Allianz Lanka

Allianz Insurance Lanka Ltd. | Allianz Life Insurance Lanka Ltd.

Annual Report 2011

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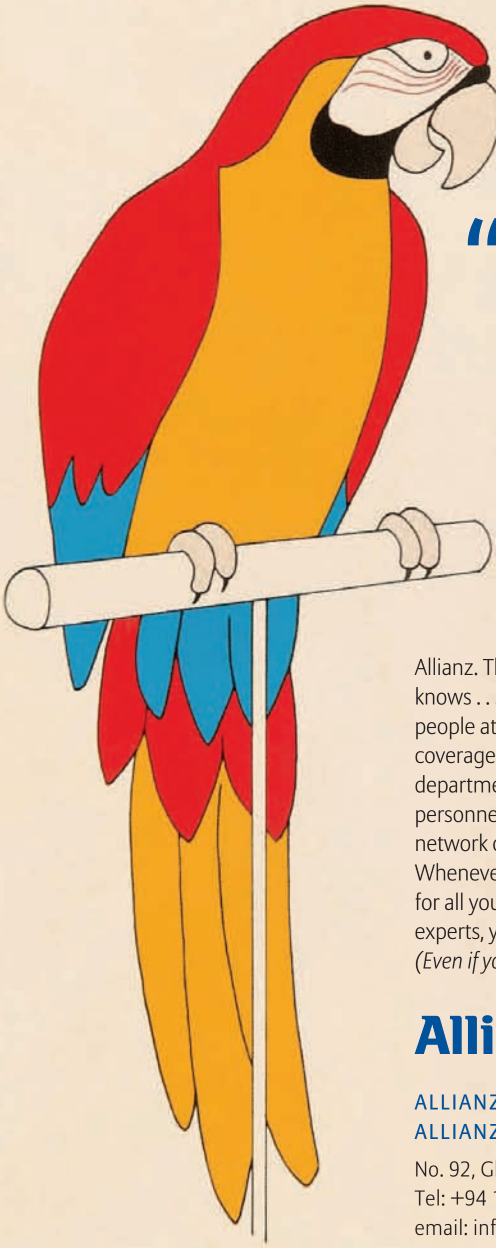

Say

"Ah . . . Lee . . . Ahnz"

Allianz. The company everybody knows . . . but can't pronounce. The people at Allianz give you the best in coverage and services. Every department is built on experienced personnel, and backed by a worldwide network of insurance expertise. Whenever you think 'insurance', call us for all your insurance needs. We are the experts, you should know.
(Even if you can't pronounce our name.)

Allianz

ALLIANZ INSURANCE LANKA LTD.
ALLIANZ LIFE INSURANCE LANKA LTD.

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Content

Vision

To be the first choice insurer for customers

To be the preferred employer in the insurance industry

To be the number one insurer for creating shareholder value

Mission

As a responsible, customer-focused market leader we will strive to understand the insurance needs of consumers and translate them into affordable products that deliver value for money

Guiding Principle

The customer is our most valuable asset and everything we do is aimed at either winning a customer or retaining a customer

Core Values

We value the highest ethical standards

We apply the highest ethical standards to everything we do. Nothing is more important than our reputation for integrity and honesty and we will work to ensure that every Allianz employee continually earns and protects our reputation

We value commitment to excellence

We apply the highest standards of excellence to the products we develop, the services we provide and the relationships we build with our business partners

We value respect for individuals

We believe every job at Allianz is important. We recognise, respect, and appreciate the contributions of each individual by creating a culture that recognises and values our differences - not only in who we are but also in how we think and the way in which we carry our responsibilities

We value our investment in our people

We cultivate an environment that offers employees the opportunity for growth and advancement, personal satisfaction in work accomplishments, and the means to share in the Company's success

About Allianz

Allianz Insurance Lanka Ltd. and Allianz Life Insurance Lanka Ltd. (known together as 'Allianz Lanka') are fully owned subsidiaries of Allianz SE, one of the world's leading integrated financial services conglomorates headquartered in Munich, Germany. The global strength and solid capitalisation of the Allianz Group coupled with local expertise and business know-how has been Allianz Lanka's powerful formula for success since inception.

Since inception in 2005, Allianz Insurance Lanka Ltd. has been one of the fastest growing insurers in Sri Lanka with its Gross Written Premium growing at a Compounded Annual Growth Rate (CAGR) of 65% , well above the industry growth rate. Allianz Life Insurance Lanka Ltd. too has maintained a phenomenal growth rate in its short three year history to become a leading Life insurance company in Sri Lanka. Allianz Lanka has achieved many 'firsts' that have redefined industry benchmarks along the way.

- The FIRST General insurance company to record an underwriting profit in the second year of operations
- The FIRST Life insurance company to make Rupees Hundred Million Gross Written Premium within the first year of operations
- The FIRST and ONLY insurance operation to comply with the statutory requirement of having two separate legal entities for Life and General insurance business

Some of the major infrastructure projects and buildings in Sri Lanka insured by Allianz Lanka include the World Trade Centre Twin Towers, oil exploration in the Mannar basin, the Arugam Bay bridge, the first wind power project, the Southern Highway while under construction.

