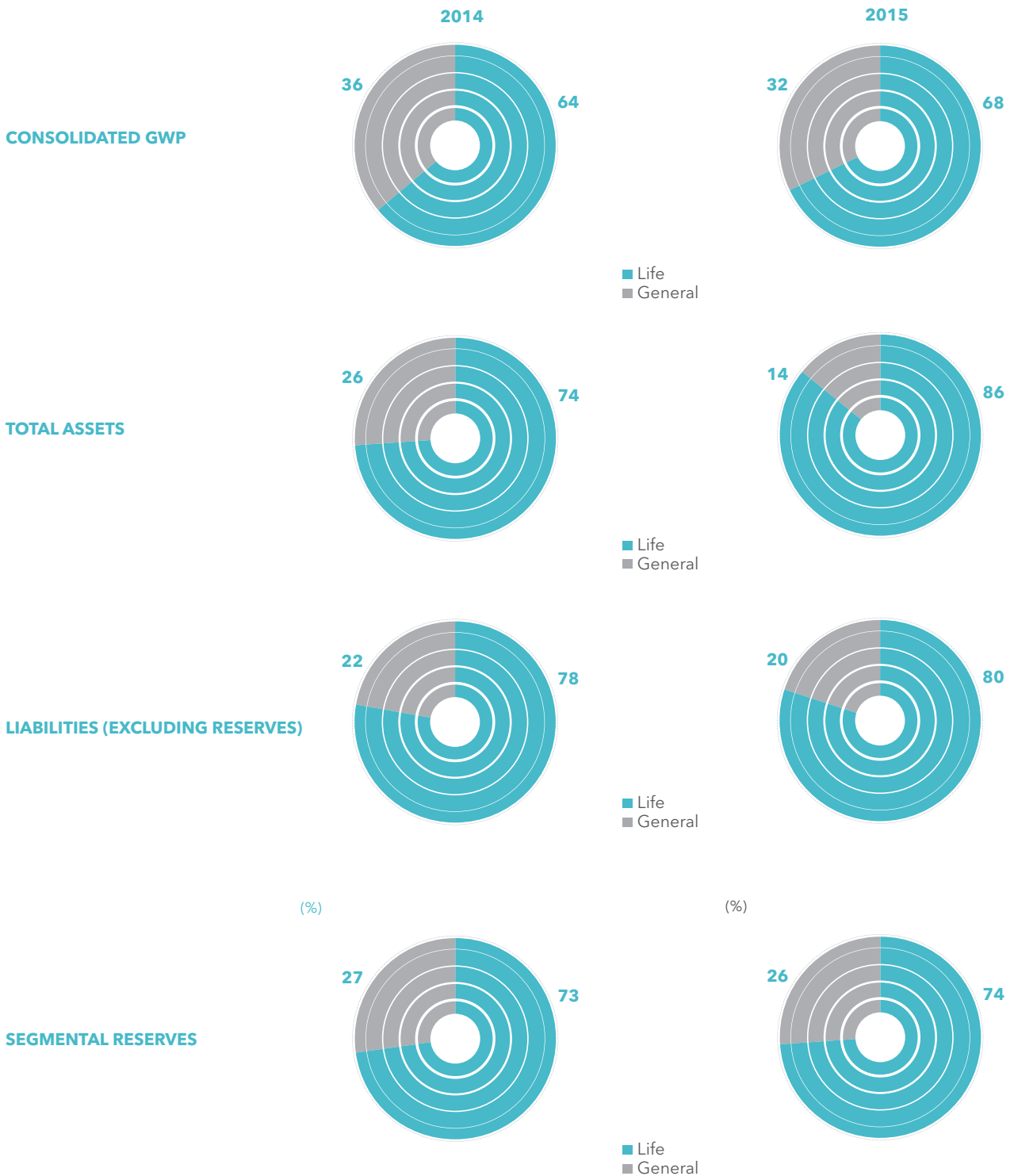
Inter-segment pricing is determined on an arm's length basis.

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.



6.1 Graphical Presentation of segment results are given as follows;



## Notes to the Financial Statements

### 7. GROSS WRITTEN PREMIUM-GROUP & COMPANY

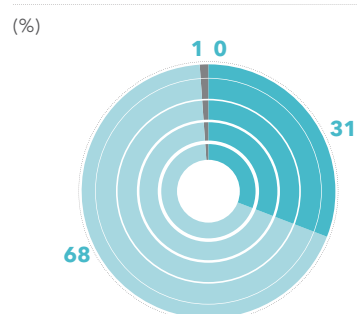
Gross written premium (GWP) represents the premium charged by the Company to underwrite risks. GWP is accounted on an accrual basis

	Note	Group		Company	
		2015 Total Rs. '000	2014 Total Rs. '000	2015 Total Rs. '000	2014 Total Rs. '000
For the year ended 31 December,					
Life insurance	7.1	4,091,042	3,048,148	4,091,042	3,048,148
General insurance	7.2	1,962,383	1,725,147	-	1,725,147
		6,053,425	4,773,295	4,091,042	4,773,295

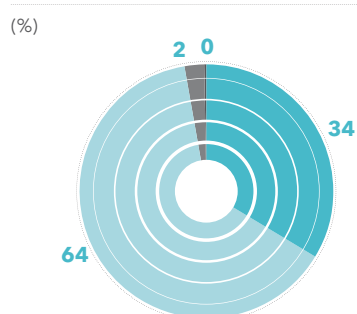
The Premium Income for the year by major classes of business is as follows;

#### 7.1 Life Insurance

##### Life GWP Mix - 2014



##### Life GWP Mix - 2015



■ First Year Premium  
■ Renewal Premium  
■ Group Life Premium  
■ Single Premium

	Company	Company/ Group
For the year ended 31 December,	2015 Total Rs. '000	2014 Total Rs. '000
First year premium	1,375,679	930,524
Renewal premium	2,609,741	2,085,613
Group Life premium	98,986	27,137
Single premium	6,636	4,874
Total Life insurance GWP	4,091,042	3,048,148



## 7.2 General Insurance

	Group				Company			
	2015				2014			
For the year ended 31 December,	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
Fire	65,419	33,514	(3,237)	95,696	135,346	62,824	(12,925)	185,245
Marine	58,555	-	-	58,555	51,469	-	(200)	51,269
Motor	1,085,730	160,989	-	1,246,719	760,678	126,115	-	886,793
Miscellaneous	548,092	13,371	(50)	561,413	597,455	9,065	(4,680)	601,840
Total General insurance GWP	1,757,796	207,874	(3,287)	1,962,383	1,544,948	198,004	(17,805)	1,725,147
Consolidated gross written premium				6,053,425				4,773,295

\* 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.

## 7.3 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. The method of computing the amount to be transferred is provided in accounting policy 4.19.1 to these financial statements.

## 7.4 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

Premium ceded to reinsurers represents the premium paid by the company to its reinsurers in order to manage its underwriting risks. This is accounted on an accrual basis

	Group		Company	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
For the year ended 31 December,				
Life insurance	501,471	231,555	501,471	231,555
General insurance				
-Fire	84,893	167,752	-	167,752
-Marine	44,707	38,792	-	38,792
-Miscellaneous	39,918	42,047	-	42,047
-Motor	21,561	72,417	-	72,417
Total General insurance	191,079	321,008	-	321,008
Total premium ceded to reinsurers	692,550	552,563	501,471	552,563

## 8.1 Net Change in Reserve for Unearned Reinsurance Premium

Net Change represents the net portion of the reinsurance premiums transferred to the unearned reinsurance premium reserve during the year to cover unexpired period of the policies. The method of computing URP is provided in accounting policy 4.19.2 to these financial statements.

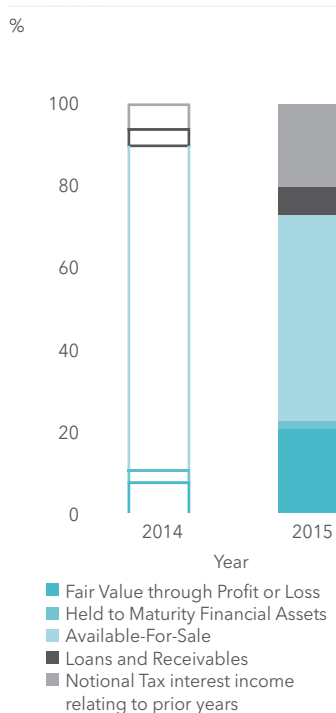
## Notes to the Financial Statements

### 8.2 Net Earned Premium

This represents the Net Earned Premiums for the Financial year subsequent to deduction of reinsurance and net change in unearned premium from Gross Written Premiums. However there is no Unearned premium adjustment for life insurance business.

## 9. NET FINANCE INCOME

### Investment Income Analysis



This note includes the investment income generated by the Group and Company from its various financial assets.

		Group		Company	
		2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
For the year ended 31 December					
Income from financial assets classified at fair value through profit or loss	Note 9.1	79,437	201,545	53,288	201,545
Income from financial assets classified at held to maturity	Note 9.2	22,560	21,229	22,560	21,229
Income from financial assets classified at available-for-sale	Note 9.3	600,196	381,928	527,043	381,928
Income from financial assets classified at loans and receivables	Note 9.4	22,568	59,576	18,192	55,673
Notional tax recognised during the year relating to prior periods		-	161,812	-	161,812
<b>Total finance Income</b>		<b>724,761</b>	<b>826,090</b>	<b>621,083</b>	<b>822,187</b>

### 9.1. Income from Financial Assets classified as Fair Value through Profit or Loss

Interest income	Note 9.1.a	38,138	79,270	13,125	79,270
Dividend income	Note 9.1.b	41,299	122,275	40,163	122,275
		<b>79,437</b>	<b>201,545</b>	<b>53,288</b>	<b>201,545</b>

	Group		Company	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
For the year ended 31 December				
<b>9.1.a Interest Income</b>				
Treasury bonds	25,133	79,212	13,125	79,212
Debentures	13,005	58	-	58
	38,138	79,270	13,125	79,270
<b>9.1.b Dividend Income</b>				
Equity shares	41,299	101,748	40,163	101,748
Unit trust	-	20,527	-	20,527
	41,299	122,275	40,163	122,275
<b>9.2. Income from Financial Assets classified as Held to Maturity Financial Assets</b>				
Treasury bonds	22,560	21,229	22,560	21,229
<b>9.3. Income from Financial Assets classified as Available - for - Sale</b>				
Interest income	Note 9.3.a	532,343	379,178	469,464
Dividend income	Note 9.3.b	67,853	2,750	57,579
		600,196	381,928	527,043
<b>9.3.a Interest Income</b>				
Treasury bonds		376,101	235,664	328,995
Debentures		156,242	136,420	140,469
Commercial papers		-	7,094	-
		532,343	379,178	469,464
<b>9.3.b Dividend Income</b>				
Equity shares		67,853	2,750	57,579
		67,853	2,750	57,579
<b>9.4. Income from Financial Assets classified as Loans and Receivables</b>				
Interest Income	Note 9.4.a	22,568	59,576	18,191
<b>9.4.a Interest Income</b>				
Repurchase agreement with government		7,725	15,852	6,212
Debentures		961	(529)	-
Term deposits		1,902	25,532	-
Loans to Life policyholders		11,980	18,721	11,980
		22,568	59,576	18,192

## Notes to the Financial Statements

### 9.5. Notional Tax Adjustment

Arising from investments in Government Securities, the Company had an entitlement of Notional Tax that it chose not to recognise in financial year 2012 and 2013, as such an asset would need to be reversed or be utilised 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 materialise. Based on subsequent performance and future development strategies implemented, during 2014 company had re assessed the situation and decided to account for entitlement of Notional tax credit amounting Rs.161million as an asset. Accordingly the related adjustment had been made in financial year of 2014.

During the year Group has recognised notional tax credit amounting Rs. 43 million.

### 10. NET REALISED GAINS/ (LOSSES)

Refer Note 4.19.4 for the Accounting Policy

		Group		Company	
		2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
For the year ended 31 December,					
Net gains from available-for-sale financial assets	Note 10.1	68,263	40,731	68,952	40,731
Net gains from fair value through profit or loss		-	42,118	-	42,118
Net (loss)/gain from property, plant and equipment		(445)	-	(445)	-
Net realised capital gain /(loss) on sale of shares		38,764	493,550	38,617	493,550
Capital gain on sale of treasury bonds		42,127	188,869	19,205	188,869
<b>Total net realised gains</b>		<b>148,709</b>	<b>765,268</b>	<b>126,329</b>	<b>765,268</b>

#### 10.1. Net Gains/(Loss) from Available-for-sale financial assets

##### Realised gains

Equity securities	16,904	-	16,904	-
Treasury bonds	49,904	26,315	49,904	26,315
Debt securities	2,144	14,452	2,144	14,452

##### Realised losses

Equity securities	-	(36)	-	(36)
Treasury bonds	(689)	-	-	-
	68,263	40,731	68,952	40,731

### 11 NET FAIR VALUE GAINS / (LOSSES)

Refer Note 4.19.5 for the Accounting Policy

Financial investments at fair value through profit or loss	Note 11.1	100,578	327,935	82,846	327,935
Gain / (Loss) on derivative financial instrument		(16,141)	31,349	(2,332)	31,349
<b>Total fair value gains</b>		<b>84,437</b>	<b>359,284</b>	<b>80,514</b>	<b>359,284</b>

	Group		Company	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
For the year ended 31 December,				
<b>11.1 Financial Investments at Fair Value through Profit or Loss</b>				
Unrealised gains / (losses)				
Equity securities	175,132	290,056	138,383	290,056
Treasury bonds	(77,326)	56,440	(57,307)	56,440
Unit trust	5,939	(15,290)	1,770	(15,290)
Debenture	(3,167)	(3,271)	-	(3,271)
	100,578	327,935	82,846	327,935

## 12 NET INSURANCE BENEFITS CLAIMS PAID

Life insurance policyholders are entitled to maturity proceeds and interim payments (e.g. payments made before the expiry of the policy etc). They may also require to surrender their policies or make claims on account of death, disability or hospitalisation. These amounts net of reinsurance receivable are recorded under insurance claims and benefits

General insurance net claims incurred reflect the total amount of claims and claims related expenses incurred during the year, net of amounts due from reinsurers.

		Group		Company	
		2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
For the year ended 31 December,					
Gross benefits and claims paid	Note 12.1	1,951,154	1,679,178	676,443	1,679,178
Claims ceded to reinsurers	Note 12.2	(356,822)	(275,776)	(265,264)	(275,776)
Total net insurance benefits and claims paid		1,594,332	1,403,402	411,179	1,403,402

### 12.1 Gross Benefits and Claims paid

Life insurance	676,443	522,387	676,443	522,387
General insurance	1,274,711	1,156,791	-	1,156,791
Total gross claims paid	1,951,154	1,679,178	676,443	1,679,178

### 12.2 Claims Ceded to Reinsurers

Life insurance	(265,264)	(213,588)	(265,264)	(213,588)
General insurance	(91,558)	(62,188)	-	(62,188)
Total claims ceded to reinsurers	(356,822)	(275,776)	(265,264)	(275,776)

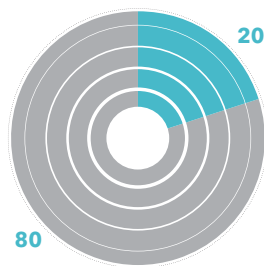
## Notes to the Financial Statements

### 13 NET CHANGE IN INSURANCE CLAIMS OUTSTANDING

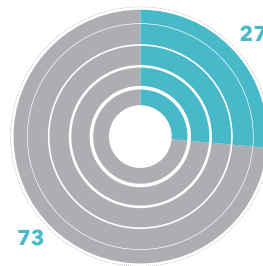
	Group		Company		
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000	
For the year ended 31 December,					
Gross change in insurance contract liabilities	Note 13.1	3,627	153,297	8,444	153,297
Change in contract liabilities ceded to reinsurers	Note 13.2	31,199	(8,038)	14,109	(8,038)
Total insurance benefit and claims (net)		34,826	145,259	22,553	145,259
<b>13.1 Gross change in Insurance Contract Liabilities</b>					
Life insurance					
Change in life insurance contract liabilities without actuarial valuation		8,444	16,489	8,444	16,489
		8,444	16,489	8,444	16,489
General insurance					
Change in General insurance contract outstanding claims provision		(4,817)	136,808	-	136,808
		(4,817)	136,808	-	136,808
Total		3,627	153,297	8,444	153,297
<b>13.2 Change in Contract liabilities Ceded to Reinsurers</b>					
Life insurance					
		14,109	(12,797)	14,109	(12,797)
General insurance					
		17,090	4,759	-	4,759
Total		31,199	(8,038)	14,109	(8,038)
<b>13.3 Net Insurance Benefits and Claim Expense Analysis</b>					
Life insurance benefit and claims expense (net)	Note 13.3.1	433,732	312,491	433,732	312,491
General insurance benefit and claims expense (net)	Note 13.3.2	1,195,426	1,236,170	-	1,236,170
Total net insurance claim expense		1,629,158	1,548,661	433,732	1,548,661
<b>13.3.1 Life Insurance Benefit and Claims Expense (Net)</b>					
Death, disability and hospitalisation claims		499,987	355,727	499,987	355,727
Surrenders		77,431	80,098	77,431	80,098
Maturities		48,926	61,784	48,926	61,784
Relief refund		58,543	41,267	58,543	41,267
Reinsurance recoveries		(251,155)	(226,385)	(251,155)	(226,385)
Net life insurance benefits and claims		433,732	312,491	433,732	312,491
<b>13.3.2 General Insurance Benefit and Claims Expense (Net)</b>					
Gross claims incurred		1,269,894	1,293,600	-	1,293,600
Reinsurance recoveries		(74,468)	(57,430)	-	(57,430)
Net general insurance benefits and claims		1,195,426	1,236,170	-	1,236,170

**Total Net Group Insurance Claim Expense 2014**

(%)

**Total Net Group Insurance Claim Expense 2015**

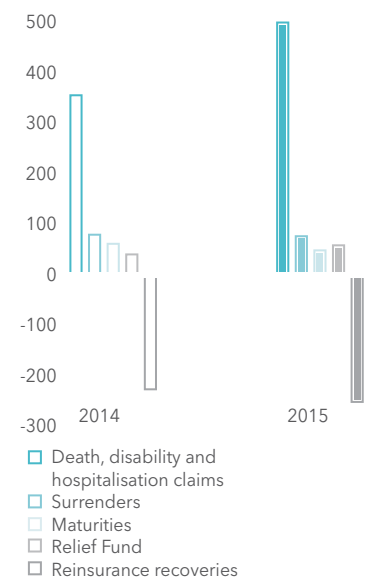
(%)



■ Life  
■ General

**Life Insurance benefit and Claim Expense (Net)**

Rs. Mn

**14 UNDERWRITING AND NET ACQUISITION COST**

Refer Notes 4.20 for the Accounting Policies

	Group		Company	
For the year ended 31 December,	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Underwriting and policy acquisition cost	1,320,010	959,692	1,081,334	959,692
Net change in reserve for deferred acquisition cost (DAC)	(24,966)	(11,653)	-	(11,653)
<b>Acquisition cost incurred for the year</b>	<b>1,295,044</b>	<b>948,039</b>	<b>1,081,334</b>	<b>948,039</b>
Reinsurance commission including profit commission	(130,891)	(122,672)	(88,762)	(122,672)
Net change in reserve for unearned commission (UCR)	(15,041)	7,958	-	7,958
Net earned commission	(145,932)	(114,714)	(88,762)	(114,714)
<b>Total net acquisition cost</b>	<b>1,149,112</b>	<b>833,325</b>	<b>992,572</b>	<b>833,325</b>

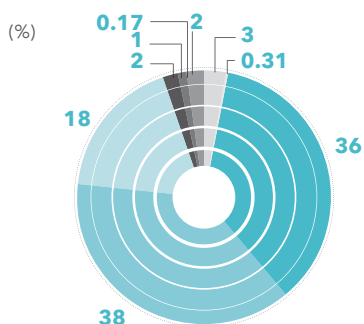
**15 OTHER OPERATING AND ADMINISTRATIVE EXPENSES**

Refer Notes 4.24 for the Accounting Policies

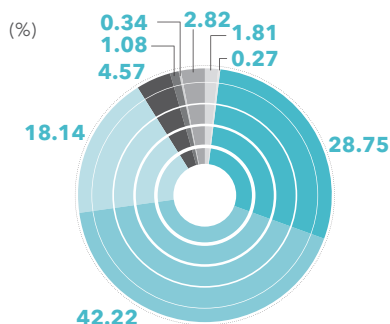
Directors fees and remuneration	Note 15.1	57,058	41,980	37,838	41,980
Auditors' fees for audit and audit related services (including expenses)		4,487	5,402	2,858	5,263
Employee benefit expense	Note 15.2	522,545	603,009	281,400	603,009
Administration and establishment expenses		630,105	644,588	442,286	643,995
Selling expenses		229,540	301,761	189,826	301,761
Depreciation of property, plant and equipment		67,938	38,676	48,052	38,676
Amortisation of intangible assets		11,293	9,503	11,285	9,503
Legal fees		3,628	2,774	3,587	2,774
Professional fees		38,984	29,611	29,538	29,611
Research cost		-	-	-	-
Donations		-	-	-	-
<b>Total other operating and administrative expenses</b>		<b>1,565,578</b>	<b>1,677,304</b>	<b>1,046,670</b>	<b>1,676,572</b>

## Notes to the Financial Statements

### Other Operating and Administration Expenses 2014



### Other Operating and Administration Expenses 2015



- Director's Emoluments and post employment benefits
- Auditor's fee and expenses
- Employee benefit expenses
- Administration and establishment expenses
- Selling expenses
- Depreciation of PPE
- Amortisation of intangible assets
- Legal Fee
- Professional fee

### 15.1 Directors' Emoluments

Directors emoluments represent the fees paid to both the Executive and Non-Executive Directors of the Company.

	Group		Company	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
For the year ended 31 December,				
<b>15.2 Employee Benefit Expense</b>				
Staff remuneration	370,974	475,826	221,265	475,826
Defined contribution plan costs - EPF	50,180	41,309	33,176	41,309
Defined contribution plan costs - ETF	12,545	10,327	8,294	10,327
Defined benefit plan cost	14,143	13,429	10,639	13,429
Other staff costs (travelling, overtime, bonuses etc.)	74,703	62,118	8,026	62,118
	522,545	603,009	281,400	603,009



## 16 INCOME TAX EXPENSE

Refer Note 4.27 for the Accounting Policies

The major components of income tax expense for the year ended 31 December are as follows;

	Group		Company	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
For the year ended 31 December,				
<b>Tax recognised in Income Statement</b>				
Current tax expense				
Income tax on current year's profits	11,380	11,980	-	11,980
Adjustments for prior years	945	858	-	858
	12,325	12,838	-	12,838
<b>Deferred income tax</b>				
Origination of deferred tax liability	7,905	-	-	-
Origination of deferred tax assets	(51,074)	-	-	-
Deferred taxation charge/(reversal)	(43,169)	-	-	-
Income tax expense reported in the income statement	(30,844)	12,838	-	12,838
<b>Tax recognised in Other Comprehensive Income</b>				
Deferred taxation charge / (reversal)	(10,829)	-	-	-

### 16.1 Reconciliation of amounts recognised in Other Comprehensive Income

	2015		
	Before Tax	Tax	Net of Tax
Retirement benefit obligation	5,154	1,443	3,711
Available for sale financial assets	33,521	9,386	24,135
	38,675	10,829	27,846

### 16.2 Reconciliation of Effective Tax rate and income tax expense

	Group		Company	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Profit for the year	924,309	755,281	992,562	752,110
Deferred taxation	(43,169)	-	-	-
Income tax expense	12,325	12,838	-	12,838
Profit before taxation	893,465	768,119	992,562	764,948
Tax effect at the statutory income	28% 250,170	28% 215,073	-	28% 214,186
Income exempt from tax	-27% (236,845)	-21% (163,887)	-	-21% (163,000)
Aggregate allowable expenses	-4% (36,352)	-7% (51,801)	-	-7% (51,801)
Aggregate disallowed expenses	4% 34,407	2% 19,046	-	2% 19,046
Recognition of previously unrecognised tax losses	0% -	1% (6,451)	-	1% (6,451)
Adjustments for prior years	0% 945	0% 858	-	0% 858
	0% 12,325	2% 12,838	-	2% 12,838

Asian Alliance Insurance PLC is liable to income tax at 28% (2014 - 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 as Life Insurance business continues to report-taxable losses. 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.

## Notes to the Financial Statements

### 16.2 Analysis of Tax Losses -Group & Company

The break up of Tax Loss is as follows;

For the year ended 31 December

2015  
Rs. '000

2014  
Rs. '000

#### General Insurance

Balance as at 1 January	1,076,161	628,894
Unrecognised tax losses from previous years	8,959	-
Tax loss during the year	231,026	470,306
Tax loss utilised during the year	(21,887)	(23,039)
Balance as at 31 December	1,294,259	1,076,161

#### Life Insurance

The carried forward tax loss of the Life Insurance business as at 31 December 2015 is Rs. 4,540 million (2014 - Rs. 3,953 million).

#### 16.2.a Tax Intimation on Life Insurance Business

The Company has received a tax Intimation letter on Life Insurance taxation for the years 2010,2011 and 2012. 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 the company has filed a response highlighting the company's view, which was done in consultation with Tax Consultants. Even if this tax intimation would materialised against the Company, no additional tax liability will arise. But the tax loss disclosed above will reduce by Rs. 791 million.

### 16.3 Deferred Taxation

Deferred tax assets and liabilities are off set when there is a legally enforceable right to off set tax assets against tax liabilities and when the deferred income taxes relate to the same fiscal authority. The off set amounts are as follows:

	Group		Company	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
As at 31 December,				
Deferred tax assets	145,589	72,595	83,685	72,595
Deferred tax liabilities	(91,590)	(72,595)	(83,685)	(72,595)
Net deferred tax asset / (liability)	53,999	-	-	-

#### 16.3.a Movement in deferred tax assets and liabilities (Recognised)

Group (Recognised)

Rs. '000	Balance as at 31 December 2015					
	Net balance as at 1 January	Recognised in profit or loss	Recognised in OCI	Net Balance	Deferred tax assets	Deferred tax liabilities
Property, plant and equipment	-	(7,905)	-	(7,905)	-	(7,905)
Retirement benefit obligation	-	3,475	1,443	4,918	4,918	-
Available for sale financial assets	-	-	9,386	9,386	9,386	-
Carry forward tax losses	-	47,600	-	47,600	47,600	-
Net tax asset / (liability)	-	43,170	10,829	53,999	61,904	(7,905)

**16.3.b Analysis of recognised Deferred Tax Assets/Liabilities**

	General Business 2015		Life Business 2015		Group 2015		Group/Company 2014	
	Temporary Difference	Tax Effect	Temporary Difference	Tax Effect	Temporary Difference	Tax Effect	Temporary Difference	Tax Effect
<b>Deferred tax liabilities</b>								
Property, plant and equipment	28,234	7,905	296,354	82,979	324,588	90,884	259,269	72,595
Revaluation of buildings	-	-	2,523	706	2,523	706	-	-
	28,234	7,905	298,877	83,685	327,111	91,590	259,269	72,595
<b>Deferred tax assets</b>								
Retirement benefit obligation	17,562	4,918	45,796	12,822	63,358	17,740	53,029	14,848
Available for sale financial assets	33,522	9,386	79,079	22,142	112,601	31,470	-	-
Deferred tax asset recognised on b/f tax losses	170,000	47,600	174,002	48,721	344,002	96,321	206,239	57,747
	221,084	61,904	298,877	83,685	519,961	145,531	259,268	72,595
Unrecognised deferred tax asset	1,124,258	314,792	4,366,274	1,222,557	5,490,532	1,537,349	3,740,000	1,048,880

As at 31 December 2015, total carried forward tax loss of Life Business is Rs. 4,540 million (2014 - Rs.3,953 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. 1,222 million as it not probable that the future taxable profits will be adequate to utilise the available tax losses in the foreseeable future.

As at 31 December 2015, Asian Alliance General Insurance limited has recognised deferred tax asset in excess of the recognised liability on the tax losses amounting to Rs. 47.6 million based on the internal assessment of the tax liability arising from future taxable profits. In arriving at such the company had forecasted the future taxable profits of Rs. 487 million in the foreseeable future and the company expected to recover tax losses of Rs. 170 million said period. In arriving to above assumption such as claim ratio, combined ratio and growth of GWP were considered.

**17 EARNINGS PER SHARE (EPS)**

Refer Note 4.28 for the Accounting Policies

The calculation of basic earnings per share was based on the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding as at the reporting date

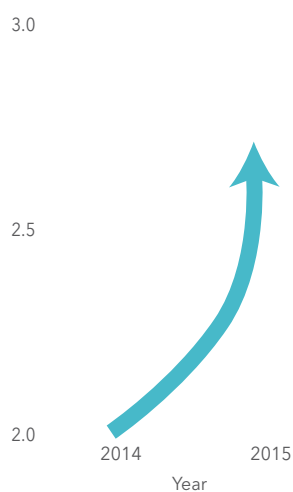
	Group		Company		
	2015	2014 Restated	2015	2014 Restated	2013 Restated
For the year ended 31 December,					
<b>17.1 Basis Earnings Per Share</b>					
Profit attributable to ordinary shareholders (Rs. '000)	924,309	755,281	992,562	752,110	362,335
Weighted average number of ordinary shares as at 31 December ('000)	375,000	375,000*	375,000	375,000*	375,000*
Basic earnings per share (Rs.)	2.47	2.01*	2.65	2.01*	0.97*

\*Earnings Per Share (EPS) and Diluted Earning per share have been restated based on post sub division weighted average no of shares as at 31 December 2015.

## Notes to the Financial Statements

### Earnings Per Share

Rs



### 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)

	Group		Company	
	2015	2014	2015	2014
Dividend declared (Rs.000)	Nil	375,000	Nil	375,000
Number of ordinary shares ('000)	375,000*	37,500	375,000*	37,500
Dividend per share (Rs.)	Nil	10.00	Nil	10.00

\* Subsequent to the share split (Restated)

## 19 INTANGIBLE ASSETS

Refer Note 4.7 for the Accounting Policies

	Group		Company	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Reconciliation of carrying amounts				
<b>Computer Software</b>				
<b>Cost</b>				
Balance as at 1 January	89,391	73,652	89,391	73,652
Acquisition	3,114	15,739	2,864	15,739
Write off during the year	(1,379)	-	(1,379)	-
<b>Balance as at 31 December</b>	<b>91,126</b>	<b>89,391</b>	<b>90,876</b>	<b>89,391</b>
<b>Accumulated amortisation and impairment losses</b>				
Balance as at 1 January	57,898	48,395	57,898	48,395
Amortisation	11,293	9,503	11,280	9,503
Write off during the year	(284)	-	(284)	-
<b>Balance as at 31 December</b>	<b>68,907</b>	<b>57,898</b>	<b>68,894</b>	<b>57,898</b>
<b>Carrying amounts</b>				
As at 31 December	22,219	31,493	21,982	31,493
<b>Capital Work in Progress</b>				
Balance as at 1 January	-	15,317	-	15,317
Incurred during the year	-	422	-	422
Capitalised during the year	-	(15,739)	-	(15,739)
Balance as at 31 December	-	-	-	-
<b>Total carrying value as at 31 December</b>	<b>22,219</b>	<b>31,493</b>	<b>21,982</b>	<b>31,493</b>

### 19.1 Composition of Intangible Assets

Intangible assets comprise Accounting Software used by the Company. The Group's intangible assets does not comprise internally generated intangible assets or intangible assets which have indefinite useful life.

### 19.2 Acquisition of Intangible Assets during the year

During the financial year, the Group acquired Intangible Assets to the aggregate value of Rs. 3 million. Cash payments amounting to Rs. 3 million were made during the year for purchase of Intangible Assets.

### 19.3 Fully amortised Intangible Assets in use - Group

The initial cost of fully depreciated intangible assets which are still in use as at reporting date was Rs. 34 million..

### 19.4 Title restriction on Intangible Assets

There are no restrictions that existed on the title of the Intangible Assets of the Group / Company as at the Reporting Date. There were no items pledged as securities for liabilities.

## Notes to the Financial Statements

### 19.5 Assessment of impairment of Intangible Assets

The Board of Directors has assessed potential impairment loss of intangible assets as at 31 December 2015. 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 (2014- Nil).

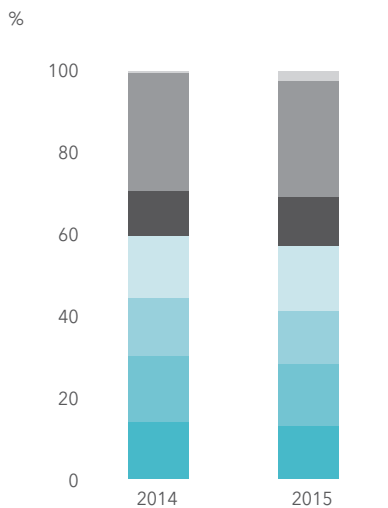
### 19.7 Amortisation of Intangible Assets

Amortisation expense of Rs. 11.2 million (2014: Rs.9.5 million) has been charged to income statement.

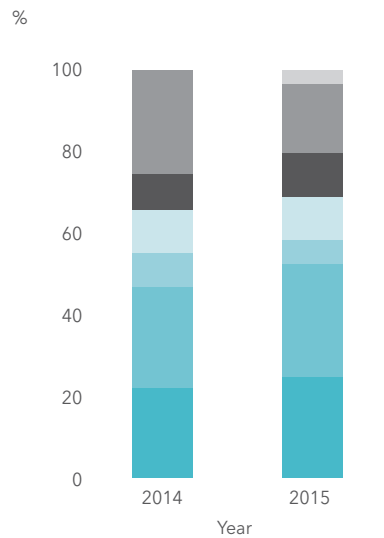
## 20 PROPERTY, PLANT AND EQUIPMENT (PPE)

Refer Note 4.8 for the Accounting Policies

### Cost of Property, Plant & Equipment



### WDV of Property, Plant & Equipment



Year

- Freehold Land
- Freehold Building
- Computer hardware
- Office Equipment
- Furniture and Fittings
- Fixtures and Fittings
- Motor Vehicles

**20.1 Reconciliation of Carrying Amount - Group**

	Freehold Land	Freehold Building	Computer Hardware	Office Equipment	Furniture and Fittings	Fixtures and Fittings	Motor Vehicles	Total 2015	Total 2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Cost</b>									
Balance as at 1 January 2015	85,620	92,755	82,912	88,694	65,068	167,740	2,155	584,944	286,060
Additions during the year	-	-	19,223	27,963	30,387	29,202	16,657	123,432	298,884
Capitalised during the year	-	27,480	-	7,955	-	26,004	-	61,439	-
Surplus on revaluation	22,380	2,523	-	-	-	-	-	24,903	-
Transferred to revaluation	-	(4,758)	-	-	-	-	-	(4,758)	-
Disposals during the year	-	-	-	(44)	(937)	(14)	-	(995)	-
<b>Balance as at 31 December 2015</b>	<b>108,000</b>	<b>118,000</b>	<b>102,135</b>	<b>124,568</b>	<b>94,518</b>	<b>222,932</b>	<b>18,812</b>	<b>788,965</b>	<b>584,944</b>
<b>Accumulated Depreciation</b>									
Balance as at 1 January 2015	-	-	51,680	49,511	31,613	72,364	2,101	207,269	168,593
Additions during the year	-	4,758	11,527	13,157	6,788	29,238	2,470	67,938	38,676
Transferred to revaluation	-	(4,758)	-	-	-	-	-	(4,758)	-
Disposals during the year	-	-	-	(44)	(327)	(24)	-	(395)	-
<b>Balance as at 31 December 2015</b>	<b>-</b>	<b>-</b>	<b>63,207</b>	<b>62,624</b>	<b>38,074</b>	<b>101,578</b>	<b>4,571</b>	<b>270,054</b>	<b>207,269</b>
<b>Capital Work in Progress</b>									
Balance as at 1 January 2015	-	200	-	-	-	-	-	200	-
Additions during the year	-	27,280	-	7,955	-	26,004	-	61,239	8,934
Capitalisation during the year	-	(27,480)	-	(7,955)	-	(26,004)	-	(61,439)	(8,734)
<b>Balance as at 31 December 2015</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>200</b>
<b>Carrying value as at 31 December 2015</b>	<b>108,000</b>	<b>118,000</b>	<b>38,928</b>	<b>61,944</b>	<b>56,444</b>	<b>121,354</b>	<b>14,241</b>	<b>518,911</b>	<b>-</b>
<b>Carrying value as at 31 December 2014</b>	<b>85,620</b>	<b>92,955</b>	<b>31,232</b>	<b>39,183</b>	<b>33,455</b>	<b>95,376</b>	<b>54</b>	<b>-</b>	<b>377,875</b>

**20.2 Reconciliation of Carrying Amount - Company**

	Freehold Land	Freehold Building	Computer Hardware	Office Equipment	Furniture and Fittings	Fixtures and Fittings	Motor Vehicles	Total 2015	Total 2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Cost</b>									
Balance as at 1 January 2015	85,620	92,755	82,912	88,694	65,068	167,740	2,155	584,944	286,060
Transfers due to segregation	-	-	(19,629)	(21,624)	(2,738)	(56,400)	(115)	(100,505)	-
Additions during the year	-	-	11,108	25,330	18,431	16,839	16,657	88,365	298,884
Capitalisation during the year	-	27,480	-	7,955	-	26,004	-	61,439	-
Surplus on revaluation	22,380	2,523	-	-	-	-	-	24,903	-
Transferred to revaluation	-	(4,758)	-	-	-	-	-	(4,758)	-
Disposals during the year	-	-	-	(44)	(937)	(14)	-	(995)	-
<b>Balance as at 31 December 2015</b>	<b>108,000</b>	<b>118,000</b>	<b>74,391</b>	<b>100,311</b>	<b>79,824</b>	<b>154,169</b>	<b>18,698</b>	<b>653,393</b>	<b>584,944</b>
<b>Accumulated Depreciation</b>									
Balance as at 1 January 2015	-	-	51,680	49,511	31,613	72,364	2,101	207,269	168,593
Transfers due to segregation	-	-	(8,929)	(5,281)	(2,499)	(7,555)	(30)	(24,295)	-
Additions during the year	-	4,758	7,268	10,462	5,658	17,447	2,459	48,052	38,676
Transferred to revaluation	-	(4,758)	-	-	-	-	-	(4,758)	-
Disposals during the year	-	-	-	(44)	(327)	(24)	-	(395)	-
<b>Balance as at 31 December 2015</b>	<b>-</b>	<b>-</b>	<b>50,019</b>	<b>54,648</b>	<b>34,445</b>	<b>82,232</b>	<b>4,530</b>	<b>225,873</b>	<b>207,269</b>

## Notes to the Financial Statements

### 20 Property, Plant and Equipment (PPE) Cont.

	Freehold Land	Freehold Building	Computer Hardware	Office Equipment	Furniture and Fittings	Fixtures and Fittings	Motor Vehicles	Total 2015	Total 2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Capital Work in Progress</b>									
Balance as at 1 January 2015	-	200	-	-	-	-	-	200	-
Additions during the year	-	27,280	-	7,955	-	26,004	-	61,239	8,934
Capitalisation during the year	-	(27,480)	-	(7,955)	-	(26,004)	-	(61,439)	(8,734)
Balance as at 31 December 2015	-	-	-	-	-	-	-	-	200
Carrying value as at 31 December 2015	108,000	118,000	24,372	45,663	45,379	71,937	14,168	427,519	-
Carrying value as at 31 December 2014	85,620	92,955	31,232	39,183	33,455	95,376	54	-	377,875

#### 20.3 Leased Motor Vehicle

The net book value of the Motor Vehicle represents a Motor Vehicle which is purchased under finance lease.

#### 20.4 Acquisition / capitalisation of PPE during the year

During the financial year, the Company acquired PPE to the aggregate value of Rs.150 million (2014 - Rs. 299 million).

#### 20.5 Fully depreciated PPE in use

The initial cost of fully depreciated PPE which are still in use as at reporting date, is as follows:

	Group		Company	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
As at 31 December,				
Computer hardware	34,498	69,243	30,463	69,243
Office equipment	32,241	32,789	30,535	32,789
Furniture and fittings	11,655	11,782	11,655	11,782
Fixtures and fittings	38,278	38,433	37,192	38,433
Motor vehicle	2,005	2,005	2,005	2,005
	118,677	154,252	111,850	154,252

#### 20.6 PPE pledged as security

None of the PPE have been pledged as securities as at the reporting date.

#### 20.7 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.

#### 20.8 Title restriction on PPE

There are no restrictions that existed on the title of the PPE of the Company as at the reporting date.

#### 20.9 Assessment of impairment

The Board of Directors has assessed the potential impairment loss of PPE as at 31 December 2015. 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.

#### 20.10 Depreciation of PPE

Depreciation expense of Rs.48million (2014: Rs. 38.6 million) has been charged in statement of income.

#### 20.11 Temporarily idle property, plant and equipment

There are no temporarily idle property, plant and equipment as at the reporting date (2014 - Nil).



## 20.12 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.

## 20.13 Capitalisation of Borrowing Cost

There were no capitalised borrowing costs relating to the acquisition of Property Plant and Equipment during the year (2014- Nil).

## 20.14 The details of freehold land and buildings which are stated at valuation are as follows;

Company property	Extent (Perches)	Square Feet	Method of valuation	Date of the valuation	Valuer	Revalued	Revalued	Carrying value
						amount Land Rs. '000	amount Building Rs. '000	
Land & Building Situated at No. 283, R.A De Mel Mawatha, Colombo - 03	12	11,824	Direct capital comparison method	31 December 2015	Mr. P.B Kalugalagedara Chartered Valuation Surveyor	108,000	118,000	201,097

### 20.14.1.a Net gain on revaluation on land and building

	Land Rs.'000	Building Rs.'000	Total Rs.'000
Revaluation surplus	22,380	2,523	24,903

### 20.14.2 If land and buildings were stated at historical cost, the amounts would have been as follows

	2015 Rs.'000
Cost	205,855
Accumulated depreciation	(4,758)
Carrying value	201,097

### 20.14.3 The effect of revaluation of freehold buildings on the statement of income in the subsequent period is as follows

	2015 Rs.'000
Depreciation charge per annum after revaluation	6,211
Depreciation charge per annum prior to revaluation	6,012
Decrease in profit in subsequent period	199

## 20.14.4 Fair Value Hierarchy

The fair value of the Land & Buildings was determined by an external independent property valuer, having appropriate recognised professional qualifications and experience in the category of the property being valued. The valuer provides the fair value of the property. Fair value measurements of the property has been categorised as a Level 3 fair value based on the valuation techniques used.

### 20.14.4.1 Valuation Techniques and Significant Unobservable Inputs

The following tables show the valuation techniques used in measuring fair values, as well as the significant unobservable inputs.

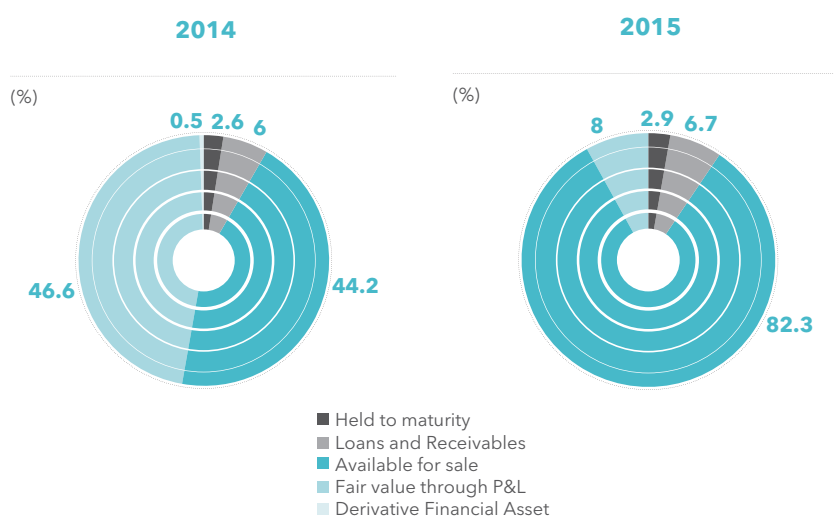
Description	Effective Date of valuation	Valuation Technique	Significant Unobservable Inputs	Interrelationship between key unobservable inputs and Fair value measurements
Land	31.12.2015	Open market value	Market value per Perch	Positive correlated sensitivity
Building	31.12.2015	Direct capital comparison method	Capital expense per Sq. ft	Positive correlated sensitivity

## Notes to the Financial Statements

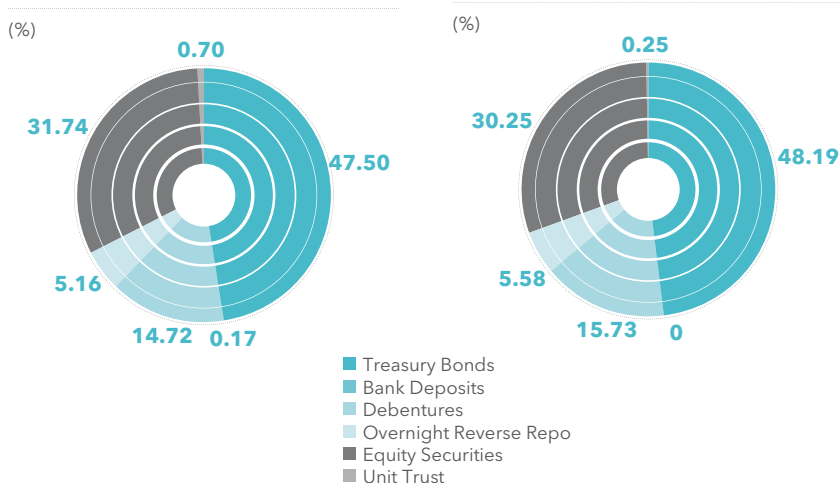
### 21 FINANCIAL INVESTMENTS

Refer Note 4.5 for the Accounting Policies

#### Analysis based on Reporting Category (SLFRS)



#### Analysis based on Financial Instruments (Nature of Financial Instruments)



The Group's Financial Investments are summarised by Categories as follows:

		Group		Company	
As at 31 December,		2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Held to maturity (HTM)	Note 21.1	227,727	222,929	227,727	222,929
Loans and receivables (L & R)	Note 21.2	781,297	615,526	522,610	511,651
Available - for - sale (AFS)	Note 21.3	7,481,233	3,743,413	6,374,199	3,743,413
Fair value through profit or loss (FVTPL)	Note 21.4	775,194	3,944,822	619,484	3,944,822
Derivative financial instrument (interest rate derivative)		-	41,256	-	41,256
<b>Total financial investments</b>		<b>9,265,451</b>	<b>8,567,946</b>	<b>7,744,020</b>	<b>8,464,071</b>

The majority of the Group's investments, i.e 47.5% (2014 - 46.4%) are in Government Securities. Corporate debt securities (which comprise quoted) account for further 15.3% of investments (2014 - 14.5%) and 29% in equities (2014 - 31%). The risk management practices adopted by the Group in relation to the investment portfolio and risk management disclosures are outlined on Note 39.2.

**21.a The following table compare the fair values of the Financial Investments to their carrying values:**

	Group				Company			
	2015		2014		2015		2014	
As at 31 December,	Carrying Value Rs. '000	Fair Value Rs. '000	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)	227,727	225,173	222,929	240,578	227,727	225,173	222,929	240,578
Loans and receivables (L & R)	781,297	781,297	615,526	615,526	522,610	522,611	511,651	511,651
Available - for - sale (AFS)	7,481,233	7,481,233	3,743,413	3,743,413	6,374,199	6,374,199	3,743,413	3,743,413
Fair value through profit or loss (FVTPL)	775,194	775,194	3,944,822	3,944,822	619,484	619,484	3,944,822	3,944,822
Derivative financial instrument	-	-	41,256	41,256	-	-	41,256	41,256
<b>Total financial investments</b>	<b>9,265,451</b>	<b>9,262,897</b>	<b>8,567,946</b>	<b>8,585,595</b>	<b>7,744,020</b>	<b>7,741,467</b>	<b>8,464,071</b>	<b>8,481,720</b>

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 provide disclosure of the Financial Investments based on Characterises of the each class of Instruments

**21.1 Held to Maturity (HTM)**

	Group				Company			
	2015		2014		2015		2014	
As at 31 December,	Carrying Value Rs. '000	Fair Value Rs. '000	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	227,727	225,173	222,929	240,578	227,727	225,173	222,929	240,578
	227,727	225,173	222,929	240,578	227,727	225,173	222,929	240,578

**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 financial instruments consist of Treasury Bonds.

## Notes to the Financial Statements

### 21.2 Loans and Receivables (L & R)

As at 31 December,	Group				Company				
	2015		2014		2015		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	Carrying Value Rs. '000	Fair Value Rs. '000	
<b>Debt Securities:</b>									
- Bank deposits	Note 21.2.a	40,762	40,762	14,286	14,286	-	-	14,286	14,286
- Debentures	Note 21.2.b	111,431	111,431	60,261	60,261	90,713	90,713	60,261	60,261
Overnight reverse repo		629,104	629,104	540,979	540,979	431,897	431,897	437,104	437,104
		781,297	781,297	615,526	615,526	522,610	522,610	511,651	511,651
<b>21.2.a Bank Deposits (L&amp;R)</b>									
Licensed Commercial Banks		40,762	40,762	14,286	14,286	-	-	14,286	14,286
		40,762	40,762	14,286	14,286	-	-	14,286	14,286
<b>21.2.b Debentures (L &amp; R)</b>									
Unlisted		111,431	111,431	60,261	60,261	90,713	90,713	60,261	60,261
		111,431	111,431	60,261	60,261	90,713	90,713	60,261	60,261

#### 21.2.c Impairment of L&R Financial Investments

At the reporting date, there were no Loans and Receivables that were overdue and impaired.

### 21.3 Available - for - Sale (AFS)

As at 31 December,	Group				Company				
	2015		2014		2015		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	Carrying Value Rs. '000	Fair Value Rs. '000	
<b>Debt Securities:</b>									
- Debentures	Note 21.3.a	1,227,459	1,227,459	1,094,522	1,094,522	1,127,542	1,127,542	1,094,522	1,094,522
Equity securities	Note 21.3.b	2,083,945	2,083,945	208,000	208,000	1,742,795	1,742,795	208,000	208,000
Treasury bonds		4,169,829	4,169,829	2,440,891	2,440,891	3,503,862	3,503,862	2,440,891	2,440,891
		7,481,233	7,481,233	3,743,413	3,743,413	6,374,199	6,374,199	3,743,413	3,743,413

## 21.3.a Debt Securities - Listed (AFS)

As at 31 December,	Group						Company					
	Maturity Date	Interest rate %	No of Debentures	2015		2014		2015		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	Carrying Value Rs. '000	Fair Value Rs. '000	
Sampath Bank PLC	11-10-2017	16.5%	144,300	17,681	17,681	18,888	18,888	17,681	17,681	18,888	18,888	
	14-12-2019	8.25%	500,000	50,465	50,465	50,197	50,197	50,465	50,465	50,197	50,197	
Seylan Bank PLC	21-02-2018	15.5%	100,000	11,820	11,820	13,011	13,011	11,820	11,820	13,011	13,011	
Urban Development Authority	15-10-2015	11.0%	250,000	-	-	24,337	24,337	-	-	24,337	24,337	
	15-10-2015	11.0%	250,000	-	-	24,418	24,418	-	-	-	-	
Lanka Orix Leasing Company	30-06-2016	11.9%	450,000	47,642	47,642	46,512	46,512	47,642	47,642	46,512	46,512	
Peoples Leasing and Finance PLC	26-03-2018	17.0%	500,000	61,424	61,424	59,554	59,554	61,424	61,424	59,554	59,554	
Merchant Bank of Srilanka PLC	27-03-2018	17.5%	469,300	54,074	54,074	56,940	56,940	54,074	54,074	56,940	56,940	
Senkadagala Finance PLC	27-05-2017	17.25%	185,014	19,420	19,420	21,888	21,888	19,420	19,420	21,888	21,888	
	10-12-2018	15.0%	817,653	88,273	88,273	97,628	97,628	88,273	88,273	97,628	97,628	
Softlogic Finance PLC	27-08-2016	16.0%	300,000	32,951	32,951	32,964	32,964	32,951	32,951	32,964	32,964	
	27-08-2016	17.0%	200,000	20,021	20,021	19,980	19,980	-	-	19,980	19,980	
	27-08-2016	17.0%	300,000	30,049	30,049	29,970	29,970	30,049	30,049	29,970	29,970	
Softlogic Holdings PLC	09-09-2016	15.75%	1,000,000	108,302	108,302	110,468	110,468	108,302	108,302	110,468	110,468	
	09-09-2016	15.75%	300,000	32,498	32,498	32,694	32,694	-	-	-	-	
Alliance Finance Company PLC	30-09-2018	16.5%	250,000	30,327	30,327	30,307	30,307	30,327	30,327	30,307	30,307	
Citizens Development Business Finance PLC	19-12-2018	16.0%	245,800	24,698	24,698	24,699	24,699	-	-	-	-	
	19-12-2018	16.0%	692,700	69,239	69,239	69,607	69,607	69,239	69,239	69,607	69,607	
First Capital Holdings PLC	12-03-2019	14.0%	262,640	28,982	28,982	28,945	28,945	28,982	28,982	28,945	28,945	
Kotagala Plantations PLC	26-05-2018	14.25%	463,750	46,364	46,364	46,355	46,355	46,364	46,364	46,355	46,355	
	26-05-2019	14.5%	463,750	46,362	46,362	46,347	46,347	46,362	46,362	46,347	46,347	
	26-05-2020	14.75%	463,750	46,359	46,359	46,345	46,345	46,359	46,359	46,345	46,345	
	28-05-2021	15.0%	463,750	46,358	46,358	46,344	46,344	46,358	46,358	46,344	46,344	
Hatton National Bank PLC	14-12-2024	8.33%	500,000	49,989	49,989	49,997	49,997	49,989	49,989	49,997	49,997	
	14-12-2019	7.75%	500,000	49,991	49,991	49,997	49,997	49,991	49,991	49,997	49,997	
	29-08-2023	8.0%	185,256	15,594	15,594	16,131	16,131	15,594	15,594	16,131	16,131	
Commercial Credit and Finance PLC	18-02-2018	20.0%	500,000	61,975	61,975	-	-	61,975	61,975	-	-	
First Capital Treasuries PLC	06-02-2020	9.5%	250,000	24,559	24,559	-	-	24,559	24,559	-	-	
Dunamis Capital PLC	05-08-2019	12.5%	798,000	89,342	89,342	-	-	89,342	89,342	-	-	
	05-08-2019	12.5%	202,000	22,700	22,700	-	-	-	-	-	-	
				1,227,459	1,227,459	1,094,522	1,094,522	1,127,542	1,127,542	1,094,522	1,094,522	

## 21.3.b Equity Securities (AFS)

As at 31 December,	Group						Company			
		2015		2014		2015		2014		
		Number of Shares	Fair Value Rs. '000	Number of Shares	Fair Value Rs. '000	Number of Shares	Fair Value Rs. '000	Number of Shares	Fair Value Rs. '000	
<b>Unlisted</b>										
<b>Banks, Finance and Insurance</b>										
Cargills Agrcultural Commercial Bank Limited		26,600,000	369,700	8,000,000	100,000	22,600,000	319,700	8,000,000	100,000	
<b>Listed</b>										
<b>Banks, Finance and Insurance</b>										
National Development Bank PLC	Note 21.3.d	8,151,700	1,582,245	-	-	6,651,700	1,291,095	-	-	
<b>Listed</b>										
<b>Health Care</b>										
Asiri Hospitals PLC		5,500,000	132,000	5,000,000	108,000	5,500,000	132,000	5,000,000	108,000	
<b>Total Investments in Equity Shares</b>			2,083,945		208,000		1,742,795		208,000	

## Notes to the Financial Statements

### 21.3.c Impairment of AFS Financial Investments

At the reporting date board of directors had assessed the impairment of investment in AFS financial instruments as specified in accounting policy and concluded that there is no potential impairment in any of the investment categorised as AFS.

### 21.3.d Re-classification of Equity Financial Investment

The company and group reclassified its investment in NDB's equity shares in to Available for Sale (AFS) from FVTPL category on 31 July 2015 as approved by the board of directors. Board of directors had resolved to reclassify the investment in NDB shares as it was decided the company will no longer hold the investment in NDB for the purpose of being sold in the near term. This decision was taken after considering the potential synergies that could be developed between NDB and companies in the financial sector within the Softlogic group including AAI PLC.

Details of reclassified amounts from FVTPL to AFS as at said date is as follows;

Description	Amount in Rs. million
Asian Alliance Insurance PLC (AAI PLC)	1,829
Asian Alliance General Insurance Limited (AA GI)	412
Total	2,241

Fair Value gain recorded in the Income Statement and other comprehensive income as at the beginning of the year, date of the reclassification and as at the year end are given below;

Details	Fair Value / Carrying Value			Impact to Statement of Income*			Impact to Other comprehensive income		
	AAI PLC (Rs million)	AA GI (Rs million)	Group (Rs million)	AAI PLC (Rs million)	AA GI (Rs million)	Group (Rs million)	AAI PLC (Rs million)	AA GI (Rs million)	Group (Rs million)
1 - Jan - 15**	1,661	374	2,035	-	-	-	-	-	-
31-Jul-15	1,829	412	2,241	168	38	206	-	-	-
31-Dec-15	1,291	291	1,582	-	-	-	(538)	(121)	(659)

\* Excluding Dividend Income

\*\* Subsequent to the segregation of the Company

Fair value loss of Rs. 659 million would have been recognised in the group Income statement if the Financial Investment had not been reclassified.

### 21.4 Fair Value Through Profit or Loss (FVTPL)

		Group				Company			
		2015		2014		2015		2014	
As at 31 December,		Carrying Value Rs. '000	Fair Value Rs. '000	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	Note 21.4.a	624,763	624,763	2,478,863	2,478,863	600,146	600,146	2,478,863	2,478,863
Treasury bonds		-	-	1,315,491	1,315,491	-	-	1,315,491	1,315,491
Unit trust		64,898	64,898	58,960	58,960	19,338	19,338	58,960	58,960
Debenture		85,533	85,533	91,508	91,508	-	-	91,508	91,508
		775,194	775,194	3,944,822	3,944,822	619,484	619,484	3,944,822	3,944,822

## 21.4.a Equity Securities (FVTPL)

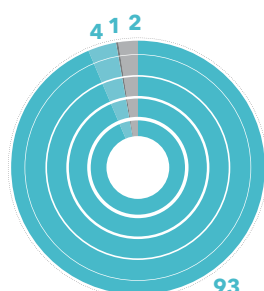
As at 31 December,	Group				Company			
	2015		2014		2015		2014	
	Number of Shares	Fair Value Rs. '000	Number of Shares	Fair Value Rs. '000	Number of Shares	Fair Value Rs. '000	Number of Shares	Fair Value Rs. '000
<b>Listed</b>								
<b>Banks, Finance and Insurance</b>								
Commercial Bank of Ceylon PLC (Non Voting)	-	-	504,482	63,111	-	-	504,482	63,111
Hatton National Bank PLC	22,443	4,726	22,443	4,374	22,443	4,726	22,443	4,374
Hatton National Bank PLC (Non Voting)	358,505	63,778	358,505	54,815	358,505	63,778	358,505	54,815
National Development Bank PLC	-	-	8,151,700	2,037,925	-	-	8,151,700	2,037,925
Seylan Bank PLC (Non Voting)	285,499	20,841	285,499	16,416	285,499	20,841	285,499	16,416
Union Bank of Colombo	6,067,256	122,559	5,827,256	147,430	6,067,256	122,559	5,827,256	147,430
Sector total		211,904		2,324,071		211,904		2,324,071
<b>Diversified Holdings</b>								
Aitken Spence PLC	-	-	114,269	11,827	-	-	114,269	11,827
Hemas Holdings PLC	904,950	84,070	-	-	904,950	84,070	-	-
John Keells Holdings PLC	789,419	140,596	-	-	789,419	140,596	-	-
Softlogic Holdings PLC	4,591,702	71,171	4,591,702	75,763	4,591,702	71,171	4,591,702	75,763
Sector total		295,837		87,590		295,837		87,590
<b>Land and Property</b>								
Overseas Reality Ceylon PLC	100,000	2,320	-	-	100,000	2,320	-	-
Sector total		2,320		-		2,320		-
<b>Power &amp; Energy</b>								
Panasian Power PLC	3,090,000	10,815	-	-	3,090,000	10,815	-	-
Sector total		10,815		-		10,815		-
<b>Telecommunications</b>								
Dailog Axiata PLC	868,600	9,294	868,600	11,552	-	-	868,600	11,552
Sector total		9,294		11,552		-		11,552
<b>Manufacturing</b>								
Alumex	880,610	15,323	3,500,000	55,650	-	-	3,500,000	55,650
Textured Jersey Lanka PLC	1,700,000	60,350	-	-	1,700,000	60,350	-	-
Chevron Lubricants Lanka PLC	55,000	18,920	-	-	55,000	18,920	-	-
Sector total		94,593		55,650		79,270		55,650
Total investments in listed equity shares		624,763		2,478,863		600,146		2,478,863

## Notes to the Financial Statements

Analysis of Equity Portfolio is as follows;

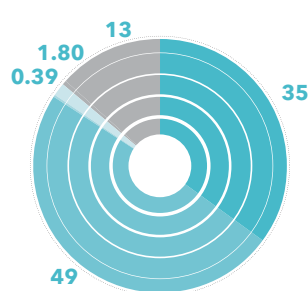
### Equity Securities 2014

(%)



### Equity Securities 2015

(%)



- Banks, Finance and Insurance
- Diversified Holdings
- Land and Property
- Power & Energy
- Telecommunications
- Manufacturing

## 21.5 Carrying Values of Financial Investments

### 21.5.a Movement of Financial Investments other than Derivative Financial Investments - Group

	Held to Maturity (HTM)	Loans 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
As at 1 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	-	-	(838,315)	(2,512,873)	(3,351,188)
Disposals	-	(6,291,824)	-	(4,009,009)	(10,300,833)
Fair value gains recorded in the income statement	-	-	-	327,935	327,935
Fair value gains recorded in the other comprehensive income	-	-	340,809	-	340,809
Amortisation adjustment	4,380	30,634	107,550	610,253	752,817
As at 31 December 2014	222,929	615,526	3,743,412	3,944,823	8,526,690
As at 1 January 2015	222,929	615,525	3,743,413	3,944,823	8,526,690
Purchases	-	226,167	5,419,266	1,869,225	7,514,659
Maturities	-	(153,817)	(27,564)	(270,769)	(452,150)
Disposals	-	-	(2,938,050)	(2,799,750)	(5,737,800)
Re - Classification	-	-	2,241,718	(2,241,718)	-
Fair value gains recorded in the statement of comprehensive income	-	-	-	100,578	100,578
Fair value gains recorded in the other comprehensive income	-	-	(1,105,298)	-	(1,105,298)
Amortisation adjustment	4,798	93,422	147,748	172,805	418,771
As at 31 December 2015	227,727	781,297	7,481,233	775,194	9,265,451



## 21.5.a Movement of Derivative Financial Investments - Group

	Held to Maturity (HTM)	Loans 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
<b>Movement of Financial Investment - Derivative</b>					
As at 1 January 2014	-	-	-	-	9,097
Purchases	-	-	-	-	-
Maturities	-	-	-	-	-
Disposals	-	-	-	-	-
Fair value gains recorded in the income statement	-	-	-	-	32,159
Fair value gains recorded in the other comprehensive income	-	-	-	-	-
Amortisation adjustment	-	-	-	-	-
As at 31 December 2014	-	-	-	-	41,256
As at 1 January 2015	-	-	-	-	41,256
Purchases	-	-	-	-	-
Maturities	-	-	-	-	-
Disposals	-	-	-	-	(41,256)
Fair value gains recorded in the income statement	-	-	-	-	-
Fair value gains recorded in the other comprehensive income	-	-	-	-	-
Amortisation adjustment	-	-	-	-	-
As at 31 December 2015	-	-	-	-	-

## 21.5.b Movement of Financial Investments other than Derivative Financial Investments - Company

	Held to Maturity (HTM)	Loans & 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
As at 1 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 income statement	-	-	-	327,935	327,935
Fair value gains recorded in the other comprehensive income	-	-	340,809	-	340,809
Amortisation adjustment	4,380	30,635	107,550	610,156	752,720
As at 31 December 2014	222,929	511,652	3,743,414	3,944,821	8,422,816
As at 1 January 2015	222,929	511,652	3,743,414	3,944,821	8,422,816
Purchases	-	216,945	4,710,333	1,854,276	6,781,554
Maturities	-	-	(27,564)	(270,769)	(298,333)
Transfer due to segregation	-	(308,630)	(151,794)	(1,190,789)	(1,651,213)
Disposals	-	-	(2,938,050)	(2,159,437)	(5,097,487)
Re-Classification	-	-	1,829,218	(1,829,218)	-
Fair value gains recorded in the statement of comprehensive income	-	-	-	82,846	82,846
Fair value gains recorded in the other comprehensive income	-	-	(948,328)	-	(948,328)
Amortisation adjustment	4,797	102,644	156,970	196,520	460,931
As at 31 December 2015	227,726	522,611	6,374,199	619,484	7,744,020

## Notes to the Financial Statements

### 21.5.b Movement of Derivative Financial Investments - Company contd.

	Held to Maturity (HTM)	Loans 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 Investment - Derivative					
As at 1 January 2014	-	-	-	-	9,097
Purchases	-	-	-	-	-
Maturities	-	-	-	-	-
Disposals	-	-	-	-	-
Fair value gains recorded in the income statement	-	-	-	-	32,159
Fair value gains recorded in the other comprehensive income	-	-	-	-	-
Amortisation adjustment	-	-	-	-	-
As at 31 December 2014	-	-	-	-	41,256
As at 1 January 2015	-	-	-	-	41,256
Purchases	-	-	-	-	-
Maturities	-	-	-	-	-
Transfer due to segregation	-	-	-	-	(13,810)
Disposals	-	-	-	-	(27,446)
Fair value gains recorded in the income statement	-	-	-	-	-
Fair value gains recorded in the other comprehensive income	-	-	-	-	-
Amortisation adjustment	-	-	-	-	-
As at 31 December 2015	-	-	-	-	-

**21.5.c** Methodologies and assumption used to determined fair value of the financial investments are disclosed in Note 39.2.3 on page 332 to the Financial Statements.

### 21.5.d Disclosure of Financial Risk

The Group's exposure to Credit, Currency and Interest rate risks related to investments are disclosed in Note 39.4 on page 335 to the Financial Statements.

### 21.5.e Financial Investments pledged as security

Except for Cargills Bank equity shares other Financial Investments are not pledged as a security as at the reporting date.

## 22 LOANS TO LIFE POLICYHOLDERS AND OTHER LOANS

	Group		Company	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
As at 31 December,				
Loans to Life policyholders	141,778	133,846	141,778	133,846
Loans to employees	3,536	-	1,862	-
Total	145,314	133,846	143,640	133,846
<b>22.1 Loans to Life Policyholders</b>				
Balance as at 1 January	133,846	106,049	133,846	106,049
Loans granted during the year	41,171	41,084	41,171	41,084
Repayments during the year	(55,902)	(32,008)	(55,902)	(32,008)
	119,115	115,125	119,115	115,125
Interest Receivable	22,663	18,721	22,663	18,721
Total	141,778	133,846	141,778	133,846

### 22.1.a Collateral details

The surrender value of the policy loans granted to Policyholders as at 31 December 2015 amount exceeded its carrying value as at reporting date which is amounting to Rs. 94million.

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 39.5.

The Company grants policy loans at a rate equivalent to the market rate, hence initial recognition is at Fair Value.

### 22.2 Impairment of Loans to Life Policyholder and Others

The Board of Directors has assessed potential impairment loss as at 31 December 2015. 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.

### 22.3 Loans to the Directors

No Loans have been granted to the Directors of the Company / Group as at reporting date (2014 -Nil).

## 23 REINSURANCE RECEIVABLES

	Group		Company	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
As at 31 December,				
Reinsurance receivable on outstanding claims	103,417	134,616	56,631	134,616
Reinsurance receivable on settled claims net of dues	18,752	25,096	6,012	25,096
Total Receivable arising from reinsurance contracts	122,169	159,712	62,643	159,712

### 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.

## Notes to the Financial Statements

### 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 31 December 2015. 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 page 327 for Reinsurer rating analysis.

### 23.4 The Carrying value of reinsurance receivables approximate the fair value at the reporting date.

## 24 PREMIUM RECEIVABLES

This details the insurance premium receivables from customers and intermediaries  
Refer Note 4.5.1.2.d for the Accounting Policies

		Group		Company	
As at 31 December,		2015	2014	2015	2014
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
General insurance	Note 24.1	483,721	410,027	-	410,027
Life insurance	Note 24.2	67,274	50,169	67,274	50,169
		550,995	460,196	67,274	460,196
<b>24.1 General Insurance</b>					
Receivable from policyholders		455,473	382,238	-	382,238
Less Impairment		(6,182)	-	-	-
		449,291	382,238	-	382,238
Receivable from related parties	Note 24.1.1	34,430	27,789	-	27,789
Premium receivable net of impairment		483,721	410,027	-	410,027
<b>24.1.1 Premium Receivables from Related Parties</b>					
Softlogic Holdings PLC		4,752	2,384	-	2,384
Softlogic Information Technologies ( Pvt) Limited		255	209	-	209
Softlogic City Hotels ( Pvt) Limited		53	-	-	-
Softlogic Mobile Distribution (Pvt) Limited		797	-	-	-
Softlogic Computers (Pvt) Limited		73	88	-	88
Softlogic Stockbrokers (Pvt) Limited		64	-	-	-
Softlogic Communication Services (Pvt) Limited		209	584	-	584
Softlogic Finance PLC		9,366	14,469	-	14,469
Softlogic Retail (Pvt) Limited		729	1,506	-	1,506
Future Automobiles (Pvt) Limited		1,112	554	-	554
Softlogic Automobiles (Pvt) Limited		482	-	-	-
Softlogic International (Pvt) Limited		(456)	30	-	30
Softlogic Restaurants (Pvt) Limited		758	-	-	-
Softlogic BPO Services (Pvt) Limited		312	-	-	-
Softlogic Brands (Pvt) Limited		4,524	-	-	-
Asiri Surgical Hospitals PLC		2,547	2,061	-	2,061
Asiri Hospitals PLC		2,856	4,391	-	4,391
Central Hospitals (Pvt) Limited		3,651	14	-	14
Ceysand Resorts Ltd		(204)	1,473	-	1,473
Odel PLC		2,550	26	-	26
		34,430	27,789	-	27,789

**24.2 Life Insurance**

	Group		Company	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
As at 31 December,				
Receivable from policyholders	67,274	50,169	67,274	50,169
	67,274	50,169	67,274	50,169

The Company has opted to record the Life Insurance premium on an accrual basis in terms of Sri Lanka Financial Reporting Standard No.4 - Insurance Contracts from the year ended 31 December 2013. The Life Insurance premiums for policies within 30 day grace period are considered as due premium.

**24.3 Impairment of Premium Receivables**

The Board of Directors has assessed potential impairment loss of Premium Receivables as at 31 December 2015. Based on the assessment, Rs. 6.1 million was recognised as potential impairment provision as at 31 December 2015 (2014 - Nil) 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 Group has a large number of dispersed debtors. Please refer page 342 to the Financial Statements for more information.

**25 AMOUNTS DUE FROM RELATED COMPANIES**

This details the receivables from group companies

**25.a AMOUNTS DUE FROM RELATED COMPANIES-GROUP**

	2015 Rs. '000	2014 Rs. '000
Soft Logic Capital PLC	708	505
Soft Logic Stockbrokers (Pvt) Ltd	157	157
	865	662

**25.b Amounts Due From Related Companies-Company**

	2015 Rs. '000	2014 Rs. '000
Soft Logic Capital PLC	477	505
Soft Logic Stockbrokers (Pvt) Ltd	157	157
Asian Alliance General Insurance Ltd	-	1,382
	634	2,044

## Notes to the Financial Statements

### 26 RECEIVABLES AND OTHER ASSETS

This details the other receivables from customers and intermediaries  
Refer Note 4.5.1.2.d for the Accounting Policies

	Group		Company	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
As at 31 December,				
Financial assets				
Refundable deposits	11,122	10,311	5,777	10,111
Total financial assets	11,122	10,311	5,777	10,111
<b>Non Financial Assets</b>				
Inventories	23,996	16,604	22,559	16,604
Tax recoverable	Note 26.1.a	241,278	192,855	206,357
Advances and prepayments	83,023	52,225	72,018	52,225
Others	74,926	55,725	61,581	55,725
Total non financial assets	423,223	330,911	349,013	330,911
Total	434,345	341,222	354,790	341,022
<b>26.1.a Tax Recoverable</b>				
WHT receivable	54,917	55,560	43,266	55,560
ESC receivable	2,140	1,988	-	1,988
Notional tax recoverable	Note 26.1.b	184,221	149,589	148,809
		241,278	192,855	206,357
<b>26.1.b Notional tax on Government Securities</b>				
Balance as at 1 January	148,809	161,812	148,809	161,812
Transfer due to segregation	-	-	(36,451)	-
Notional tax addition during the year	43,300	34,880	37,231	34,880
Notional tax utilised during the year	(7,888)	(47,883)	-	(47,883)
Balance as at 31 December	184,221	148,809	149,589	148,809

#### 26.1.c 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.

### 26.2 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 Notes 39.4 and 39.5.

### 27 INSURANCE CONTRACT- DEFERRED EXPENSES-GROUP

Refer Note 4.23 for the Accounting Policies

	2015 Rs. '000	2014 Rs. '000
At 1 January	100,956	89,304
Acquisition cost	233,134	170,128
Amortisation	(208,168)	(158,476)
Total	125,922	100,956

### 27.1 Impairment of Carrying Value of DAC

The Board of Directors has assessed potential impairment of DAC as at 31 December 2015. 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

Refer Note 4.30 for the Accounting Policies

	Group		Company	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
As at 31 December,				
Cash in hand	4,221	3,915	3,739	3,915
Cash at bank	219,715	126,368	188,379	126,340
	223,936	130,283	192,118	130,255
Bank overdraft	733,143	319,305	361,264	319,305
Net	(509,207)	(189,022)	(169,146)	(189,050)

### 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 page 343 to the Financial Statements.

## 29 STATED CAPITAL

As at 31 December,	2015		2014	
	Number of Shares	Rs. '000	Number of Shares	Rs. '000
At the beginning of the year - 37,500,000 and during the year increased to 375,000,000*	375,000,000	1,062,500	37,500,000	1,062,500
	375,000,000	1,062,500	37,500,000	1,062,500

\* At an Extraordinary General Meeting held on 20 July 2015, the shareholders approved a sub division of the Company shares, whereby one (1) existing share was sub divided to ten (10), thereby increasing the ordinary shares in issue from 37,500,000 to 375,000,000 ordinary shares.

### 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 the meetings of the Company.

## Notes to the Financial Statements

### 30 AVAILABLE FOR SALE RESERVES

	Group		Company	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
As at 31 December,				
Balance as at 1 January	455,472	114,663	455,472	114,663
Adjustment from unrealised (losses) / gains on AFS assets	(1,037,480)	423,658	(879,821)	423,658
Net changes in AFS assets transferred to statement of comprehensive income	(67,818)	(82,849)	(68,507)	(82,849)
Transfer due to segregation	-	-	(2,267)	-
Related tax	9,386	-	-	-
<b>Total AFS reserve</b>	<b>(640,440)</b>	<b>455,472</b>	<b>(495,123)</b>	<b>455,472</b>

#### 30.1 Nature and purpose of reserves

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	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Balance as at 1 January	855,693	654,531	853,022	654,531
Profit for the year	924,309	755,281	992,562	752,110
Recognition of defined benefit plan actuarial (losses) - net of tax	(3,641)	1,381	71	1,381
Dividend paid	-	(555,000)	-	(555,000)
Share issue cost	-	(500)	-	-
	<b>1,776,361</b>	<b>855,693</b>	<b>1,845,655</b>	<b>853,022</b>

### 32. LIFE INSURANCE CONTRACT LIABILITIES - GROUP/COMPANY

Refer Note 4.14.1 for the Accounting Policies

As at 31 December,		2015 Rs. '000	2014 Rs. '000
Life insurance fund	Note 32.1	5,966,015	4,999,563
Claims payable		226,600	224,132
		<b>6,192,615</b>	<b>5,223,695</b>



### 32.1 Movement in Life Insurance Fund

	Insurance Contract Liabilities (Gross) Rs. '000	Reinsurance Rs. '000	Net Rs. '000
At 1 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 transferred to shareholders	(536,876)	-	(536,876)
Increase in life insurance fund	1,258,269	(5,170)	1,253,099
Balance as at 31 December 2014	5,004,733	(5,170)	4,999,563
At 1 January 2015	4,999,563	-	4,999,563
Change in contract liabilities life fund			
Premiums received	4,091,042	(501,471)	3,589,571
Liabilities released for payments on death, surrender and other terminations in the year	(684,895)	251,155	(433,740)
Net finance and other income	699,250	-	699,250
Net acquisition and other expenses	(2,078,629)	-	(2,078,629)
Surplus transferred to shareholders	(810,000)	-	(810,000)
Increase in life insurance fund	1,216,768	(250,316)	966,452
Balance as at 31 December 2015	6,216,331	(250,316)	5,966,015

### 32.2 Valuation of Life Insurance Fund

Long duration contract liabilities included in the Life insurance fund, results 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 31 December 2015 was made by Mr. M. Poopalanathan, AIA Messers of Actuarial and Management Consultants (Pvt) Ltd, who recommended a sum of Rs.810 million to be transferred from Life Insurance fund to the Shareholders fund for the year ended 2015. Subsequent to the transfer the conventional life fund stands as Rs. 5,966 million, including the liability in respect of bonuses and dividends declared up to and including for the year 2015.

#### Solvency Margin

In the opinion of the consultant actuary, the Admissible Assets of the Life Insurance fund as at 31 December 2015 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.

## Notes to the Financial Statements

### 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 31 December 2015 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 31 December 2015. No additional provision was required against the LAT as at 31 December 2015.

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 31 December 2015.

No additional provision was required against the LAT as at 31 December 2015.

### 33 INSURANCE CONTRACT LIABILITIES - GENERAL

Refer Note 4.14.2 for the Accounting Policies

The General Insurance Contract liability as shown in the Statement of Financial Position represents the following:

As at 31 December,		2015 Rs. '000	2014 Rs. '000
Reserves for net unearned premium	Note 33.2.a&b	1,033,457	845,323
Claims payable including IBNR provision	Note 33.3/33.4	288,554	293,371
Provision for Premium Deficiency		-	-
		1,322,011	1,138,694

### 33.1 Movement in Insurance Contract Liabilities - General

		Insurance Contract Liabilities (Gross) Rs. '000	Reinsurance Rs. '000	Net Rs. '000
As at 31 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 unearned premium	Note 33.2.a	959,482	(114,159)	845,323
Total net liabilities as at 31 December 2014		1,252,853	(178,035)	1,074,818
As at 31 December 2015				
Claims payable	Note 33.3	199,796	(46,786)	153,010
Reserve for IBNR and IBNER		88,758	-	88,758
Total outstanding claims provision		288,554	(46,786)	241,768
Reserves for unearned premium	Note 33.2.b	1,091,071	(57,614)	1,033,457
Total net liabilities as at 31 December 2015		1,379,625	(104,400)	1,275,225

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
<b>33.2.a At 1 January 2014</b>	850,483	(85,825)	764,658
Premium written during the year	1,725,147	(321,008)	1,404,139
Premium earned during the year	(1,616,148)	292,674	(1,323,474)
Balance as at 31 December 2014	959,482	(114,159)	845,323

### 33.2.b At 1 January 2015

	959,482	(114,159)	845,323
Premium written during the year	1,977,002	(191,077)	1,785,925
Premium earned during the year	(1,845,413)	247,622	(1,597,791)
Balance as at 31 December 2015	1,091,071	(57,614)	1,033,457

As at 31 December,	2015 Rs. '000	2014 Rs. '000
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### 33.3 Claims Payable including IBNR Provision

Balance as at 1 January	215,996	102,210
Claims approved during the year	1,269,900	1,293,519
Claims paid during the year	(1,286,100)	(1,179,733)
Balance as at 31 December	199,796	215,996

### 33.4 Reserve for IBNR and IBNER

Balance as at 1 January	77,375	54,352
Provision made during the year	11,383	23,023
Balance as at 31 December	88,758	77,375

### 33.5 Liability Adequacy Test

A Liability Adequacy Test ("LAT") for General insurance contract liability was carried out by Mr. Mathew Maguire, FIAA for and on behalf of NMG Financial Services Consulting Pvt Limited as at 31 December 2015 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 31 December 2015.

No additional provision was required against the LAT as at 31 December 2015.

## Notes to the Financial Statements

### 33.6 Valuation of IBNR and IBNER

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

The Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) claims Reserves as at 31 December 2015 has been actuarially computed by Mr. Matthew Maguire, FIAA, for and on behalf of NMG Financial Services Consulting Pte Limited.

The valuation is based on internationally accepted actuarial methods and is performed on a semi annual basis.

### 33.7 Changes in Assumption

There were no estimation changes from valuation previous valuation done on 31 December 2015.

		2015 Rs. '000	2014 Rs. '000
<b>33.8 Technical Reserves</b>			
Total General insurance contract liabilities	Note 33	1,322,011	1,138,694
Differed acquisition cost (net)		(115,184)	(75,178)
Reinsurance receivable on outstanding claims		(46,786)	(63,876)
		1,160,041	999,640

## 34 EMPLOYEE BENEFITS

Refer Note 3.3 for the Accounting Policies

### 34.1 Defined Contribution Plans

Following contributions have been made to Employees Provident Fund and Employee Trust Fund during the year.

	Group		Company	
As at 31 December,	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Employees' Provident Fund				
- Employer's contribution (12%)	50,180	41,309	33,176	41,309
- Employees' contribution (8%)	33,453	27,539	22,117	27,539
Employees' Trust Fund (ETF)	12,545	10,327	8,294	10,327

### 34.2 Defined Benefit Plans-Provision for Employee Benefits

This shows the movement in the present value of the Employee benefits

Present value of unfunded obligation	Note 34.2.1	63,358	53,028	45,796	53,028
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#### 34.2.1 Movement in the present value of Employee Benefits

Defined benefit obligations as at 1 January		53,028	46,154	53,028	46,154
Transfers due to segregation		-	-	(10,361)	-
Expenses recognised in income statement	Note 34.2.1.a	14,143	13,429	10,639	13,429
Actuarial (gains) / losses in other comprehensive income	Note 34.2.1.b	5,084	(1,381)	(71)	(1,381)
Payments during the year		(8,896)	(5,174)	(7,438)	(5,174)
		63,358	53,028	45,796	53,028

## 34.2.1.a Expenses recognised in Income Statement

	Group		Company	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
As at 31 December,				
Interest cost	4,773	5,076	3,841	5,076
Current service costs	9,370	8,353	6,798	8,353
	14,143	13,429	10,639	13,429

## 34.2.1.b Actuarial (gains)/ losses in Statement of profit or loss and other comprehensive income

Recognised (gain) / loss during the year	5,084	(1,381)	(71)	(1,381)
	5,084	(1,381)	(71)	(1,381)

Up-to the year ended 31 December 2012, the Company recognised all actuarial gains or losses arising from defined benefit plans immediate against profit or loss in the Income Statement including all expenses related to defined plans in employee benefit expenses. With the adoption of revised LKAS-19 Employee Benefits which became effective from 1 January 2013, the re-measurement of the net defined benefit liability, which comprise actuarial gains and losses are recognised in Statement of Profit or Loss and Other Comprehensive Income.

## 34.3 Valuation of Employee benefit Obligation

As at 31 December 2015 the Gratuity Liability was actuarially valued under the Projected Unit Credit (PUC) method by Mr. M. Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Limited. The valuation is performed annually.

## 34.4 Principal assumptions used - Group &amp; Company

As at 31 December,	2015	2014
Discount rate	10%	9%
Future salary increase rate	7%	7%
Staff turnover rate AAI PLC	16%	3%
AA GI	29%	3%
Normal retirement age	55 Years	55 Years

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

## 34.5 Maturity analysis of the payments

	Group	Company
	2015 Rs. '000	2015 Rs. '000
As at 31 December,		
Within next 12 months	17,795	13,538
Between 1 to 2 years	14,002	10,070
Between 2 to 5 years	16,773	8,810
Between 5 to 10 years	11,456	10,365
More than 10 years	3,332	3,013
	63,358	45,796
Weighted average duration of defined benefit obligation	AAI PLC	4.22 Years
	AA GI	2.99 Years

## Notes to the Financial Statements

### 34.6 Sensitivity of assumptions used in Actuarial Valuation

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions used with all other variables held constant in the employment benefit liability measurement.

Increase /(Decrease) in discount rate	Increase /(Decrease) in salary increment	2015			
		Group	Company	Group	Company
		Effect on Employee defined benefit liability	Employee defined benefit Liability		
1%	-	(2,152)	(1,687)	61,206	44,109
-1%	-	2,325	1,835	65,683	47,631
-	1%	2,557	1,996	65,915	47,792
-	-1%	(2,396)	(1,857)	60,962	43,939

### 34.7 Gratuity Liability is not externally funded

### 35 REINSURANCE PAYABLE

As at 31 December,	Group		Company	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
At 1 January	131,308	137,583	131,308	137,583
Transfer due to segregation	-	-	(116,603)	-
Arising during the year	692,550	552,563	501,471	552,563
Utilised	(683,912)	(821,454)	(423,204)	(821,454)
Balance as at 31 December	139,946	131,308	92,972	131,308

### 36 DEFERRED REVENUE

At 1 January	25,779	17,820	25,779	17,820
Transfer due to segregation	-	-	(25,779)	-
Commission income	42,129	122,672	-	122,672
Amortisation	(57,170)	(114,713)	-	(114,713)
Balance as at 31 December	10,738	25,779	-	25,779

**37 OTHER LIABILITIES**

Refer Note 4.16 for the Accounting Policies

	Group		Company	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
As at 31 December,				
Other financial liabilities				
Commission payable	226,112	195,935	167,856	195,935
Premium deposit	81,914	58,759	81,928	58,759
Accruals & other payables	161,717	602,708	119,214	602,658
Finance lease liability Note 37.1	13,253	-	13,253	-
	482,996	857,402	382,251	857,352
Other non financial liabilities				
Tax and other statutory payables	13,970	14,852	484	14,852
	13,970	14,852	484	14,852
Total other liabilities	496,966	872,254	382,735	872,204
Current	496,966	872,254	382,735	872,204
Non Current	-	-	-	-

**37.1 Finance Lease Liability**

Finance lease liability is payable as follows.

	Future minimum lease payment		Interest		Present Value of minimum lease payment	
	2015	2014	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Less than one year	2,168	-	890	-	3,058	-
Between one and five years	8,791	-	1,404	-	10,195	-
	10,959	-	2,294	-	13,253	-

**38 SHORT TERM BORROWINGS**

	Group		Company	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Three months term loan-Nation Trust Bank	269,700	-	269,700	-
Commercial Papers - Softlogic Finance	-	154,483	-	154,483
	269,700	154,483	269,700	154,483

**38.a Terms and Repayment Schedule**

	Nominal Interest Rate	Date of Maturity	2015	Fair Value	2014	Fair Value
			Carrying Value Rs. '000	Rs. '000	Carrying Value Rs. '000	Rs. '000
Secured short term loan	8.72%	29-Feb-2016	269,700	269,700	-	-
Unsecured short term loan	9%	20-Jan-2015	-	-	52,043	52,043
Unsecured short term loan	9%	4-Jan-2015	-	-	102,440	102,440
			269,700	269,700	154,483	154,483

Equity share investment of Cargills Bank has been pledged as a security for short term loan obtain from Nations Trust Bank PLC during the year

## Insurance and Financial Risk Management and Fair Value Disclosures

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## Notes to the Financial Statements

### 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:

#### RISK LANDSCAPE OF AAI



## Notes to the Financial Statements

### 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 216 to 221 of this Annual Report 2015.

### 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.

#### 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"> <li>• Continuous training for underwriting staff</li> <li>• Adherence to the Social and Environmental Policy at the time of underwriting</li> <li>• Establishing a clearly defined Pricing Policy</li> <li>• Establishing limits for underwriting authority</li> </ul>
Product Mix	<ul style="list-style-type: none"> <li>• Aligning product mix with the overall strategy of the Company.</li> <li>• Aligning performance incentives of sales staff to maintain desired product mix</li> <li>• Frequent monitoring and reporting of product mix by the respective operations</li> <li>• Constant monitoring and comparison of competitor products</li> </ul>
Re-insurance	<ul style="list-style-type: none"> <li>• Reviewing the Company's reinsurance strategy and arrangements on an annual basis. The strategy is presented to and approved by the Board Risk Committee.</li> <li>• Conducting detail studies on the adequacy of reinsurance arrangements for catastrophic events.</li> <li>• Ensuring that reinsurance transactions are conducted with parties which meet IBSL rating requirements.</li> <li>• Ensuring minimum concentration amongst reinsurance parties.</li> </ul>

Risks encountered by the Group 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 administration policies are higher than expected.

#### 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.

## Notes to the Financial Statements

### 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

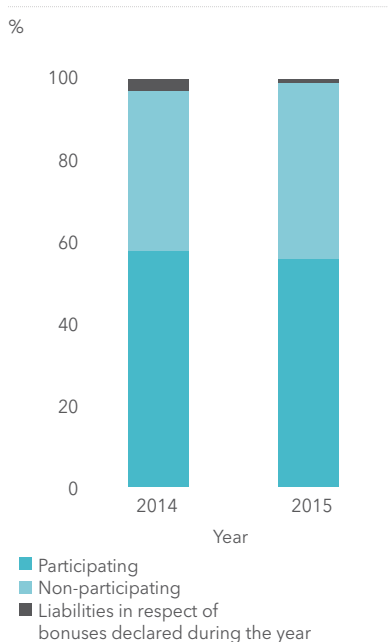
Risk of exposure to increased losses as a result of inadequately diversified portfolios of assets and /or obligations.

#### 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 Description	31-Dec-15		31-Dec-14	
	Insurance Contract Liabilities Rs. '000	% Share	Insurance Contract Liabilities Rs. '000	% Share
Participating	3,338,034	56%	2,890,014	58%
Non - participating	2,562,387	43%	1,939,805	39%
Liabilities in respect of bonuses declared during the year	65,594	1%	169,743	3%
<b>Total</b>	<b>5,966,015</b>	<b>100%</b>	<b>4,999,562</b>	<b>100%</b>

### 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.

Assumption	31-Dec-15 Change in Assumptions	Impact on Liabilities Rs'000
Mortality	+10%	56,812
	-10%	(57,664)
Morbidity	+10%	51,298
	-10%	(51,298)
Discount Rate	+50 basis points	(163,112)
	-50 basis points	171,498

Assumption	31-Dec-14 Change in Assumptions	Impact on Total 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

## 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.

## Notes to the Financial Statements

### 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.

#### 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.

	2015 Rs.'000	2014 Rs.'000
+1% in claim ratio		
Net impact to profit after tax	11,954	12,361
Impact to net assets	(11,954)	(12,361)

### 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.

**Statistics**

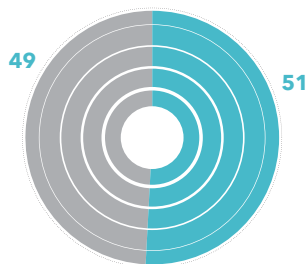
Concentration Risk of GWP by Business Class

Class	2015			
	Gross Written Premium	Reinsurance	Net Written Premium	%
Motor	1,247	22	1,225	69%
Fire	96	85	11	1%
Marine	59	45	14	1%
Miscellaneous and Medical	561	40	521	29%
	1,962	191	1,771	
<b>Motor/Non Motor composition</b>				
Motor	1,247	22	1,225	69%
Non Motor	716	170	546	31%
	1,962	191	1,771	

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%
	1,725	321	1,404	
<b>Motor/Non Motor composition</b>				
Motor	887	72	815	58%
Non Motor	838	249	589	42%
	1,725	321	1,404	

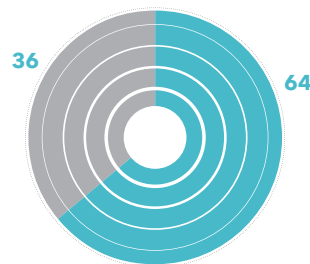
**Motor & Non Motor GWP Composition 2014**

(%)



**Motor & Non Motor GWP Composition 2015**

(%)



■ Motor  
■ Non Motor

## Notes to the Financial Statements

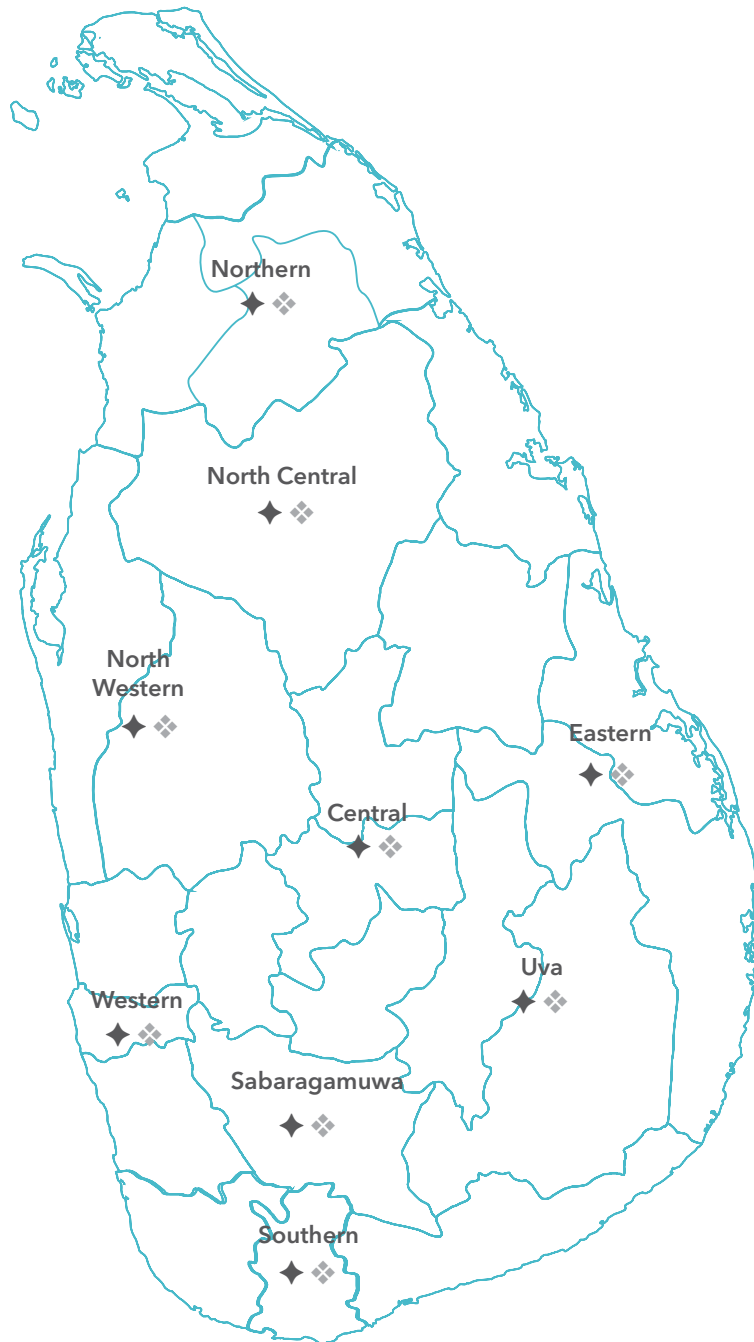
The concentration of exposure via the Motor Insurance by province and the concentration of exposure via the Fire Insurance by province is given below.

◆  
The concentration of exposure via the Motor Insurance by province

Western	70.9%
Central	9.5%
Northern	0.1%
North Central	2.9%
North Western	4.9%
Eastern	0.7%
Uva	0.5%
Sabaragamuwa	5.3%
Southern	5.1%

◆  
The concentration of exposure via the Fire Insurance by province

Western	75.9%
Central	8.7%
Northern	0.3%
North Central	1.9%
North Western	7.6%
Eastern	0.6%
Uva	0.6%
Sabaragamuwa	2.7%
Southern	1.7%





## 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 2015 are given below.

Name of the Reinsurer	Credit Rating	Name of Rating Agency
Asia Capital Re	A-	AM Best
GIC of India	A-	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	A+	S & P
Trust International	A-	AM Best
Emirates International	A-	AM Best
Canapius Asia	A+	AM Best

Counter-party 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. 122 million as at 31 December, 2015 (2014-Rs.160 million). This mainly consists of reinsurance receivable on paid claims amounting to Rs.18 million (2014-Rs.25 million) and reinsurance share of claim reserve (receivables on outstanding claims) of Rs.103 million as at 31 December 2015. (2014-Rs.135 million).

Maintaining a professional relationship with reinsurers

No cover is issue without confirmation from reinsurance unless non reinsurance business.

## Notes to the Financial Statements

### 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.

#### 39.2.1 Accounting classifications and fair values-Group

The table below sets out the carrying amounts and fair values of Group's financial assets and financial liabilities.

##### 39.2.1.a Financial Assets

As at 31 December

	Note	2015				Total	Fair Value
		Carrying Amount					
		Fair value through profit or loss (FVTPL)	Held to Maturity (HTM)	Loans and Available for Receivable (L&R)	Loans and Available for Sale (AFS)		
		Rs. '000	Rs. '000	Rs. '000	Rs. '000		
Financial investments							
- Measured at fair value	21.3 & 21.4	775,194	-	-	7,481,233	8,256,427	8,256,427
- Measured at amortised cost	21.1 & 21.2	-	227,727	781,297	-	1,009,023	1,006,470
Loans to Life policy holders and others	22	-	-	145,314	-	145,314	145,314
Reinsurance receivables	23	-	-	122,169	-	122,169	122,169
Premium receivables	24	-	-	550,995	-	550,995	550,995
Amounts due from related companies	25	-	-	865	-	865	865
Receivables and other assets	26	-	-	11,122	-	11,122	11,122
Cash and cash equivalents	28	-	-	223,936	-	223,936	223,936
<b>Total financial assets</b>		<b>775,194</b>	<b>227,727</b>	<b>1,835,698</b>	<b>7,481,233</b>	<b>10,319,851</b>	<b>10,317,298</b>

##### 39.2.1.b Financial Liabilities

As at 31 December

		2015		Fair Value
		Carrying Value		
		Other Financial Liabilities	Total	
		Rs. '000	Rs. '000	Rs. '000
Reinsurance payable	35	139,946	139,946	139,946
Short-term borrowings	38	269,700	269,700	269,700
Bank overdraft	28.1	733,143	733,143	733,143
Other financial liabilities	37	482,996	482,996	482,996
<b>Total financial liabilities</b>		<b>1,625,785</b>	<b>1,625,785</b>	<b>1,625,785</b>

2014  
Carrying Amount

Fair value through profit or loss (FVTPL)	Held to Maturity (HTM)	Loans and Receivable (L&R)	Available for Sale (AFS)	Total	Fair Value
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
3,986,078	-	-	3,743,413	7,729,491	7,688,235
-	222,929	615,526	-	838,455	897,360
-	-	133,846	-	133,846	-
-	-	159,712	-	159,712	-
-	-	460,196	-	460,196	-
-	-	662	-	662	-
-	-	10,311	-	10,311	-
-	-	130,283	-	130,283	-
3,986,078	222,929	1,510,536	3,743,413	9,462,956	8,585,595

2014 Carrying Value		Fair Value
Other Financial Liabilities	Total	
Rs. '000	Rs. '000	Rs. '000
131,308	131,308	131,308
154,483	154,483	154,483
319,305	319,305	319,305
857,402	857,402	857,402
1,462,498	1,462,498	1,462,498

## Notes to the Financial Statements

### 39.2.2 Accounting classifications and fair values-Company

The table below sets out the Carrying amounts and fair values of Company's financial assets and financial liabilities.

#### 39.2.2.a Financial Assets

As at 31 December

	Note	2015 Carrying Value				Total Rs. '000	Fair Value Rs. '000
		Fair value through profit or loss (FVTPL) Rs. '000	Held to Maturity (HTM) Rs. '000	Loans and Receivable (L&R) Rs. '000	Available for Sale (AFS) Rs. '000		
<b>Financial investments</b>							
- Measured at fair value	21.3 & 21.4	619,484	-	-	6,374,199	6,993,683	6,993,683
- Measured at amortised cost	21.1 & 21.2	-	227,726	522,611	-	750,337	747,784
Loans to life policy holders and others	22	-	-	143,640	-	143,640	143,640
Reinsurance receivables	23	-	-	62,643	-	62,643	62,643
Premium receivables	24	-	-	67,274	-	67,274	67,274
Amounts due from related companies	25	-	-	634	-	634	634
Receivables and other assets	26	-	-	5,777	-	5,777	5,777
Cash and cash equivalents	28	-	-	192,118	-	192,118	192,118
<b>Total financial assets</b>		<b>619,484</b>	<b>227,726</b>	<b>994,697</b>	<b>6,374,199</b>	<b>8,216,106</b>	<b>8,214,553</b>

#### 39.2.2.b Financial Liabilities

As at 31 December

		2015 Carrying Value		Fair Value Rs. '000
		Other Financial Liabilities Rs. '000	Total Rs. '000	
Reinsurance payable	35	92,972	92,972	92,972
Short-term borrowings	38	269,700	269,700	269,700
Bank overdraft	28.1	361,264	361,264	361,264
Other financial liabilities	37	382,251	382,251	382,251
<b>Total financial liabilities</b>		<b>1,106,187</b>	<b>1,106,187</b>	<b>1,106,187</b>

The Group's exposure to interest rate risk and a sensitivity analysis for Financial Assets and Liabilities are disclosed in Note 39.4.1.a

2014

2014					Fair Value
Carrying Value					
Fair value through profit or loss (FVTPL)	Held to Maturity (HTM)	Loans and Receivable (L&R)	Available for Sale (AFS)	Total	Fair Value
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
3,944,822	-	-	3,743,413	7,688,235	7,688,235
-	264,185	511,651	-	775,836	793,485
-	-	133,846	-	133,846	133,846
-	-	159,712	-	159,712	159,712
-	-	460,196	-	460,196	460,196
-	-	2,044	-	2,044	2,044
-	-	10,111	-	10,111	10,111
-	-	130,255	-	130,255	130,255
3,944,822	264,185	1,407,815	3,743,413	9,360,235	9,377,884

2014

2014		
Carrying Value		Fair Value
Other	Total	
Financial Liabilities		
Rs. '000	Rs. '000	Rs. '000
131,308	131,308	131,308
154,483	154,483	154,483
319,305	319,305	319,305
857,352	857,352	857,352
1,462,448	1,462,448	1,462,448

## Notes to the Financial Statements

### 39.2.3 Fair value measurement - Group

The below table analyses financial investments carried at fair value, by valuation method, in respect of the fair value hierarchy.

The different levels have been defined as follows:

Level 1 :	Quoted (unadjusted) market prices in active market for identical assets or liabilities.
Level 2 :	Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
Level 3 :	Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

#### 39.2.3.a Fair value measurement hierarchy for Assets as at 31 December -Group

As at 31 December	Note	2015				2014			
		Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Fair Value Rs. '000	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Fair Value Rs. '000
<b>Fair value through profit or loss (FVTPL)</b>									
Equity securities	21.4	624,763	-	-	624,763	2,478,863	-	-	2,478,863
Debt securities	21.4	85,533	-	64,898	150,431	1,406,999	-	58,960	1,465,959
<b>Total</b>		<b>710,296</b>	<b>-</b>	<b>64,898</b>	<b>775,194</b>	<b>3,885,862</b>	<b>-</b>	<b>58,960</b>	<b>3,944,822</b>
<b>Available for sale (AFS)</b>									
Equity securities	21.3	1,714,245	-	369,700	2,083,945	108,000	-	100,000	208,000
Debt securities	21.3	5,397,288	-	-	5,397,288	3,535,413	-	-	3,535,413
<b>Total</b>		<b>7,111,533</b>	<b>-</b>	<b>369,700</b>	<b>7,481,233</b>	<b>3,643,413</b>	<b>-</b>	<b>100,000</b>	<b>3,743,413</b>
<b>Held to maturity (HTM) *</b>									
Debt securities	21.1	225,173	-	-	225,173	240,578	-	-	240,578
<b>Total</b>		<b>225,173</b>	<b>-</b>	<b>-</b>	<b>225,173</b>	<b>240,578</b>	<b>-</b>	<b>-</b>	<b>240,578</b>
<b>Derivative financial instruments</b>	<b>21</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>41,256</b>	<b>-</b>	<b>41,256</b>
<b>Total financial assets</b>		<b>8,047,002</b>	<b>-</b>	<b>434,598</b>	<b>8,481,600</b>	<b>7,769,853</b>	<b>41,256</b>	<b>158,960</b>	<b>7,970,069</b>

\* Fair values are determined based on the assumptions given in the Note 39.3

39.2.3.b Fair value measurement hierarchy for Assets as at 31 December - Company

As at 31 December	Note	2015				2014			
		Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Fair Value Rs. '000	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Fair Value Rs. '000
<b>Fair value through profit or loss (FVTPL)</b>									
Equity Securities	21.4	600,146	-	-	600,146	2,478,863	-	-	2,478,863
Debt securities	21.4	-	-	19,338	19,338	1,406,999	-	58,960	1,465,959
<b>Total</b>		<b>600,146</b>	<b>-</b>	<b>19,338</b>	<b>619,484</b>	<b>3,885,862</b>	<b>-</b>	<b>58,960</b>	<b>3,944,822</b>
<b>Available for Sale (AFS)</b>									
Equity Securities	21.3	1,423,095	-	319,700	1,742,795	108,000	-	100,000	208,000
Debt Securities	21.3	4,631,404	-	-	4,631,404	3,535,413	-	-	3,535,413
<b>Total</b>		<b>6,054,499</b>	<b>-</b>	<b>319,700</b>	<b>6,374,199</b>	<b>3,643,413</b>	<b>-</b>	<b>100,000</b>	<b>3,743,413</b>
<b>Held to Maturity (HTM) *</b>									
Debt Securities	21.1	225,173	-	-	225,173	240,578	-	-	240,578
<b>Total</b>		<b>225,173</b>	<b>-</b>	<b>-</b>	<b>225,173</b>	<b>240,578</b>	<b>-</b>	<b>-</b>	<b>240,578</b>
Derivative Financial Instruments	21	-	-	-	-	-	41,256	-	41,256
<b>Total Financial Assets</b>		<b>6,879,818</b>	<b>-</b>	<b>339,038</b>	<b>7,218,856</b>	<b>7,769,853</b>	<b>41,256</b>	<b>158,960</b>	<b>7,970,069</b>

\* Fair values are determined based on the assumptions given in the Note 39.3

## Notes to the Financial Statements

### 39.2.3.c Measurement of fair value

All fair value categorised under level - 1 of the hierarchy is based on the quoted (unadjusted) market prices.

#### 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.

Level	Assets	Method of Valuation & unobservable input
Level - 3	Equity - Cargills Bank	At cost
Level - 3	Unit Trusts	Net asset value of fund

#### 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 For the year ended 31 December 2015	Gain/(Loss)	
	Increase Rs. '000	Decrease Rs. '000
Share price movement by one rupee - Life	1,334	(1,334)
Share price movement by one rupee - General	3,142	(3,142)

### 39.3 Determination of Fair Value and Fair Values hierarchy of Financial Investments

#### 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.

#### 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.

#### Equity Securities

The fair values are determined based on quoted market prices.



The Following is a list of financial instruments which have not been considered under the fair value measurement hierarchy, because the carrying amount of those financial instruments is a reasonable approximation of fair value since they are short-term in nature or re-prise to current market rates frequently.

	<b>Group</b>	
Assets	Amount 2015 Rs. '000	Amount 2014 Rs. '000
- Cash and Cash Equivalents/Term Deposits less than one year	264,698	144,569
- Repo	629,104	540,979
- Loans to Life Policyholders	145,314	133,846
- Reinsurance Receivables	122,169	159,712
- Premium Receivables	550,995	460,196
- Receivable and other assets	11,122	10,311
<b>Liabilities</b>		
- Reinsurance Creditors	139,946	131,308
- Other Liabilities (Excluding Government Levies and Accruals)	482,996	857,402
- Bank Overdraft	733,143	319,305
- Short term borrowings	269,700	154,483

### 39.4 Financial Risk Management

#### Overview

The Group has exposure to the following risks arising from financial instruments.



## Notes to the Financial Statements

### 39.4.1 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;



#### a) Interest Rate Risk

Interest rate risk is the risk of fluctuation of the value or future cash flows of a financial instrument due to changes in market interest rates.

Floating rate instruments typically expose the Company to cash flow interest risk, whereas fixed interest rate instruments expose the company to fair value interest rate risk.

#### Mitigation Strategies

The Group 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 Asset Liability Management (ALCO)
- Adhering to limits set on interest rate risk through the Risk Policy

#### Mitigation Strategies

As at 31 December 2015 there were no cash flow interest rate exposures, as Company has no any floating rate investments. However, Group 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.

	2015		2014	
	Impact on Profit Before Tax Rs. '000	Impact on Equity Rs. '000	Impact on Profit Before Tax Rs. '000	Impact on Equity Rs. '000
General				
+ 100 basis points	(19,433)	(19,433)	(23,974)	(23,974)
- 100 basis points	20,533	20,533	25,724	25,724
Life *				
+ 100 basis points	(216,152)	(216,152)	(210,536)	(210,536)
- 100 basis points	243,176	243,176	187,303	187,303

\*Subject to actuarial valuation

The following table summarises the exposure to the interest rate risk by the Group and Company

	2015			2014		
	Fixed Interest Rate Rs. '000	Non Interest bearing Rs. '000	Total Rs. '000	Fixed Interest Rate Rs. '000	Non Interest bearing Rs. '000	Total Rs. '000
Financial Assets - Group						
Held to maturity	227,726	-	227,726	222,929	-	222,929
Loans & receivable	781,294	-	781,294	615,526	-	615,526
Available for sale	5,397,288	2,083,945	7,481,233	3,535,413	208,000	3,743,413
Fair value through profit & loss	85,533	689,661	775,194	1,406,999	2,537,823	3,944,822
Cash and cash equivalent	-	223,936	223,936	-	130,283	130,283
Total financial assets - Group	6,491,841	2,997,542	9,489,383	5,780,867	2,876,106	8,656,973

	2015			2014		
	Fixed Interest Rate Rs. '000	Non Interest bearing Rs. '000	Total Rs. '000	Fixed Interest Rate Rs. '000	Non Interest bearing Rs. '000	Total Rs. '000
Financial Liabilities - Group						
Short term borrowings	269,700	-	-	154,483	-	-

	2015			2014		
	Fixed Interest Rate Rs. '000	Non Interest bearing Rs. '000	Total Rs. '000	Fixed Interest Rate Rs. '000	Non Interest bearing Rs. '000	Total Rs. '000
Financial Assets - Company						
Held to maturity	222,726	-	222,726	222,929	-	222,929
Loans & receivable	522,611	-	522,611	511,651	-	511,651
Available for Sale	4,631,404	1,742,795	6,374,199	3,535,413	208,000	3,743,413
Fair value through profit & loss	-	619,484	619,484	1,406,999	2,537,823	3,944,822
Cash and cash equivalent	-	192,118	192,118	-	130,255	130,255
Total financial assets - company	5,376,741	2,554,397	7,931,138	5,676,992	2,876,078	8,553,070

## Notes to the Financial Statements

Financial Liabilities - Company	Fixed	2015	Total	Fixed	2014	Total
	Interest Rate Rs. '000	Non Interest bearing Rs. '000	Rs. '000	Interest Rate Rs. '000	Non Interest bearing Rs. '000	Rs. '000
Short term borrowings	269,700	-	-	154,483	-	-

### b) 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 not materially exposed to the foreign exchange risk.

#### Mitigation Strategies

The Company's foreign exchange exposure is minimal.

The table below summarises the Company's total exposure and sensitivity to Currency risk.

#### Sensitivity on Foreign Currency Risk

	2015		2014	
	Amount in foreign currency Rs. '000	LKR Amount Rs. '000	Amount in foreign currency Rs. '000	LKR Amount Rs. '000
USD Assets	344	48,780	240	31,889
	Impact on PBT Rs. '000	Impact on Equity Rs. '000	Impact on PBT Rs. '000	Impact on Equity Rs. '000
5% strengthening of rupee	(2,439)	(2,439)	(1,595)	(1,595)
5% weakening of rupee	2,439	2,439	1,595	1,595

### c) Equity Risk

Listed equity securities are susceptible to market price risk arising from uncertainties of future values of the investment securities

#### 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 31 December 2015 with the comparatives are as follows;

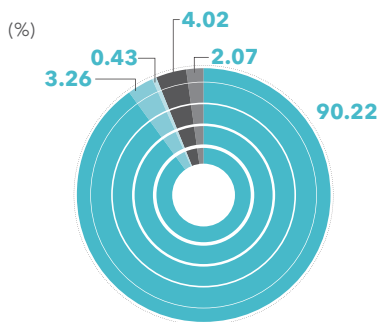
Listed Equity Investment

Segment	2015 Rs. Mn	2014 Rs. Mn
Life insurance	2,343	1,958
General insurance	365	728
<b>Total</b>	<b>2,708</b>	<b>2,686</b>

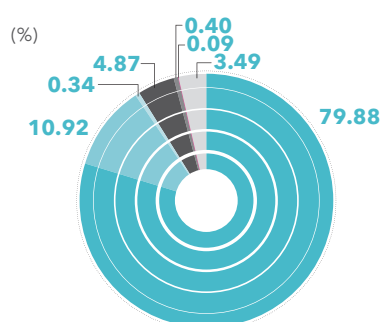
Portfolio Diversification of Equity Investments

Sector	2015		2014	
	Rs'000	%	Rs'000	%
Banks Finance and Insurance	2,163,850	79.9%	2,424,071	90.2%
Diversified Holdings	295,837	10.9%	87,590	3.2%
Telecommunications	9,294	0.3%	11,552	0.5%
Healthcare	132,000	4.9%	108,000	4%
Power & Energy	10,815	0.4%	-	-
Land and Property	2,320	0.1%	-	-
Manufacturing	94,593	3.5%	55,650	2.1%
<b>Total</b>	<b>2,708,709</b>	<b>100%</b>	<b>2,686,863</b>	<b>100%</b>

Portfolio Diversification of Equity Investments 2014



Portfolio Diversification of Equity Investments 2015



- Banks Finance and Insurance
- Diversified Holdings
- Telecommunications
- Healthcare
- Power & Energy
- Land and Property
- Manufacturing

## Notes to the Financial Statements

### Sensitivity Analysis of Equity Risk

		2015 Rs. '000	2014 Rs. '000
<b>General Insurance Business</b>			
10% decline in stock markets			
Investments	- AFS	(29,115)	-
	- FVTPL	(2,462)	(67,850)
		(31,577)	(67,850)
Net impact on profit before tax			
		(2,462)	(67,850)
Net impact on other comprehensive income			
		(29,115)	-
<b>Life insurance business</b>			
10% decline in stock markets			
Investments	- AFS	(142,309)	(10,800)
	- FVTPL	(60,015)	(180,036)
		(202,324)	(190,836)
Net impact on profit before tax			
		(60,015)	(180,036)
Net impact on Other Comprehensive Income			
		(142,309)	(10,800)

### 39.5 Credit Risk

The risk that one party to a financial arrangement will fail to meet their contractual obligation. The Group is exposed to credit risk through the following financial investments.

	Group	
	Amount 2015 Rs. '000	Amount 2014 Rs. '000
<b>General Insurance Business</b>		
-Reinsurance Receivables	122,169	159,712
-Financial Investments	9,265,451	8,567,946
-Loans to Life Policyholders and Others	145,314	133,846
-Insurance Premium Receivables	550,995	460,96
- Cash at bank	219,715	126,368
-Receivable and other assets	11,122	10,311
-Amount due from related parties	865	662

### 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.122 million as at 31 December, 2015 (2014-Rs. 160 million). This mainly consists of reinsurance receivable on paid claims amounting to Rs. 18 million (2014-Rs.25 million) and reinsurance share of claim reserve (receivables on outstanding claims) of Rs.103 million as at 31 December 2015. (2014-Rs. 135 million).

As at 31 December 2015, Rs.15.6 million of our reinsurance receivables were due from reinsurers with a rating of "A-" or better and Rs.3 million 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	2015		2014	
	On Paid Claims Rs. '000	%	On Paid Claims Rs. '000	%
AAA	-	-	553	2%
AA -	6,691	36%	1,556	6%
A +	107	1%	2,247	9%
A	1,411	8%	444	2%
A -	7,452	40%	2,143	9%
BBB	-	-	207	1%
B +	-	-	1,469	6%
NITF	3,091	16%	16,383	65%
Unrated	-	-	94	-
<b>Total</b>	<b>18,752</b>	<b>100%</b>	<b>25,096</b>	<b>100%</b>

### 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.

The table below provides information regarding the Credit Risk exposure on investments of the Company as at 31 December by classifying investments according to the respective credit ratings. The Ratings represent local ratings given by Fitch Ratings Lanka Limited, Lanka Rating Agency Limited and ICRA Lanka Limited. AAA is considered the highest possible rating, while assets that fall outside the range of AAA to BBB are classified as speculative grade. No credit exposure limits were exceeded by the Company during the year. Government securities have been classified as a separate category as they are considered risk free investments. Further, investments in Shares and Units are not considered, since credit rating is not applicable

Financial Investments	Government										Total
	Guaranteed Rs. 000	AAA Rs. 000	AA- Rs. 000	A+ Rs. 000	A- Rs. 000	BBB Rs. 000	BBB+ Rs. 000	BB+ Rs. 000	Notrated* Rs. 000		
Based on credit rates 31 December 2015											
<b>Group</b>											
Held to maturity	227,727	-	-	-	-	-	-	-	-	-	227,727
Loans & receivable	-	-	740,535	-	-	40,762	-	-	-	-	781,297
Available for sale	4,169,829	-	1,759,243	68,146	11,820	-	88,273	30,327	1,353,595	-	7,481,233
Fair value through P & L	-	9,294	68,504	84,070	20,841	-	85,533	122,559	384,393	-	775,194
<b>Total financial assets - group</b>	<b>4,397,556</b>	<b>9,294</b>	<b>2,568,282</b>	<b>152,216</b>	<b>32,661</b>	<b>40,762</b>	<b>173,806</b>	<b>152,886</b>	<b>1,737,988</b>	<b>-</b>	<b>9,265,451</b>
<b>Company</b>											
Held to maturity	227,727	-	-	-	-	-	-	-	-	-	227,727
Loans & receivable	-	-	431,897	-	-	-	-	-	-	90,713	522,610
Available for sale	3,503,862	-	1,468,093	68,146	11,820	-	88,273	30,327	1,203,678	-	6,374,199
Fair value through P & L	-	-	68,504	84,070	20,841	-	-	122,559	323,510	-	619,484
<b>Total financial assets - company</b>	<b>3,731,589</b>	<b>-</b>	<b>1,968,494</b>	<b>152,216</b>	<b>32,661</b>	<b>-</b>	<b>88,273</b>	<b>152,886</b>	<b>1,617,901</b>	<b>-</b>	<b>7,744,020</b>

## Notes to the Financial Statements

Financial Investments	Government Guaranteed	AA-	A-	BBB	BBB-	BBB+	Not rated*	Total
Based on credit rates	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000

31 December 2014

### Group

Held to maturity	222,929	-	-	-	-	-	-	222,929
Loans & receivable	-	555,265	-	-	-	-	60,261	615,526
Available for sale	2,440,891	130,851	475,904	186,252	185,391	324,124	-	3,743,413
Fair value through profit & loss	1,315,491	-	-	-	-	2,570,371	58,960	3,944,822
Derivative financial assets	-	-	-	-	-	-	41,256	41,256
Total financial assets - group	3,979,311	686,116	475,904	186,252	185,391	2,894,495	160,477	8,567,946

### Company

Held to maturity	222,929	-	-	-	-	-	-	222,929
Loans & receivable	-	451,390	-	-	-	-	60,261	511,651
Available for sale	2,440,891	130,851	475,904	186,252	185,391	324,124	-	3,743,413
Fair value through profit & loss	1,315,491	-	-	-	-	2,570,371	58,960	3,944,822
Derivative financial assets	-	-	-	-	-	-	41,256	41,256
Total financial assets - company	3,979,311	582,241	475,904	186,252	185,391	2,894,495	160,477	8,464,071

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	2015 Rs. 000	2014 Rs. 000
Life policyholders	141,778	133,846
Staff loans	3,536	-
Total	145,314	133,846

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. 142 million (2014 - 134 million) and its related surrender value is Rs. 236 million.

The Company regularly monitors and limits credit exposures by individual counter-party and related counter parties by the aggregated exposure across the various types of credit risk for that counter-party.

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 counter-parties with sound ratings and future outlooks, the company also maintains exposure limits to ensure that the company has a diverse range of counter-parties to ensure low concentration risk.

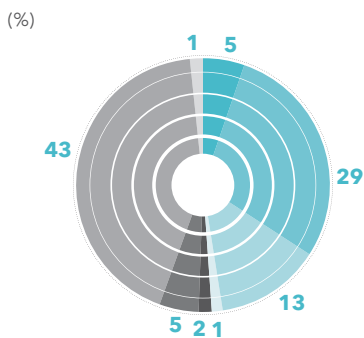
The Company held cash and cash equivalents of Rs.(510) million at 31 December 2015. (2014 -Rs.(189) million). The cash and cash equivalents are held with bank and financial institutional counter-parties, which are rated BBB+ or better.

#### Assessment of Impairment Losses

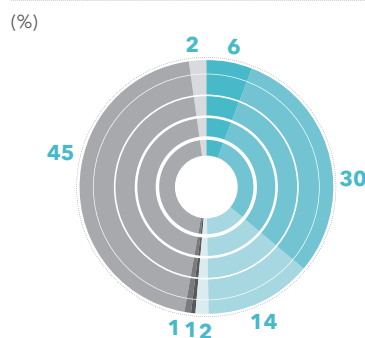
Company monitors the requirement for impairment provision in the Financial Statements on going basis. The relevant accounting policies and financial details are given in Note 3.5 to these financial statements.

Based on the assessments made there was no provision has been made for impairment in the financial statements

#### Total credit risk exposure 2014



#### Total credit risk exposure 2015



- Loans & Receivables
- Total Equity Securities
- Total Debt Securities
- Life Policyholders loans
- Reinsurance receivable
- Premiums receivable
- Total Fixed Securities
- Cash and cash equivalents

This diagram presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

## Notes to the Financial Statements

### 39.5.1 Liquidity Risk

Liquidity risk is the risk that the Company may not have sufficient liquid financial resources to meet its obligations when they fall due. 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	2015					2014				
	No	Less than	1-3	More than	Total	No	Less than 1	1-3	More than	Total
	maturity	1 year	year	3 year		maturity	year	year	3 year	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Assets</b>										
Derivative financial instruments	-	-	-	-	-	-	-	-	41,256	41,256
Held to maturity financial assets	-	-	-	227,726	227,726	-	-	-	222,929	222,929
Loans & receivables	-	781,297	-	-	781,297	-	615,526	-	-	615,526
Available for sale financial assets	2,083,945	275,613	202,762	4,918,913	7,481,233	208,000	94,809	305,023	3,135,581	3,743,413
Financial assets at FVTPL (trading)	689,661	-	-	85,533	775,194	2,537,823	-	889,225	517,774	3,944,822
Life policyholder loans	-	17,996	37,358	89,960	145,314	-	12,771	31,381	89,694	133,846
Reinsurance receivables	-	122,169	-	-	122,169	-	159,711	-	-	159,711
Premium receivables	-	550,995	-	-	550,995	-	460,196	-	-	460,196
Receivables & other assets	-	434,345	-	-	434,345	-	341,220	-	-	341,220
<b>Total</b>	<b>2,773,606</b>	<b>2,182,415</b>	<b>240,120</b>	<b>5,322,132</b>	<b>10,518,273</b>	<b>2,745,823</b>	<b>1,684,233</b>	<b>1,225,629</b>	<b>4,007,234</b>	<b>9,662,919</b>
<b>Liabilities</b>										
Reinsurance payable	-	139,946	-	-	139,946	-	131,308	-	-	131,308
Insurance contract liabilities - Life	413,001	570,519	666,312	4,542,783	6,192,615	189,594	82,881	604,334	4,346,876	5,223,685
Insurance contract liabilities - General	-	1,322,011	-	-	1,322,011	-	1,138,694	-	-	1,138,694
Other liabilities	-	496,966	-	-	496,966	-	872,254	-	-	872,254
Current tax liabilities	-	12,325	-	-	12,325	-	11,980	-	-	11,980
Short term borrowings	-	269,700	-	-	269,700	-	154,483	-	-	154,483
Bank overdraft	-	733,143	-	-	733,143	-	319,305	-	-	319,305
<b>Total</b>	<b>413,001</b>	<b>3,544,610</b>	<b>666,312</b>	<b>4,542,783</b>	<b>9,166,706</b>	<b>189,594</b>	<b>2,710,905</b>	<b>604,334</b>	<b>4,346,876</b>	<b>7,851,709</b>

## Maturity profiles - Company

As at 31 December

	2015					2014				
	No maturity	Less than 1 year	1-3 year	More than 3 year	Total	No maturity	Less than 1 year	1-3 year	More than 3 year	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Assets</b>										
Derivative financial instruments	-	-	-	-	-	-	-	-	41,256	41,256
Held to maturity financial assets	-	-	-	227,726	227,726	-	-	-	222,929	222,929
Loans & receivables	-	522,611	-	-	522,611	-	511,651	-	-	511,651
Available for sale financial assets	1,742,795	223,094	202,762	4,205,548	6,374,199	208,000	94,809	305,023	3,135,581	3,743,413
Financial assets at FVTPL (trading)	619,484	-	-	-	619,484	2,537,823	-	889,225	517,774	3,944,822
Life policyholder loans	-	16,322	37,358	89,960	143,640	-	12,771	31,381	89,694	133,846
Reinsurance receivables	-	62,643	-	-	62,643	-	159,711	-	-	159,711
Premium receivables	-	67,274	-	-	67,274	-	460,196	-	-	460,196
Receivables & other assets	-	354,790	-	-	354,790	-	341,020	-	-	341,020
<b>Total</b>	<b>2,362,279</b>	<b>1,246,734</b>	<b>240,120</b>	<b>4,523,234</b>	<b>8,372,367</b>	<b>2,745,823</b>	<b>1,580,158</b>	<b>1,225,629</b>	<b>4,007,234</b>	<b>9,558,844</b>
<b>Liabilities</b>										
Reinsurance payable	-	92,972	-	-	92,972	-	131,308	-	-	131,308
Insurance contract liabilities - Life	413,001	570,519	666,312	4,542,783	6,192,615	189,594	82,881	604,334	4,346,874	5,223,685
Insurance contract liabilities - General	-	-	-	-	-	-	1,138,694	-	-	1,138,694
Other liabilities	-	382,735	-	-	382,735	-	872,204	-	-	872,204
Current tax liabilities	-	-	-	-	-	-	11,980	-	-	11,980
Short term borrowings	-	269,700	-	-	269,700	-	154,483	-	-	154,483
Bank overdraft	-	361,264	-	-	361,264	-	319,305	-	-	319,305
<b>Total</b>	<b>4,134,001</b>	<b>1,677,190</b>	<b>666,312</b>	<b>4,542,783</b>	<b>7,299,286</b>	<b>189,594</b>	<b>2,710,855</b>	<b>604,334</b>	<b>4,346,874</b>	<b>7,851,709</b>

## 39.5.2 Operational Risks

This is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than Credit, Market and Liquidity Risks, such as those arising from legal and regulatory of corporate behaviour, requirements and the absence of generally accepted standards.

Operational failures could result in dire consequences such as producing misleading financial information, loss of return, financial penalties from regulators or damage to the reputation of the Company. Operational Risks arise from all operations of the Company.

While it is acknowledged that the Company cannot eliminate all Operational Risks, it is in a position to manage such risks by initiating a rigorous control framework and by monitoring and responding to potential risks.

Company's Risk Management team assesses all foreseeable risks involved in its operation and they develop and implement action plans to control those identified operational risks. These action plans recommended by the team is to manage the operational risks in the following areas:

- Requirement of having appropriate segregation of duties, including the independent authorisation of transactions
- Compliance with regulatory and other legal requirements
- Documentation of controls and procedures
- Development of contingency plans
- Training and professional development
- Ethical and business standards
- Developed business models

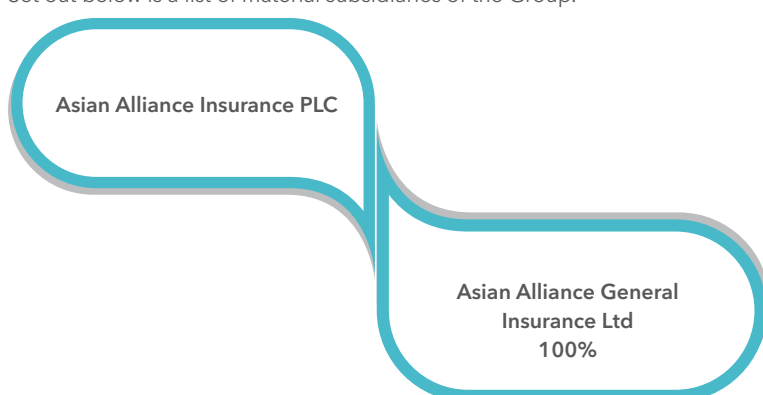
## Notes to the Financial Statements

Compliance with recommended action plans are supported by periodic reviews undertaken by the Internal and External Auditors as well as the Manager - Risk and Compliance. The results of internal reviews are discussed on a quarterly basis with the Risk Management Committee, with summaries submitted to the Audit Committee and to the Board.

### 40 GROUP COMPOSITION

#### 40.1 List of Subsidiaries

Set out below is a list of material subsidiaries of the Group.



Unquoted	Principal Activity	2015			2014		
		No of shares	% Holding	Cost Rs. 000	No of shares	% Holding	Cost Rs. 000
Asian Alliance General Insurance Limited	General Insurance Business	80 million	100%	800,000	10 million	100%	100,000

#### 40.2 Incorporation of Subsidiary

The Company incorporated a fully owned subsidiary, Asian Alliance General Insurance Limited, on 31 March 2014 in order to transfer the General Insurance business W.E.F. 1 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 31 March 2014. In addition to above Asian Alliance Insurance PLC invested a further Rs.700 million in the Company on 1 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. 1 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.

## 41. THE SEGREGATION OF THE LIFE AND GENERAL INSURANCE BUSINESSES AND COMPARATIVE INFORMATION

### 41.1 Background

In terms of Section 53 of the Regulation of Insurance Industry (Amendment) Act No. 3 of 2011, all composite insurance companies were required to split their Life and General Insurance business into two separate legal entities. In consultation with the insurance industry, IBSL imposed a deadline for completion this process to be on 11 February 2015.

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, transferred its General Insurance Business to its subsidiary Asian Alliance General Insurance Limited with effect from 1 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. However, Asian Alliance Insurance PLC was a composite insurer till 31 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 the Segregation of the Life and General Insurance Business under Section 53 of the Regulation of Insurance Industry (Amendment) Act No. 03 of 2011. Company followed these guidelines in presenting its financial statements in 2014. Separate financial statements (company) of the current year comprise only the life business due to the segregation explained above. However the comparatives carry the composite (General business and Life business) results. To facilitate comparison more clearly following disclosures are provided.

### 41.2. Statement explaining how assets and liabilities have been transferred to the segregated companies

Statement explaining how assets and liabilities have been transferred to the segregated companies

Description	Transferred to AAGI	AAPLC as at	Note 1	Note 2	Audited FS of the company
	1 January 2015	1 January 2015 (Subsequent to Transfer)			31 December 2014
	Rs. '000 A	Rs. '000 B	Rs. '000 C	Rs. '000 D	Rs. '000 E=A+B-(C+D)
<b>Assets</b>					
Intangible assets	-	31,493	-	-	31,493
Property, plant and equipment	76,210	301,665	-	-	377,875
Investment in subsidiary	-	800,000	-	(700,000)	100,000
Financial investments	1,561,148	6,902,923	-	-	8,464,071
Loans to life policyholders and others	(2,258)	136,104	-	-	133,846
Reinsurance receivables	86,396	73,316	-	-	159,711
Premium Receivables	410,027	50,169	-	-	460,196
Amounts due from related companies	231	1,813	-	-	2,044
Receivables and other assets	101,326	255,976	(16,280)	-	341,022
Insurance contract - deferred expenses	100,956	-	-	-	100,956
Cash and cash equivalents	24,587	105,669	-	-	130,255
<b>Total assets</b>	<b>2,358,623</b>	<b>8,659,126</b>	<b>(16,280)</b>	<b>(700,000)</b>	<b>10,301,470</b>
<b>Total equity and reserves</b>	<b>702,266</b>	<b>2,368,728</b>	<b>-</b>	<b>(700,000)</b>	<b>2,370,994</b>
<b>Liabilities</b>					
Insurance contract liabilities - Life	-	5,223,695	-	-	5,223,695
Insurance contract liabilities - General	1,138,694	-	-	-	1,138,694
Employee benefits	10,361	42,667	-	-	53,028
Current tax liabilities	11,980	-	-	-	11,980
Reinsurance payable	116,604	14,704	-	-	131,308
Insurance contract - deferred revenue	25,779	-	-	-	25,779
Other liabilities	191,374	697,109	(16,280)	-	872,204
Short term borrowings	-	154,483	-	-	154,483
Bank overdraft	161,564	157,741	-	-	319,305
<b>Total liabilities</b>	<b>1,656,357</b>	<b>6,290,398</b>	<b>(16,280)</b>	<b>-</b>	<b>7,930,476</b>
<b>Total equity and liabilities</b>	<b>2,358,623</b>	<b>8,659,126</b>	<b>(16,280)</b>	<b>(700,000)</b>	<b>10,301,470</b>

## Notes to the Financial Statements

Details of Notes

Note 1: Elimination of current account between AAIPLC and AAGILTD

Note 2: Elimination of investment in subsidiary and respective share capital as additional capital infusion of Rs. 700 million

### 41.3. Statement of Financial Position of Asian Alliance General Insurance Limited

Description	Transferred	AAGI Balance	AAGI
	to AAGI	sheet as at	Segregated
	from AAIPLC	31 Dec 2014	opening BS
	1 January		1 January
	2015		2015
	Rs. '000	Rs. '000	Subsequent to Segregation Rs. '000
	A	B	C=A+B
<b>Assets</b>			
Property, plant and equipment	76,210	-	76,210
Financial investments	1,561,148	103,875	1,665,023
Loans to life policyholders and others	(2,258)	-	(2,258)
Reinsurance receivables	86,396	-	86,396
Premium receivables	410,027	-	410,027
Amounts due from related companies	231	-	231
Receivables and other assets	101,326	200	101,526
Insurance contract - deferred expenses	100,956	-	100,956
Cash and cash equivalents	24,587	27	24,614
<b>Total assets</b>	<b>2,358,623</b>	<b>104,102</b>	<b>2,462,725</b>
<b>Total equity and reserves</b>	<b>702,266</b>	<b>102,670</b>	<b>804,936</b>
<b>Liabilities</b>			
Insurance contract liabilities - General	1,138,694	-	1,138,694
Employee benefits	10,361	-	10,361
Current tax liabilities	11,980	-	11,980
Reinsurance payable	116,604	-	116,604
Insurance contract - deferred revenue	25,779	-	25,779
Amounts due to related companies	-	1,382	1,382
Other liabilities	191,374	50	191,424
Bank overdraft	161,564	-	161,564
<b>Total liabilities</b>	<b>1,656,357</b>	<b>1,432</b>	<b>1,657,789</b>
<b>Total equity and liabilities</b>	<b>2,358,623</b>	<b>104,102</b>	<b>2,462,725</b>

Statements of profit or loss and other comprehensive Income for year ended 31 December 2014 carry the composite results and the results reported for year ended 31 December 2015 results only to the life business.

On Segregation, There was no impact recorded in the Statement of Income and other comprehensive income for the year ended 31 December 2014. However from year 2015 onwards the Statement of Income and other comprehensive income of the company represents income and expenses only relating to the Life Insurance business.

### 42 CAPITAL COMMITMENTS-GROUP/COMPANY

During the year, the Group/Company has not entered into a contract to purchase property, plant and equipment. (2014- Nil).

## 43 PROVISION AND CONTINGENCIES-GROUP/COMPANY

### 43.1 Assessment in respect of Value Added Tax (VAT)

The Contingent Liability of the Company as at 31 December 2015, relates to the followings;

- a) The Company has been issued with an assessment by the Department of Inland Revenue on 28 October 2011 and 26 April 2013 under the Value Added Tax Act, in relation to the taxable period ending 31 December 2009 and 2010 for Rs. 4.5 million and Rs. 52.3 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.

- b) The Company has received a tax assessments letter for Life Insurance taxation for the years 2010. The Company is of the strong view that no additional tax liability is arising and also we have filed a response highlighting our view, which was done in consultation with Tax Consultants. Further even if this would materialised against the Company, no additional tax liabilities are required for the Company due to carried forward taxable losses and credits. However, the accumulated tax losses of Life business will come down by Rs. 237 million.
- c) The Company has received a notice of assessments for Life Insurance taxation for the years 2011 and 2012. The Company has filed a petition of appeal through Company's Tax Consultants and the Company is of the strong view that no additional tax liability is arose due to this. Further even if this would materialised against the Company, no additional tax liabilities are required for the Company due to carried forward taxable losses and credits. However, the accumulated tax losses of Life business will come down by Rs. 554 million.

### 43.2 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 Group / 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.

## 44 RELATED PARTY DISCLOSURES

### 44.1 Transactions with Key Management Personnel of the Company or its parent

According to Sri Lanka Accounting Standard (LKAS) 24 Related Party Disclosure, Key Management Personnel (KMP) 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 Group and their immediate family members have been classified as Key Management Personnel of the Company.

Immediate family member is defined as spouse or dependent. A dependent is defined as anyone who depends on the respective KMP for his/her financial needs.

#### a) Key Management Personnel Compensation

	2015 Rs. '000	2014 Rs. '000
Short term employee benefits	57,058	52,606
Post employment benefits	Nil	6,075
Other long term benefits	Nil	12,650
	57,058	71,331

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.

## Notes to the Financial Statements

### Loans to Directors

No Loans have been granted to the Directors of the Company.

### b) Other Transactions with Key Management Personal

Company	Relationship	Nature of Transaction	Transaction Value	
			2015 Rs. '000	2014 Rs. '000
Paul Rathnayake Associates	Director related entity	Insurance placed	203	48
		Claims incurred	463	-
		Legal fees paid	800	627
P.R.Secretarial Services (Pvt) Ltd	Director related entity	Secretarial fees paid	545	719
Acquity Partners Ltd	Director related entity	Claims incurred	1,769	439
		Expenses	123	-

### c) Transactions with Parent and Ultimate Controlling Party

For the Year ended 31 December	Related Party	Relationship	Nature of the Transaction	Group		Company	
				2015 Rs '000	2014 Rs '000	2015 Rs '000	2014 Rs '000
Softlogic Holdings PLC	Ultimate parent	Insurance premiums	12,545	8,769	-	8,769	
		Claims incurred	3,420	7,716	3,420	7,716	
		Dividend income	1,148	-	1,148	-	
		Interest Income	10,322	30,540	7,940	30,540	
Softlogic Capital PLC	Immediate parent	Asset management fee	28,876	68,911	22,893	68,911	
		Other consultancy fees	27,184	30,000	27,184	30,000	

As at 31 December	Related Party	Relationship	Nature of the Transaction	Group		Company	
				2015 Rs '000	2014 Rs '000	2015 Rs '000	2014 Rs '000
Softlogic Holdings PLC	Ultimate parent	Investments	185,921	178,672	100,000	178,672	

### d) Transactions with Subsidiary Company- Asian Alliance General Insurance Ltd.

Transactions due to segregation of Life and General Insurance Business

	31 December 2015 Rs '000	31 December 2014 Rs '000
Transfer of assets *	2,358,623	-
Transfer of liabilities *	1,656,357	-
Investment in stated capital	800,000	100,000
<b>Other Transactions</b>		
Insurance premiums	14,620	-

\* These transactions took place on 1 January 2015 as a result of transferring the General Insurance business segment to the subsidiary company Asian Alliance General Insurance Limited.



\* On 1 January 2015, Asian Alliance Insurance PLC has invested further Rs. 700 million in Asian Alliance General Insurance Limited in order to meet its regulatory and business capital requirements.

e) Transactions with/between Subsidiary Companies of Parent

For the Year ended	Related Party	Nature of the Transaction	Group		Company	
			31 December 2015 Rs '000	31 December 2014 Rs '000	31 December 2015 Rs '000	31 December 2014 Rs '000
	Softlogic Retail (Pvt) Ltd	Insurance premiums	19,585	21,474	-	21,474
		Claims incurred	-	32,683	-	32,683
		Other expenses	9,986	-	8,710	-
		Purchase of fixed assets	24,209	28,187	17,075	28,187
	Softlogic Finance PLC	Interest income	12,714	24,263	9,314	24,263
		Claims incurred	3,445	26,712	-	26,712
		Insurance premiums	3,621	17,480	-	17,480
		Investment	80,000	-	60,000	-
		Other expenses	2,406	-	2,406	-
	Asiri Hospital Holdings PLC	Insurance premiums	5,106	21,484	-	21,484
		Dividend income	2,415	2,750	2,415	2,750
		Claims incurred	4,353	6,969	-	6,969
		Investments	62,874	52,105	62,874	52,105
	Asiri Hospital Matara (Pvt) Ltd	Claims incurred	185	62	-	62
		Insurance premiums	322	-	-	-
	Asiri Surgical Hospital PLC	Insurance premiums	432	2,282	-	2,282
		Claims incurred	653	83	-	83
	Softlogic BPO services (pvt)Ltd	Insurance premiums	2,257	28	-	28
		Claims incurred	893	891	-	891
		Other expenses	21,412	-	21,412	-
	Central Hospital Limited	Claims incurred	1,877	783	-	783
		Insurance premiums	1,259	159	-	159
		Expenses	66	-	-	-
	Nextage (Pvt) Ltd	Expenses	676	90,303	-	90,303
	Softlogic City Hotels Pvt Ltd.	Insurance premiums	13	48	-	48
	Destination Management Pvt Ltd	Expenses	11,145	3,850	11,032	3,850
		Insurance premiums	187	-	-	-
	Softlogic Destination Management Pvt Ltd	Claims incurred	-	3,679	-	3,679
	Softlogic Restaurant Pvt Ltd	Claims incurred	190	93	31	93
		Insurance premiums	843	2,198	-	2,198
	Odel PLC & related companies	Expenses	25	-	25	-
		Claims incurred	502	-	-	-
		Insurance premiums	23,201	21	-	21

## Notes to the Financial Statements

### e) Transactions with/between Subsidiary Companies of Parent

For the Year ended	Related Party	Nature of the Transaction	Group		Company	
			31 December 2015 Rs '000	31 December 2014 Rs '000	31 December 2015 Rs '000	31 December 2014 Rs '000
	Abacus International Lanka Pvt td	Claims incurred	576	1,156	-	1,156
		Insurance Premiums	1,191	761	-	761
	Ceysand Resorts (pvt) Ltd	Claims Incurred	3,698	1,403	-	1,403
		Insurance Premiums	7,392	6,113	-	6,113
	Future Automobile Pvt Ltd	Claims Incurred	1,070	757	-	757
		Insurance Premiums	2,322	2,415	-	2,415
	Softlogic Communication Services Pvt Ltd	Claims Incurred	-	93	-	93
		Insurance premiums	1,004	581	-	581
	Softlogic Communication Pvt Ltd	Claims incurred	1,738	3,317	-	3,317
		Insurance premiums	3,797	3,162	-	3,162
		Interest income	-	4,014	-	4,014
		Expenses	37	-	-	-
	Softlogic Computers Pvt Ltd	Claims Incurred	-	5,831	-	5,831
		Purchase of fixed assets	183	14,026	-	14,026
		Expenses	2,219	-	-	-
		Insurance premiums	1,850	1,622	-	1,622
	Softlogic International Pvt Ltd	Claims incurred	-	1,093	-	1,093
		Insurance premiums	2,454	2,528	-	2,528
	Softlogic Auto mobiles Pvt Ltd	Claims Incurred	4,971	3,180	-	3,180
		Insurance premiums	3,883	2,187	-	2,187
		Expenses	133	-	-	-
	Softlogic Brands Pvt Ltd	Claims incurred	-	119	-	119
		Insurance premiums	8,085	121	-	121
	Softlogic Corporate Services Ltd	Claims Incurred	-	6	-	6
		Insurance premiums	178	-	-	-
	Softlogic Stock Brokers Pvt Ltd	Expenses	-	961	-	961
		Insurance premiums	1,073	237	-	237
	Silk Route Foods Pvt Ltd	Insurance premiums	236	-	-	-
	Uni Walkers Pvt Ltd	Insurance premiums	-	775	-	775
		Other Income	-	14,157	-	14,157
	Softlogic Information Technologies (Pvt) Ltd	Purchase of fixed assets	5,173	13,639	-	13,639
		Claims incurred	5,012	10,147	-	10,147
		Expenses	837	-	-	-
		Insurance premiums	7,108	6,667	-	6,667
	Softlogic Mobile Distribution (Pvt) Ltd	Insurance premiums	1,103	219	-	219

**45 EVENTS AFTER THE REPORTING DATE-GROUP/COMPANY**

There have been no events subsequent to the reporting date.

**46 COMPARATIVE INFORMATIONS**

Comparative Information have not been reclassified with the current year presentation.

**47 OPERATING LEASES**

The Company does not have any non - cancellable operating lease as at reporting date.

**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 233 of the Statement of Directors' Responsibility for Financial Reporting.

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## Statement of Financial Position of Life Insurance Fund

As at 31 December	Note	Page	2015 Rs. '000	2014 Rs. '000
<b>Assets</b>				
Intangible Assets			11,210	15,009
Property, Plant and Equipment	1	356	401,763	289,725
Investments in Subsidiary			-	100,000
Financial Investments	2	356	6,856,537	5,736,359
Loans to Life Policyholders and Others			141,595	134,352
Reinsurance Receivables	3	358	62,643	73,316
Premium Receivables			67,290	50,169
Amounts due from Related Companies			-	1,381
Receivables & Other Assets	4	358	312,159	238,252
Cash and Cash Equivalents	5	358	190,685	105,025
<b>Total Assets</b>			<b>8,043,882</b>	<b>6,743,589</b>
<b>Equity and Liabilities</b>				
<b>Equity</b>				
Other Reserves			(134,820)	449,139
Revaluation Reserve			24,903	-
<b>Total Equity</b>			<b>(109,917)</b>	<b>449,139</b>
<b>Liabilities</b>				
Insurance Contract Liabilities - Life			6,192,614	5,223,695
Employee Benefits	6	358	28,267	25,725
Reinsurance Payable			92,972	14,704
Other Liabilities	7	358	1,244,021	728,974
Short Term Borrowings			269,700	154,483
Bank Overdraft			326,225	146,869
<b>Total Liabilities</b>			<b>8,153,799</b>	<b>6,294,450</b>
<b>Total Equity and Liabilities</b>			<b>8,043,882</b>	<b>6,743,589</b>

## Notes to the Supplementary Information

### 1 PROPERTY, PLANT AND EQUIPMENT (PPE)

#### 1.a Reconciliation of carrying amount

	Freehold Land	Freehold Building	Computer Hardware	Office Equipment	Furniture and Fittings	Fixtures and Fittings	Total 2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Cost</b>							
Balance as at 1 January 2015	85,620	92,755	34,075	61,240	55,788	103,152	432,630
Additions during the year	-	-	7,953	24,881	18,414	16,263	67,511
Capitalised during the year	-	27,480	-	7,955	-	26,004	61,439
Surplus on revaluation	22,380	2,523	-	-	-	-	24,903
Accumulated depreciation transferred	-	(4,758)	-	-	-	-	(4,758)
Disposals during the year	-	-	-	(44)	(937)	(14)	(995)
Balance as at 31 December 2015	108,000	118,000	42,028	94,032	73,265	145,405	580,730

#### Accumulated Depreciation

Balance as at 1 January 2015	-	-	22,526	39,171	24,453	56,954	143,104
Additions during the year	-	4,758	4,178	9,819	4,959	17,303	41,017
Accumulated depreciation transferred	-	(4,758)	-	-	-	-	(4,758)
Disposals during the year	-	-	-	(44)	(327)	(24)	(395)
Balance as at 31 December 2015	-	-	26,703	48,947	29,085	74,233	178,968

#### Capital Work in Progress

Balance as at 1 January 2015	-	200	-	-	-	-	200
Incurred during the year	-	27,280	-	7,955	-	26,004	61,239
Capitalised during the year	-	(27,280)	-	(7,955)	-	(26,004)	(61,439)
Balance as at 31 December 2015	-	-	-	-	-	-	-
Carrying value as at 31 December 2015	108,000	118,000	15,325	45,086	44,180	71,172	401,763
Carrying value as at 31 December 2014	85,620	92,955	11,549	22,069	31,335	46,198	289,725

### 2 FINANCIAL INVESTMENTS

As at 31 December		2015 Rs. '000	2014 Rs. '000
Held to maturity financial assets	Note 2.1	227,726	222,929
Loans & receivables	Note 2.2	522,611	306,896
Available for sale financial assets	Note 2.3	5,486,716	3,575,490
Financial assets at FVTPL (trading)	Note 2.4	619,484	1,631,044
		6,856,537	5,736,359

#### 2.1 Held to Maturity Financial Assets

Money market - treasury bonds	227,726	222,929
	227,726	222,929

#### 2.2 Loans and Receivables

Debt securities - debentures	90,714	48,631
Bank deposits	-	1,231
Reverse repos	431,897	257,034
	522,611	306,896

As at 31 December		2015 Rs. '000	2014 Rs. '000
<b>2.3 Available for sale Financial Assets</b>			
Equity securities	Note 2.3.1	870,907	158,000
Debt securities - commercial papers		-	-
Debt securities - debentures		1,111,947	976,599
Money market - treasury bills		-	-
Treasury bonds		3,503,862	2,440,891
Unit trust		-	-
		<b>5,486,716</b>	<b>3,575,490</b>
<b>2.3.1 Available For Sale Financial Assets - Equity</b>			
Unquoted		319,700	50,000
Quoted		551,207	108,000
Total		<b>870,907</b>	<b>158,000</b>
<b>2.4 Financial Assets at FVTPL (Trading)</b>			
Equity securities	Note 2.4.1	600,146	937,621
Money market - treasury bonds		-	675,854
Unit trust		19,338	17,569
		<b>619,484</b>	<b>1,631,044</b>
Total investment		<b>6,856,537</b>	<b>5,736,359</b>
<b>2.4.1 Financial Assets at FVTPL (Trading) -Equity</b>			
<b>Banks, Finance &amp; Insurance</b>			
Commercial Bank of Ceylon PLC		-	63,111
Hatton National Bank PLC		4,726	4,374
Hatton National Bank PLC (Non Voting)		63,778	54,815
National Development Bank PLC		-	539,937
Seylan Bank PLC (Non Voting)		20,841	16,416
Union Bank of PLC		122,559	147,430
<b>Diversified Holdings</b>			
Softlogic Holdings PLC		71,171	75,763
Hemas Holdings PLC		84,070	-
John Keells Holdings PLC		140,596	-
<b>Power &amp; Energy</b>			
Panasian Power PLC		10,815	-
<b>Land and Property</b>			
Overseas Realty (Ceylon) PLC		2,320	-
<b>Manufacturing</b>			
Alumex		-	35,775
Textured Jersey Lanka PLC		60,350	-
Chevron Lubricants Lanka PLC		18,920	-
Total		<b>600,146</b>	<b>937,621</b>

## Notes to the Supplementary Information

As at 31 December	2015 Rs. '000	2014 Rs. '000
<b>3 REINSURANCE RECEIVABLES</b>		
Reinsurance on claims paid	62,643	2,576
Reinsurance on claims outstanding	-	70,740
	62,643	73,316
<b>4 RECEIVABLES AND OTHER ASSETS</b>		
Other debtors and receivables	119,375	63,622
Tax recoverable	192,784	174,630
	312,159	238,252
<b>5 CASH AND CASH EQUIVALENTS</b>		
Cash in hand	3,049	2,814
Cash at bank	187,636	102,211
	190,685	105,025
<b>6 EMPLOYEE BENEFITS</b>		
Balance as at 1 January	25,725	20,502
Provisions made during the year	8,020	8,141
	33,745	28,643
Payments during the year	(5,478)	(2,918)
Balance as at 31 December	28,267	25,725
<b>7 OTHER LIABILITIES</b>		
Commission payable	167,856	130,229
Current account payables	874,945	410,439
Premium deposits	81,928	58,759
Accruals	61,298	89,043
Other payables	57,994	40,505
	1,244,021	728,975



# Share Information

## 1. 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 are effectively traded in Diri Savi Board of the Colombo Stock Exchange under the symbol of AAIC.N0000.

## 2. SUBMISSION OF FINANCIAL STATEMENTS TO THE CSE

The audited Group Income Statements for the year ended 31 December 2015 and the audited Balance Sheets at that date have been submitted to the Colombo Stock Exchange within three months of the Balance Sheet date. The interim financial statements were submitted within stipulated time lines.

## 3. STOCK MARKET PERFORMANCE

During 2015, The All share Price Index (ASPI) dropped 5.54% while the larger market cap index, S&P SL20 dropped by 11.33%. The Equity market activity remained subdued in the first half of 2015 with the exception witnessed immediately after presidential elections and pre-general elections as investor sentiment improved based on expected political stability. However, towards the end of the year the ASPI was seen tumbling down due to adverse global and local conditions on equity, during the year CSE was able to record an Rs. 1.06 Billion, average daily turnover, Net foreign selling of Rs. 5.37 billion was witnessed in 2015 compared to a net foreign buying of Rs. 21.14 billion in 2014.

## 4. NAMES OF DIRECTORS

The names of persons who held the positions of Directors during the year are provided in the Annual Report of the Board of Directors on page 162 to 165

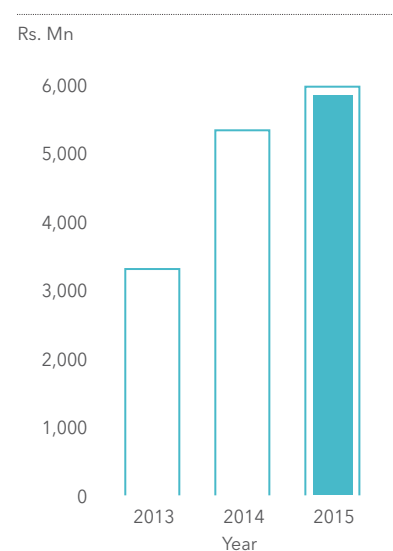
## 5. THE PRINCIPLE ACTIVITIES OF THE COMPANY

The principal activities of the company during the year are given in the Annual Report of the Board of Directors and Note 1.3 in accounting policies on page 256

## 6. PERFORMANCE OF ASIAN ALLIANCE SHARE

The Asian Alliance share has been well performed in stock market compared to previous year. This is due to the sustainable performance of the company. During the year 2015 the share reached a high of Rs. 217.2 (17 July) and a low of Rs. 16 (14 December). This significant drop came from the sub division of shares (10 shares for every 1 Shares held) happened in July 2015. During the year Rs. 379.3 million worth shares traded, compared to 2014 it's a 66% increase. The market capitalisation of Asian Alliance share as at 31 December 2015 was Rs. 6,000 million which is 12% against Rs. 5,363 million reported in year 2014.

## Market Capitalisation



### Sub division of Shares

At an Extraordinary General Meeting held on 20 July 2015, the shareholders approved a sub division of the Company shares, whereby one (1) existing share was sub divided to ten (10), thereby increasing the ordinary shares in issue from 37,500,000 to 375,000,000 ordinary shares.

The details relating to the performance of the share are given below;

	2015	2014
<b>MARKET VALUE</b>		
Highest price (Rs)	221.90	160.00
Lowest price (Rs)	15.90*	80.00
Year end price (Rs)	16*	143
<b>TRADING STATISTICS</b>		
Number of shares traded	7,291,547	1,736,277
Value of shares traded (Rs. million)	379.3	228.2
Market Capitalisation - AAI (Rs. million)	6,000	5,363
Percentage of total market capitalisation%	0.20%	0.17%
<b>VALUATION RATIOS</b>		
Number of shares as at 31 December	375,000,000	37,500,000
Basic Earnings per Share (Rs)	2.65	2.01**
Net Assets per Share (Rs)	6.50	6.32**
Price per Book Value (Times) - per share	2.46	2.26**
Return on Equity (%)	40.71	31.72
Price Earnings Ratio (Times)	6.04	7.11
Earning yield	16.6%	14.1%
Divided yield	Nil	49.9%

\* Subsequent to subdivision of shares

## Share Information

### Basic Earnings per Share

Earnings per Share have increased by 32% in 2015 compared to previous year as the company recorded notable profit growth. AAI has recorded Rs. 2.65 as EPS in 2015 whereas Rs. 2.01 in 2014

### Price Earnings Ratio

Price earnings ratio was 6.04 times in 2015 compared with 7.11 times recorded in previous year. There is a 15% decrease in PER due to enormous growth in EPS in 2015.

### Free float

The CSE defines the free float of a company as the percentage of shareholders, excluding Directors shareholdings, who hold less than 3% stake in the company. According to this definition, the AAI free float is 2.82% (2014 - 2.82%).

### 7. SHAREHOLDER BASE

AAI has a diversified shareholder base, both geographically and in the ratio of private to institutional investors. The total number of

shareholders increased from 657 as at 31 December 2014 to 1,288 as at 31 December 2015. On 31 December 2015, AAI had 1,195 registered individual shareholders, representing 92.78% of the shareholders, 48.75% of the shareholders hold less than 1,000 shares. The vast majority of AAI's individual shareholders are residents of Sri Lanka. Institutional shareholders represent approximately 7.22% of AAI's ordinary share capital. The top twenty shareholders hold 98.26% of AAI's shares.

### Distribution of Shareholders

No of Shares	As at 31 December 2015			As at 31 December 2014		
	No. of Shareholders	No. of Shares	% of Total Holding	No. of Shareholders	No. of Shares	% of Total Holding
1- 1,000	628	248,832	0.06	535	113,461	0.3
1,001-10,000	479	2,008,503	0.54	99	319,585	0.85
10,001 - 100,000	163	4,614,396	1.23	17	355,654	0.94
100,001-1,000,000	14	3,695,454	0.99	2	268,019	0.71
1,000,001 - & Over	4	364,432,810	97.18	4	36,443,281	97.18
Total	1,288	375,000,000	100	657	37,500,000	100

### Shareholders' Categorised Summery Report (Resident & Non Resident)

No of Shares	Non Resident			Resident		
	As at 31 December 2015			As at 31 December 2015		
	No. of Shareholders	No. of Shares	% of Total Holding	No. of Shareholders	No. of Shares	% of Total Holding
1-1,000	4	2,500	0.002	624	246,332	0.11
1,001-10,000	1	10,000	0.007	478	1,998,505	0.86
10,001-100,000	1	20,010	0.014	162	4,594,386	1.98
100,001-1,000,000	-	-	-	14	3,695,457	1.59
1,000,001- & Over	2	142,500,000	99.98	2	221,932,810	95.47
Total	8	142,532,510	100	1280	232,467,490	100

### Composition of Shareholders

Table : Resident / Non Resident Distribution

Description	As at 31 December 2015			As at 31 December 2014		
	No. of Shareholders	No. of Shares	% of Total	No. of Shareholders	No. of Shares	% of Total
Resident	1,280	232,467,490	61.99	650	23,064,508	61.5
Non Resident	8	142,532,510	38.01	7	14,435,492	38.49
Total	1,288	375,000,000	100	657	37,500,000	100

Table: Individual / Institution Distribution

Number of Shares	As at 31 December 2015			As at 31 December 2014		
	No. of Shareholders	No. of Shares	% of Total	No. of Shareholders	No. of Shares	% of Total
Individual	1,195	8,041,085	2.14	606	892,862	2.39
Institutional	93	366,958,915	97.86	51	36,607,138	97.61
Total	1,288	375,000,000	100	657	37,500,000	100

Number of Shares	As at 31 December 2015			As at 31 December 2014		
	No. of Shareholders	No. of Shares	% of Total	No. of Shareholders	No. of Shares	% of Total
Public Shareholding	1,283	10,391,640	2.77	653	1,039,164	2.77

#### Directors' Shareholding

Name	31 December 2015		31 December 2014	
	No of shares	%	No of shares	%
Mr. A. K. Pathirage (Chairman)	-	-	-	-
Mr. J. H. Paul Ratnayake (Deputy Chairman)	-	-	-	-
Mr. T. M. I. Ahamed (Managing Director / CEO)	-	-	-	-
Mr. Ramal G. Jasinghe - Director	-	-	-	-
Mr. S. Rajapakse - Director	-	-	-	-
Mr. M. R. Abeywardena - Director	-	-	-	-
Mr. J. K. Mukhi - Director	-	-	-	-
Mr. J. W. H. Richters - Director	-	-	-	-

#### Twenty Largest Shareholders

As at 31 December 2015		
Name of Shareholder	No of Shares	%
Softlogic Capital PLC	221,932,810	59.18
Nederlandse Financierings - Maatschappij Voor Ontwikkelingslan	71,250,000	19
HSBC Intl Nominees Ltd / State Street Munich c/o SSBT - DEG - Deutsche	71,250,000	19
Gajath Chrysantha Goonetilleke	775,500	0.21
Rajapaksha Rathnayaka Sarath Ananda	696,880	0.19
Pan Asia Bank PLC / V.P.K.A Palpita	372,227	0.10
Dandunna Arachchige Dasantha Primal	282,500	0.08
Global Sea Foods (Pvt) Ltd	210,000	0.06
Don Sujith Jayathu Wickramaratne	205,000	0.05
Nahimala Welegedara Senerath Bandara Ekanayaka	200,000	0.05
Waldock Mackenzie Ltd / M.Z.M Wafik	189,340	0.05
Softlogic Holdings PLC	175,550	0.05
First Capital Market Ltd/M.M.S Cooray	126,830	0.03
Waldock Mackenzie Ltd / G Soyza	125,000	0.03
Seylan Bank PLC / S.N.C.W.M Bandara Chandrasekara	125,000	0.03
Commercial Bank of Ceylon PLC / Rananjaya Holdings Pvt Ltd	110,000	0.03
Mushtaq Mohamed Fuad	101,630	0.03
Merchant Bank of Sri Lanka Ltd / Union Investment Ltd	100,000	0.03
Edgar Gunathunga	100,000	0.03
Merennage Roshini Hasamali Galappatti	100,000	0.03
	368,428,267	98.26
Others Shareholders	6,571,733	1.74
Total Shareholders	375,000,000	100

## Share Information

As at 31 December 2014		
Name of Shareholder	No of Shares	%
Softlogic Capital PLC	22,193,281	59.18
Nederlandse Financierings - Maatschappij Voor Ontwikkelingslanden	7,125,000	19
HSBC Intl Nominees Ltd / State Street Munich c/o SSBT - Deg - Deutsche	7,125,000	19
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.Pakianat	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.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 Shareholders	453,259	1.25
<b>Total Shareholders</b>	<b>37,500,000</b>	<b>100</b>

Compliance with contents of annual report as per Section 7.6 of the Listing Rules of the Colombo Stock Exchange

Section 7.6 to the listing rules 2013 of the Colombo Stock Exchange includes the following information as compulsory for the listed entities to disclosure in the annual report.

Listing rule Number	Compliance Requirement	Detail / Reference	Compliance Status
7.6.i	Names of persons who during the financial year were Directors of the entity	The names of persons who held the position of Directors during the Financial year is given in the Annual Report of the Board of directors (refer Page 162 to 165)	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 256)	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 31 December 2015 is provided on "Share Information" Section (refer Page 361)	Complied
7.6.iv	The public holding percentage	The details of the public shareholding are available on (refer Page 361)	Complied

Listing rule Number	Compliance Requirement	Detail / Reference	Compliance Status
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 229)	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 319)	Complied
7.6.vii	Details of material issues pertaining to employees and industrial relations of the entity	The Company did not encounter any relating to employees and industrial relations during the year 2015	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 Page 292)	Complied
7.6.ix	Number of shares representing the entity's stated capital	Total number of shares is 375,000,000 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 360)	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 "Share Information" Section. (Refer Page 359)	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 raised 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 174)	Complied
7.6.xvi	Details of investments in related party transactions.	There were no material transaction during the year with any related party of the company other than discloses (Refer Page 349)	Complied

## Quarterly Analysis 2015 - Group

### Statement of Comprehensive Income

	1 Quarter Jan - Mar 2015 Rs. '000	2 Quarter Apr - Jun 2015 Rs. '000	3 Quarter July - Sep 2015 Rs. '000	4 Quarter Oct - Dec 2015 Rs. '000	Total 2015 Rs. '000
Gross Written Premium	1,317,407	1,453,464	1,611,781	1,670,773	6,053,425
Net Change in Reserve for Unearned Premium	780	10,206	(99,450)	(43,127)	(131,590)
Gross Earned Premium	1,318,187	1,463,670	1,512,331	1,627,646	5,921,835
Premiums ceded to Reinsurers	(173,010)	(160,996)	(171,928)	(186,616)	(692,550)
Net Change in Reserve for Unearned Reinsurance Premium	(6,115)	(14,859)	(28,482)	(7,088)	(56,544)
<b>Net Earned Premium</b>	<b>1,139,062</b>	<b>1,287,815</b>	<b>1,311,921</b>	<b>1,433,942</b>	<b>5,172,741</b>
<b>Other Revenue</b>					
Finance income	174,517	151,207	164,069	234,968	724,761
Net Realised Gains / (Losses)	41,186	(1,028)	16,904	91,647	148,709
Net Fair value Gains / (Losses)	(101,318)	140,300	105,082	(59,627)	84,437
Other Operating Revenue	1,361	4,875	10,821	89,259	106,316
	115,746	295,354	296,876	356,247	1,064,223
<b>Total Net Income</b>	<b>1,254,808</b>	<b>1,583,169</b>	<b>1,608,797</b>	<b>1,790,189</b>	<b>6,236,963</b>
<b>Benefits, Claims &amp; Expenses</b>					
Net Insurance Benefits and Claims	(503,835)	(375,001)	(395,773)	(484,259)	(1,629,158)
Change in Insurance Contract Liabilities - Life	-	(459,156)	(401,265)	23,679	(966,452)
Underwriting and net Acquisition Cost	(244,745)	(274,137)	(271,545)	(358,685)	(1,149,112)
Other Operating & Administration Expenses	(295,560)	(409,564)	(423,498)	(436,956)	(1,565,578)
Finance Cost	(7,683)	(10,225)	(7,819)	(7,471)	(33,199)
Other Expenses	(1,051,823)	(1,528,083)	(1,499,900)	(1,263,693)	(5,343,499)
<b>Profit / ( Loss) Before Tax</b>	<b>202,985</b>	<b>55,086</b>	<b>108,897</b>	<b>526,496</b>	<b>893,465</b>
Income Tax Expense	(2,724)	(2,684)	(2,677)	38,928	30,844
<b>Profit / (Loss) for the Year</b>	<b>200,262</b>	<b>52,402</b>	<b>106,220</b>	<b>565,425</b>	<b>924,309</b>

## Quarterly Analysis 2015 - Company

### Statement of Comprehensive Income

	1 Quarter Jan - Mar 2015 Rs. '000	2 Quarter Apr - Jun 2015 Rs. '000	3 Quarter July - Sep 2015 Rs. '000	4 Quarter Oct - Dec 2015 Rs. '000	Total 2015 Rs. '000
Gross Written Premium	867,938	1,023,862	1,032,999	1,166,244	4,091,042
Net Change in Reserve for Unearned Premium	-	-	-	-	-
Gross Earned Premium	867,938	1,023,862	1,032,999	1,166,244	4,091,042
Premiums Ceded to Reinsurers	(114,341)	(124,200)	(125,454)	(137,477)	(501,471)
Net Change in Reserve for Unearned Reinsurance Premium	-	-	-	-	-
Net Earned Premium	753,597	899,662	907,545	1,028,767	3,589,571
<b>Other Revenue</b>					
Finance income	151,624	129,044	140,390	200,024	621,083
Net Realised Gains / (Losses)	41,875	(1,028)	16,904	68,578	126,329
Net Fair Value Gains / (Losses)	(84,324)	117,341	82,790	(35,293)	80,514
Other Operating Revenue	(1,517)	(70)	(50)	41,466	39,828
	107,658	245,287	240,034	274,775	867,754
<b>Total Net Income</b>	<b>861,255</b>	<b>1,144,949</b>	<b>1,147,579</b>	<b>1,303,542</b>	<b>4,457,325</b>
<b>Benefits, Claims &amp; Expenses</b>					
Net Insurance Benefits and Claims	(219,918)	(91,730)	(119,313)	(132,481)	(433,732)
Change in Insurance Contract Liabilities - Life	-	(459,156)	(401,265)	23,679	(966,452)
Underwriting and net Acquisition Cost	(205,648)	(243,923)	(268,658)	(274,343)	(992,572)
Other Operating & Administration Expenses	(178,823)	(289,784)	(286,411)	(291,652)	(1,046,670)
Finance Cost	(6,139)	(8,055)	(5,965)	(5,178)	(25,337)
Other Expenses	(610,528)	(1,092,648)	(1,081,612)	(679,975)	(3,464,763)
<b>Profit / ( Loss) Before Tax</b>	<b>250,727</b>	<b>52,301</b>	<b>65,967</b>	<b>623,567</b>	<b>992,562</b>
Income Tax Expense	-	-	-	-	-
<b>Profit / (Loss) for the Year</b>	<b>250,727</b>	<b>52,301</b>	<b>65,967</b>	<b>623,567</b>	<b>992,562</b>

## Quarterly Analysis 2014 - Group

### Statement of Comprehensive Income

	1 Quarter	2 Quarter	3 Quarter	4 Quarter	Total
	Jan - Mar	Apr - Jun	July - Sep	Oct - Dec	2014
	2014	2014	2014	2014	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	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	990,987	1,011,733	1,093,161	4,140,068
<b>Other Revenue</b>					
Finance Income	328,062	145,475	134,395	218,159	826,091
Net Realised Gains / (Losses)	272	17,060	13,719	51,798	82,849
Net Fair Value Gains / (Losses)	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
<b>Total Net Income</b>	<b>1,560,622</b>	<b>1,375,710</b>	<b>1,920,944</b>	<b>1,249,072</b>	<b>6,106,348</b>
<b>Benefits, Claims &amp; Expenses</b>					
Net Insurance benefits and claims	(792,621)	(720,364)	(922,963)	(365,811)	(2,801,759)
Change in Insurance Contract liabilities - Life	-	-	-	-	-
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)
<b>Profit/( Loss) Before Tax</b>	<b>255,251</b>	<b>93,126</b>	<b>197,449</b>	<b>222,294</b>	<b>768,120</b>
Income Tax Expense	(4,951)	(4,284)	(4,004)	402	(12,837)
<b>Profit / (Loss) for the year</b>	<b>250,300</b>	<b>88,842</b>	<b>193,445</b>	<b>222,696</b>	<b>755,283</b>



## Quarterly Analysis 2014 - Company

### Statement of Comprehensive Income

	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 2014 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	990,987	1,011,733	1,093,161	4,140,068
<b>Other Revenue</b>					
Finance income	328,062	145,475	133,294	215,356	822,187
Net Realised Gains / (Losses)	272	17,060	13,719	51,798	82,849
Net Fair Value Gains / (Losses)	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	1,375,710	1,919,843	1,246,269	6,102,444
<b>Benefits, Claims &amp; Expenses</b>					
Net Insurance Benefits and Claims	(792,621)	(720,364)	(922,963)	(365,811)	(2,801,759)
Change in Insurance Contract liabilities - Life	-	-	-	-	-
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 / ( Loss) Before Tax	255,251	93,126	196,869	219,704	764,950
Income Tax Expense	(4,951)	(4,284)	(4,004)	402	(12,837)
Profit / (Loss) for the Year	250,300	88,842	192,865	220,106	752,113

## Summary of Ten Years' Performance

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>General Insurance Income Statement</b>										
Gross Written Premium	1,977,003	1,725,147	1,556,386	1,190,392	628,163	430,666	496,749	459,771	383,590	417,679
Net Earned Premium	1,597,790	1,323,474	1,101,693	685,392	347,578	277,860	312,552	243,614	207,089	173,892
Other Revenue	196,469	485,055	287,293	118,742	(266,134)	288,690	87,279	59,214	33,630	21,473
Net Income	1,794,259	1,808,529	1,388,986	804,134	81,443	566,550	399,831	302,828	240,719	195,365
Net Insurance Benefits & Claims	(1,195,426)	(1,358,658)	(1,038,331)	(608,823)	(305,387)	(267,481)	(283,357)	(178,130)	(121,246)	(90,539)
Net Acquisition Cost	(156,540)	3,694	19,936	28,956	8,129	4,400	15,881	4,723	(1,827)	(4,387)
Expenses	(541,390)	(528,716)	(410,027)	(305,445)	(178,510)	(186,503)	(180,248)	(158,275)	(118,453)	(107,104)
Profit / (Loss) for the Year	(99,097)	(75,151)	(39,436)	(81,178)	(394,324)	116,966	(47,893)	(28,854)	(807)	(6,665)
<b>Life Insurance Income Statement</b>										
Gross Written Premium	4,091,042	3,048,148	2,520,283	2,034,084	1,579,191	1,242,608	1,009,031	970,077	890,793	747,934
Net Earned Premium	3,589,571	2,816,593	2,138,666	1,707,103	1,321,556	1,037,936	843,499	811,449	742,835	631,386
Other Revenue	867,754	1,477,322	709,271	347,434	255,891	412,081	311,527	173,898	122,487	54,674
Net Income	4,457,325	4,293,915	2,847,937	2,054,537	1,577,447	1,450,017	1,155,026	985,347	865,322	686,060
Net Insurance Benefits & Claims	(433,732)	(312,491)	(214,101)	(143,116)	(123,547)	(103,076)	(87,529)	(48,902)	(38,942)	(32,730)
Net Acquisition Cost	(992,572)	(714,531)	(603,629)	(509,727)	(291,226)	(247,791)	(165,536)	(155,619)	(164,653)	(139,939)
Expenses	(1,072,007)	(1,173,695)	(754,513)	(694,476)	(539,018)	(476,583)	(350,534)	(305,249)	(233,125)	(182,334)
Operating Surplus before Transfer to Insurance Provision - Life	1,959,014	2,093,198	1,275,694	707,218	623,656	622,567	551,427	475,577	428,602	331,057
Transfer to Insurance Provision - Life	(966,452)	(1,253,098)	(842,119)	(551,339)	(423,656)	(368,957)	(356,427)	(315,577)	(313,361)	(264,966)
Transfer from \ (to) Shareholder's Fund	-	-	(300,000)	(155,879)	(200,000)	(253,610)	(195,000)	(160,000)	(115,241)	(66,091)
Profit for the year	992,562	840,100	133,575	-	-	-	-	-	-	-
<b>Group Income Statement</b>										
Gross Written Premium	6,053,425	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
Net Profit \ (Loss) Before Taxation	893,465	764,949	394,137	74,700	(194,509)	370,576	147,107	131,146	114,434	68,200
Taxation	30,844	(12,838)	(31,802)	(1,410)	(3,721)	(2,568)	(2,329)	4,258	(1,138)	2,568
Net Profit \ (Loss) After Taxation	924,309	752,111	362,335	73,290	(198,230)	368,008	144,778	135,404	113,296	70,768

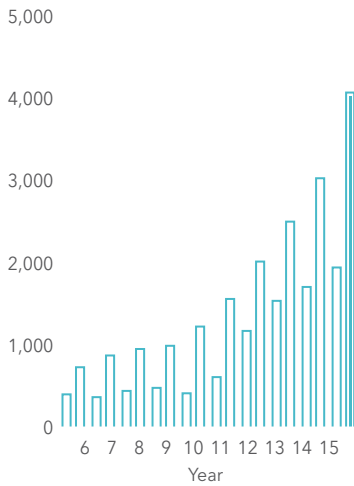
# Summary of Ten Years' Financial Position

	Group					Company				
	2015 Rs. '000	2014 Rs. '000	2013 Rs. '000	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000	2009 Rs. '000	2008 Rs. '000	2007 Rs. '000	2006 Rs. '000
<b>Assets</b>										
Intangible Assets	22,219	31,493	-	-	-	-	-	-	-	-
Property Plant & Equipment	518,911	377,875	158,041	116,104	96,365	79,818	65,564	54,136	33,948	30,249
Investments in Subsidiary	-	100,000	-	-	-	-	-	-	-	-
Financial Investments	9,265,451	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
Investment Property	-	-	-	-	-	36,750	-	-	-	-
Loans to Life Policy holders and Others	145,314	133,846	107,089	81,398	60,187	45,879	31,453	13,915	6,655	1,884
Reinsurance Receivables	122,169	159,712	144,058	110,070	64,593	99,937	41,041	45,940	283,975	485,915
Premium Receivables	550,995	460,196	464,453	379,720	189,998	102,611	74,517	105,926	78,078	96,267
Amounts due from Related Companies	865	2,044	259	-	-	-	-	-	-	-
Other Assets	434,345	341,022	166,855	138,951	155,201	139,089	152,872	103,291	57,251	52,627
Deferred Acquisition Costs	125,922	100,956	89,304	68,192	39,298	25,567	-	-	-	-
Deferred Tax Assets	61,904	-	-	-	-	-	-	-	-	-
Cash & Cash Equivalents	223,936	130,255	102,228	103,637	55,192	62,438	52,140	30,507	21,713	26,272
<b>Total Assets</b>	<b>11,472,031</b>	<b>10,301,470</b>	<b>7,475,158</b>	<b>5,829,106</b>	<b>4,646,633</b>	<b>4,413,700</b>	<b>2,732,163</b>	<b>2,140,725</b>	<b>1,939,293</b>	<b>1,617,914</b>
<b>Equity and Liabilities</b>										
<b>Equity &amp; Reserves</b>										
Stated Capital	1,062,500	1,062,500	1,062,500	1,062,500	1,062,500	1,062,500	250,000	250,000	250,000	250,000
Other Reserves	(640,440)	455,472	114,663	104,477	230,852	160,128	-	-	-	-
Revaluation Reserve	24,903	-	-	-	-	-	-	-	-	-
Retained Earnings	1,776,361	853,022	654,531	294,526	121,548	518,825	267,540	154,060	18,656	(82,140)
<b>Total Equity &amp; Reserves</b>	<b>2,223,323</b>	<b>2,370,994</b>	<b>1,831,694</b>	<b>1,461,503</b>	<b>1,414,900</b>	<b>1,741,453</b>	<b>517,540</b>	<b>404,060</b>	<b>268,656</b>	<b>167,860</b>
<b>Liabilities</b>										
Insurance Contract Liabilities - Life	6,192,615	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
Insurance Contract Liabilities - General	1,322,011	1,138,694	921,221	681,514	392,777	275,668	275,602	246,139	431,004	611,062
Employee Benefits	63,358	53,028	46,154	34,398	27,863	22,738	14,653	10,871	9,213	7,201
Reinsurance Payables	139,946	131,308	137,583	77,974	98,273	81,695	87,192	55,654	91,923	59,620
Deferred Revenue	10,738	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
Other Liabilities	496,966	872,204	398,032	374,592	331,510	299,948	248,007	206,877	248,222	194,112
Current Tax Liabilities	12,325	11,980	15,537	-	-	-	-	-	-	-
Short Term Borrowings	269,700	154,483	50,000	-	-	-	-	-	-	-
Deferred Tax Liabilities	7,905	-	-	-	-	-	-	-	-	-
Bank overdrafts	733,143	319,305	119,063	86,734	11,590	4,242	16,412	10,180	-	578
<b>Total Liabilities</b>	<b>9,248,707</b>	<b>7,930,476</b>	<b>5,643,464</b>	<b>4,367,603</b>	<b>3,231,733</b>	<b>2,672,247</b>	<b>2,214,623</b>	<b>1,736,665</b>	<b>1,670,637</b>	<b>1,450,054</b>
<b>Total Equity and Liabilities</b>	<b>11,472,031</b>	<b>10,301,470</b>	<b>7,475,158</b>	<b>5,829,106</b>	<b>4,646,633</b>	<b>4,413,700</b>	<b>2,732,163</b>	<b>2,140,725</b>	<b>1,939,293</b>	<b>1,617,914</b>

# Ten Years' Graphical Presentation

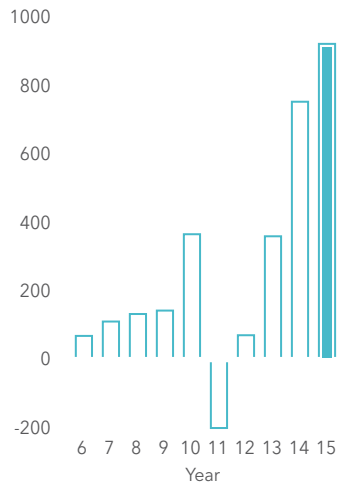
## GWP Life & General

Rs. Mn



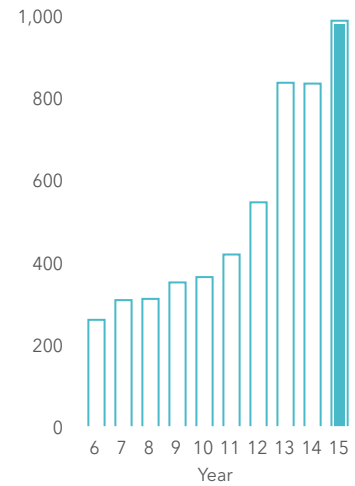
## Profit After Tax - Group

Rs. Mn



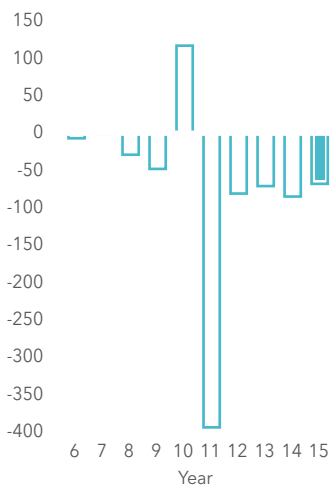
## Profit After Tax - Life

Rs. Mn



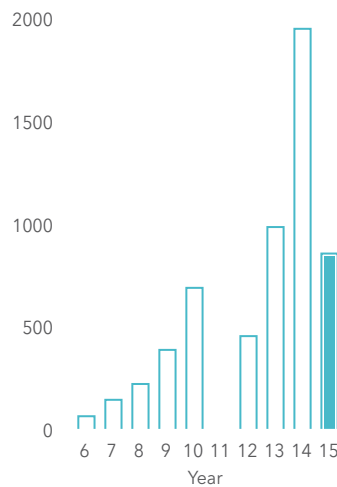
## Profit After Tax - General

Rs. Mn



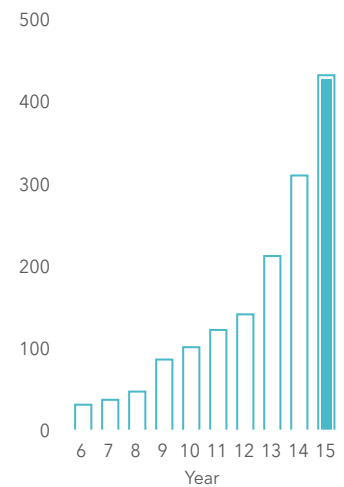
## Investment and Other Income

Rs. Mn



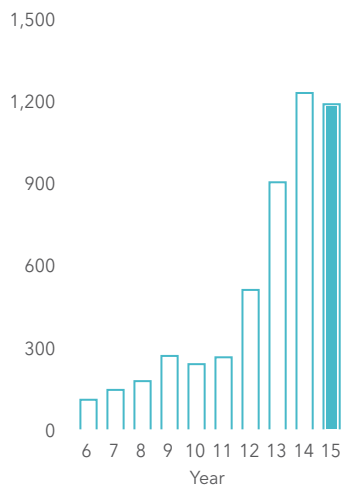
## Net Claims - Life

Rs. Mn



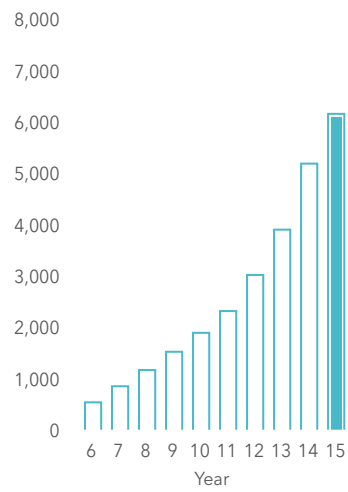
### Net Claims - General

Rs. Mn



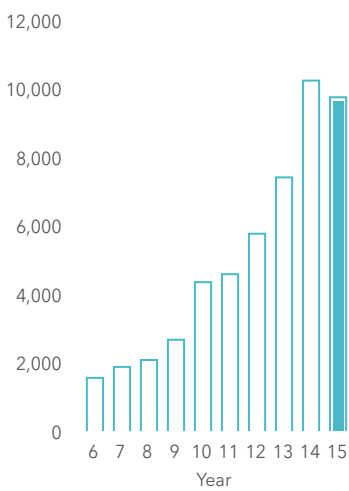
### Life Fund

Rs. Mn



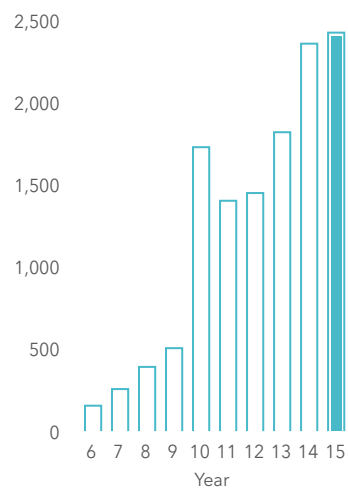
### Total Assets

Rs. Mn



### Net Assets - Company

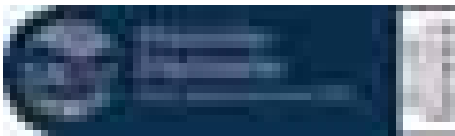
Rs. Mn



# GRI G4 - Content Index

The Global Reporting Initiative (GRI) is a non-profit organisation that promotes economic, environmental and social sustainability. GRI's Sustainability Reporting Guidelines 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 Guidelines at Core option.



GENERAL STANDARD DISCLOSURES		Page Number	External Assurance
<b>STRATEGY AND ANALYSIS</b>			
G4-1	Managing Director's Statement	Pages 26 - 27	None
<b>ORGANISATIONAL PROFILE</b>			
G4-3	Name of the Organisation	Page 10	None
G4-4	Brands, Products, and Services	Pages 109 -117	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 10 - 11	None
G4-8	Markets served	Page 120	None
G4-9	Scale of the Organisation	Pages 74, 105, 108, 127, 360	Yes
G4-10	Employees by Contract and Gender	Pages 129 - 130	Yes
G4-11	Employees with collective bargaining	We do not have any collective bargaining agreements	None
G4-12	Description of the Supply Chain	Pages 40 - 41	None
G4-13	Significant Changes in Size	Page 12	None
G4-14	Precautionary Approach	Page 188	None
G4-15	External charters	Pages 189, 122 - 125	None
G4-16	Memberships of Associations	Page 48	None
<b>IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES</b>			
G4-17	List of Entities	Page 46	None
G4-18	Aspect Boundaries	Page 46	None
G4-19	Material Aspects	Pages 47 - 48	None
G4-20	Aspect Boundary within Organisation	Page 48	None
G4-21	Aspect Boundary outside Organisation	Page 48	None
G4-22	Restatements	Page 46	None
G4-23	Significant changes	Page 46	None

GENERAL STANDARD DISCLOSURES		Page Number	External Assurance
<b>STAKEHOLDER ENGAGEMENT</b>			
G4-24	Stakeholder Groups	Page 43	Yes
G4-25	Selection of Stakeholders	Pages 43 - 44	Yes
G4-26	Stakeholder Engagement	Pages 44 - 45	Yes
G4-27	Key topics raised by Stakeholders	Pages 44 - 45	Yes
<b>REPORT PROFILE</b>			
G4-28	Reporting Period	Page 5	None
G4-29	Previous Report	Page 46	None
G4-30	Reporting Cycle	Annually	None
G4-31	Contact Point	Page 7	None
G4-32	The 'in accordance' option	Pages 46, 372 - 375	None
G4-33	External Assurance	Page 7, 211	None
<b>GOVERNANCE</b>			
G4-34	Governance Structure	Page 189	None
<b>ETHICS AND INTEGRITY</b>			
G4-56	Values and Code of Ethics	Page 188	None
<b>SPECIFIC STANDARD DISCLOSURES</b>			
<b>CATEGORY: ECONOMIC</b>			
<b>MATERIAL ASPECT: ECONOMIC PERFORMANCE</b>			
G4-DMA		Pages 73 - 97	Yes
G4-EC1	Direct economic value generated and distributed	Page 98	Yes
<b>CATEGORY: ENVIRONMENTAL</b>			
<b>MATERIAL ASPECT: ENERGY</b>			
G4-DMA		Page 147	Yes
G4-EN3	Energy Consumption	Page 148	Yes
<b>MATERIAL ASPECT: OVERALL</b>			
G4-DMA		Pages 148 - 149	Yes
G4-EN31	Total Environmental Protection	Pages 147, 149	Yes
<b>CATEGORY: SOCIAL</b>			
<b>SUB-CATEGORY: LABOUR PRACTICES AND DECENT WORK</b>			
<b>MATERIAL ASPECT: EMPLOYMENT</b>			
G4-DMA		Pages 130 - 131, 137 - 138	Yes
G4-LA1	New Employee Hires and Employee Turnover	Page 131	Yes
G4-LA3	Return to Work	Page 138	Yes
<b>MATERIAL ASPECT: TRAINING AND EDUCATION</b>			
G4-DMA		Pages 134 - 138	Yes
G4-LA9	Average hours of Training	Page 135	Yes

## GRI G4 - Content Index

GENERAL STANDARD DISCLOSURES		Page Number	External Assurance
G4-LA10	Programs for Skills Management	Pages 134 - 137	Yes
G4-LA11	Percentage of Employees receiving Regular Performance	Page 134	Yes
MATERIAL ASPECT: DIVERSITY AND EQUAL OPPORTUNITY			
G4-DMA		Pages 129 - 130, 133	Yes
G4-LA12	Composition of Governance Bodies and Employees	Pages 130, 133	Yes
MATERIAL ASPECT: EQUAL REMUNERATION FOR WOMEN AND MEN			
G4-DMA		Page 133	Yes
G4-LA13	Ratio of Basic Salary and Remuneration of Women to Men	Page 133	Yes
SUB-CATEGORY: HUMAN RIGHTS			
MATERIAL ASPECT: NON-DISCRIMINATION			
G4-DMA		Pages 151 - 152	Yes
G4-HR3	Incidents of Discrimination	Page 152	Yes
MATERIAL ASPECT: CHILD LABOUR			
G4-DMA		Pages 118, 152	Yes
G4-HR5	Incidents of Child Labour	Page 152	Yes
SUB-CATEGORY: SOCIETY			
MATERIAL ASPECT: LOCAL COMMUNITIES			
G4-DMA		Pages 152 - 153	Yes
G4-SO1	Local Community Engagement, Impact Assessments, and Development Programs	Page 152	Yes
Sector specific indicator			
FS-13	Access Points in Low - Populated or Economically Disadvantage by Area and Type	Page 120	Yes
MATERIAL ASPECT: ANTI-CORRUPTION			
G4-DMA		Pages 150 - 152	Yes
G4-SO4	Anti-corruption Policies and Procedures	Page 151	Yes
G4-SO5	Incidents of Corruption	Page 151	Yes
MATERIAL ASPECT: PUBLIC POLICY			
G4-DMA		Page 152	Yes
G4-SO6	Value of Political Contributions	Page 152	Yes
MATERIAL ASPECT: COMPLIANCE			
G4-DMA		Pages 151 - 152	Yes



GENERAL STANDARD DISCLOSURES		Page Number	External Assurance
G4-SO8	Compliance with laws and Regulations	Page 152	Yes
SUB-CATEGORY: PRODUCT RESPONSIBILITY			
MATERIAL ASPECT: CUSTOMER HEALTH AND SAFETY			
G4-DMA		Page 118	Yes
G4-PR2	Incidents of non-compliance	Page 118	Yes
MATERIAL ASPECT: PRODUCT AND SERVICES LABELLING			
G4-DMA		Pages 107, 119	Yes
G4-PR5	Results of Customer Satisfaction Surveys	Pages 107, 119	Yes
MATERIAL ASPECT: MARKETING COMMUNICATIONS			
G4-DMA		Page 118	Yes
G4-PR6	Sale of Banned Products	Page 118	Yes
MATERIAL ASPECT: CUSTOMER PRIVACY			
G4-DMA		Page 121	Yes
G4-PR8	Breaches of Customer Privacy	Page 121	Yes
MATERIAL ASPECT: COMPLIANCE			
G4-DMA		Page 118	Yes
G4-PR9	Non-compliance with Laws and Regulations	Page 118	Yes

# 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.

## Cc

### 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.

### 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 recognised 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.

## Glossary of Insurance Terms

### 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.

## li

### 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.

### Interim Payments

Periodic payments to the policyholders on a specific type of policy

### Investment Contract

A contract, which contains significant financial risk and may contain insignificant insurance risk, but does not meet the definition of insurance

## Ll

### Lapsed Policy

A policy terminated at the end of the grace period because of non-payment of premiums.

### Liability Adequacy Test

An annual assessment of the sufficiency of insurance and/or investment contract with liabilities, to cover future insurance obligations.

### Life Fund

Net Assets kept to meet the obligation towards Life Policyholders.

### Life Insurance Business

Insurance (including reinsurance) business falling within the classes of insurance specified as Long Term Insurance Business under the Regulation of Insurance Industry Act No. 43 of 2000.

### Life Surplus

The excess of the assets over the liabilities as determined by the actuary (taking into account solvency requirements) and after distribution of dividends to policyholders.

### Loss Adjuster

An independent qualified person, used by insurers to settle large or difficult losses. The insured is free to employ his own professional help (called Loss Assessor)

## Mm

### Malicious Damage

Unlawful damage caused by the malicious act of any person motivated by ill-will in circumstances not amounting to a riot.

### Market Risk

The potential for a negative impact on the statement of financial position and/or income statement resulting from adverse changes in the value of financial instruments as a result of changes in certain market variables. These variables include interest rates, foreign exchange rates, equity and commodity prices and their implied volatilities, as well as credit spreads, credit migration and default.

### Maturity

The time at which payment of the sum insured under a Life Insurance policy falls due at the end of its term.

### 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

## Glossary of Insurance Terms

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.

Market price per share

Earning per share

### Primary Insurers

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

### Profit Commission

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

### Proportional Reinsurance

Form of reinsurance in which the sum insured written by the primary insurer is divided proportionally between the primary insurer and the reinsurer, and the reinsurer is allocated a corresponding share of the premiums and claims.

### Proposal Form

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

## Rr

Reinsurance

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

### Reinsurance Commission

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

### Reinsurance Inwards

The acceptance of risks under a contract of reinsurance.

### Reinsurance Outwards

The placing of risks under a contract of reinsurance.

### Reinsurance Premium

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

Reinsurance Profit Commission

Commission received or receivable by the cedent (reinsured) from the reinsurer based on the net profit (as defined in the treaty) made by the reinsurer on the reinsurance treaty

### Retention

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

### Retrocession

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

### Revenue Account

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

## Rider

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

### 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;

$RCAR = (Total\ Available\ Capital / Risk\ Based\ Capital\ Required) * 100$

## Ss

### Salvage

Whatever is recovered of an insured item (or part of it) on which a claim has been paid.

### Schedule

Part of the policy which records the specific details of the contract.

### Segment

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

### Solvency margin - Life

The difference between the value of assets and value of liabilities, required to be maintained by the insurer who carries on Life insurance business (Long Term Insurance) as defined in Solvency Margin

(Long Term Insurance) Rules, 2002 made under section 26 of the Regulation of insurance Industry Act No. 43 of 2000.

#### Solvency Margin - 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 million; 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 17th Annual General Meeting of ASIAN ALLIANCE INSURANCE PLC (the Company) will be held on 31 March 2016 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 31 December 2015 and the Report of the Auditors thereon.
2. To re-elect Mr. J.H.P.Ratnayake 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 authorise the Directors to determine their remuneration
4. To transact any other business of due which due notice has been given

BY ORDER OF THE BOARD OF DIRECTORS OF  
ASIAN ALLIANCE INSURANCE PLC

(Sgd.)  
P.R. SECRETARIAL SERVICES (PRIVATE) LIMITED  
Secretaries  
At Colombo, this 16 February 2016

### Note:

- A Member entitled to attend and vote at the meeting, is entitled to appoint a Proxy to attend and vote instead of him/her.
- A Proxy need not be a Member of the Company.
- A Member wishing to vote by Proxy at the meeting may use the Form of Proxy form enclosed.
- Any member or Proxy holder attending the meeting is kindly requested to bring this report.
- The completed Form of Proxy should also be deposited at No.59, Gregory's Road, Colombo 07 not less than forty eight (48) hours before the time appointed for holding of the meeting.
- For security reasons, Members. Proxy holders are kindly advised to bring along with them their National Identity Card or similar for of acceptance identity when attending the meeting.



# Form of Proxy

I/We.....

of.....

being a Member / Member\* of the above named Company, hereby appoint.....

of.....failing him / her.

- |    |                         |                |
|----|-------------------------|----------------|
| 1. | Mr. Asoka K. Pathirage  | or failing him |
| 2. | Mr. J. H.P. Ratnayeke   | or failing him |
| 3. | Mr. T. M. IftikarAhamed | 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 17th Annual General Meeting of the Company to be held on 31 March 2016 at 10.00 a.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 31 December 2015 and the Report of the Auditors thereon.		
2.	To re-elect Mr. J. H.P. Ratnayeke 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 authorise the Directors to determine their remuneration		
4.	To transact any other business of due which due notice has been given.		

Signed this ..... day of ..... 2016.

.....  
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.

## Form of Proxy

### INSTRUCTIONS FOR THE COMPLETION OF PROXY

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 No.59, Gregory's Road, Colombo 07 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.





# 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:

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Do you have any additional comments on the report - or on AAI's performance in general?

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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

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Contact details

Chief Manager - Finance  
Asian Alliance Insurance PLC  
Address: No 283,  
R A De Mel Mawatha,  
Colombo 3,  
Sri Lanka.  
Tel: +94 11 2315769  
Email: nuwanp@asianalliance.lk



# Corporate Information

## Name of the Company

Asian Alliance Insurance PLC - (AAI PLC)

## Subsidiary Company

Asian Alliance General Insurance Limited - (AAGI)

## Group Executive Committee

T. M. Ifthikar Ahamed- Managing Director - AAIPLC / Director - AAGI

Chula Hettiarachchi - Chief Operating Officer - AAIPLC

## Related Party Transactions Review Committee

Sujeewa Rajapakse - Chairman  
Jatinder K. Mukhi  
Johannes W. H. Richters

## Consultant Actuaries

Life Insurance / Gratuity  
Actuarial and Management  
Consultants (Pvt) Ltd.,  
1st Floor, No. 434, R. A. De Mel Mawatha,  
Colombo 03.

## Life Insurance - LAT

The Pinnacle Consulting Group Limited  
Hong Kong

## General Insurance

NMG Financial Services Consulting Pte Ltd.  
No. 65, Chulia Street, #37 - 07/08 OCBC  
Centre  
049513, Singapore.

## Auditors

Messrs. KPMG (Chartered Accountants)  
PO Box 186, No. 32A, Sir Mohamed Macan  
Markar Mawatha,  
Colombo 03.

## Secretaries

P. R. Secretarial Services (Pvt) Ltd  
No 59, Gregory's Road,  
Colombo 07.

## Lawyers

Paul Rathnayake Associates

## 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 regard please write to;

The Chief Financial Officer  
No. 283, R.A. De Mel Mawatha,  
Colombo 03, Sri Lanka  
Telephone +94 11 2315555 (Ext 5071)  
Fax +94 11 2372937  
E Mail: dilanc@asianalliance.lk

Description	AAI PLC	AAGI
Legal Form	Public Limited Liability Company	Limited Liability Company
Date of Incorporation	21st April 1999	28th March 2014
Company Registration No.	PQ 31	PB 5180
Principal Activities	Life Insurance Business	General Insurance Business
Ownership	N/A	100% by AAI PLC
Tax Payer Identification Number (TIN)	134008202	139051807
VAT Registration Number	134008202 - 7000	139051807 - 7000
Registered office and Principle Place of Business	Head Office, No. 283, R.A. De Mel Mawatha, Colombo 03, Sri Lanka Telephone +94 11 2315555 Fax +94 11 2372937 E-mail: info@asianalliance.lk Website: www.asianalliance.lk	Head Office, No. 65, Ward Place, Colombo 07, Sri Lanka Telephone +94 11 2315555 Fax +94 11 2372937 E-mail: info@asianalliance.lk Website: www.asianalliance.lk

## 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 "AALC"

## Accounting Year End

31st December

## Board of Directors

Ashok Pathirage - Chairman - Non Executive Director (AAIPLC / AAGI)

J.H Paul Ratnayake - Deputy Chairman - Independent Non-Executive Director - (AAIPLC)

T. M. Ifthikar Ahamed - Managing Director (AAIPLC) - Executive Director - (AAGI)

Ramal G. Jasinghe - Non-Executive Director (AAIPLC) - Executive Director / CEO (AAGI)

Sujeewa Rajapakse - Independent Non - Executive Director - (AAIPLC)

Mohan Ray Abeywardena - Independent Non-Executive Director- (AAIPLC)

Jatinder K. Mukhi - Independent Non - Executive Director- (AAIPLC)

Johannes W. H. Richters - Independent Non-Executive Director - (AAIPLC)

Ramal G. Jasinghe - Director / CEO - AAGI

Thilanka Kiriporuwa - Head of Human Resources

## Board Sub Committees

### Audit Committee

Sujeewa Rajapakse - Chairman  
Mohan Ray Abeywardena  
Jatinder K. Mukhi  
Johannes W. H. Richters

### HR & Remuneration Committee

Ashok Pathirage - Chairman  
Mohan Ray Abeywardena  
J.H Paul Ratnayake  
Sujeewa Rajapakse

### Risk Committee

Jatinder K. Mukhi - Chairman  
T. M. Ifthikar Ahamed  
Ramal G. Jasinghe  
Johannes W. H. Richters

### Nomination Committee

Ashok Pathirage - Chairman  
J.H Paul Ratnayake  
Mohan Ray Abeywardena

### Investment Committee

Ashok Pathirage - Chairman  
T. M. Ifthikar Ahamed  
Ramal G. Jasinghe  
Sujeewa Rajapakse  
Jatinder K. Mukhi  
Johannes W. H. Richters

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Digital Plates & Printing by Software Printing and Publishing (Pvt) Ltd  
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