The Allianz Group insures many of the world's largest and architecturally significant structures, and in Asia alone, Malaysia's Petronas twin Towers, one of the world's tallest buildings, the MRT (Mass Rapid Transport) in Singapore and Bangkok, the international airports in Hong Kong, Bangkok and Kuala Lumpur, Dubai's Palm Island the world's largest artificial island, and numerous atolls in the Maldives.

Representing an international network of strong brands with first-class products, Allianz brings together expertise in insurance, asset management and banking. In insurance, Allianz is among the four largest insurers in the world in terms of both the assets and premium income. The conglomerate is also one of the world's largest asset managers, with third-party assets over $ 1.8 trillion under management at year-end 2011. Over 700 Allianz companies with a team of approximately 181,000 employees worldwide serve more than 76 million customers in about 70 countries.

Allianz created history in 2006 by becoming the first company on the Dow Jones Euro Stoxx 50 index to change its corporate form to a new European legal form, Societas Europaea (SE).

About Allianz *(Contd.)*

Despite the difficult economic and insurance market conditions of 2011, Allianz maintained its stability and dominance in the market with excellent financial strength ratings given by premier global rating agency - "AA" by Standard & Poor's. Thus Allianz remains one of the highest-rated insurance groups with regards to its credit worthiness.

Allianz demonstrates its strong sense of corporate responsibility throughout the world by involving itself in the issues of the times, and has also made many innovative contributions towards climate change and reducing greenhouse gas emissions.

In the latest review for Dow Jones Sustainability Indexes (DJSI), Allianz retained its position among the leaders in sustainability in the insurance industry with an improved score by 2 points to 81, which now places the conglomerate head-to-head with "Super Sector Leaders". Allianz was especially recognisaed as leading the insurance industry in providing insurance to low-income households and contributing to strengthen local insurance systems, brand management and risk detection.

In 2011, the Allianz brand was valued at $ 5.3 billion, up 9% from $ 4.9 billion in 2010, and continued to be ranked among the best 100 global brands by the Business Week/Interbrand which also ranked the brand as the "Best Global Green Brand" in the Financial Services category. This ranking was based on consumer perception of green activities and a demonstration of environmental performance, which confirms the success of Allianz's leadership in integrating sustainability into core business processes and activities.

As Official Global Partner of Formula 1 racing and insurer of about 50 million cars worldwide, Allianz uses the fusion of speed technology and performance of Formula 1 racing to drive its expertise in safety. The world's only insurer to have its own safety research centre, the Allianz Center for Technology translates the safety aspects and new technologies in Formula 1 racing into everyday road safety and accident prevention strategies to improve road safety worldwide. Since May 2011, Allianz has also been a supporter of the "Decade of Action for Road Safety 2011-2020", to raise awareness of the global epidemic of road traffic injuries.

This commitment to safety was also taken into the sponsorship and financial partnership of the Allianz Arena in Munich, one of the most innovative and exclusive stadiums in the world. Here, the company installed outstanding safety measures recognised by German fire safety organisation Bundesverband Technischer Brandschutz e. V. (bvfa) with the prestigious Sprinkler Protected fire safety award for fire safety. This is the first time ever that the bvfa has given a football stadium an award for exceptional fire safety.

Since 2006, Allianz SE has been a proud partner of the International Paralympic Committee (IPC) and since 2011, the first "International Partner" of the IPC. Through this strong partnership, Allianz supports the athletes' passion for what they do, their ambitions to achieve their goals and their remarkable ability to believe in themselves, which mirror the Company's own values.

In business since 1890, Allianz has not only survived two world wars and many man-made and natural calamities, but has gone from strength to strength by keeping its promises and winning the trust of customers. Allianz SE has, in fact, been voted the world's Most Ethical Insurer by the Ethisphere institute, the think tank promoting best practices in global governance, business ethics, compliance and corporate responsibility.

Allianz is confident that it will continue to maintain its position as a top Fortune 500 company, building on its core values of trust, integrity, reliability and professionalism.

Allianz at a Glance

	2011	Change from previous year	2010	Change from previous year	2009	Change from previous year	2008	Change from previous year	2007	Change from previous year	2006
GENERAL INSURANCE											
Income Statement											
Total revenue (Rs. '000)	442,798	14%	388,816	8%	360,783	124%	160,876	117%	73,970	104%	36,316
Underwriting profit after expenses (Rs. '000)	180,401	43%	125,926	101%	62,603	52%	41,294	29%	32,009	822%	3,473
Profit/(Loss) before tax (Rs. '000)	286,452	29%	221,305	40%	158,312	82%	86,934	63%	53,207	258%	14,867
Balance Sheet											
Total assets (Rs. '000)	1,799,715	13%	1,586,020	43%	1,105,444	58%	700,033	81%	386,195	47%	263,488
Shareholders' equity (Rs. '000)	680,780	14%	599,255	39%	431,946	38%	312,280	164%	118,411	72%	68,873
Return on net assets (%)	35.23%	26%	27.90%	1%	27.7%	19%	23.3%	(44%)	41.8%	126%	18.5%
Earnings per share (Rs.)	9.59	43%	6.69	40%	4.79	(53%)	3.47	(2%)	7.34	288%	1.89

	2011	Change from previous year	2010	Change from previous year	2009	Change from previous year	2008 *
LIFE INSURANCE							
Total revenue (Rs. '000)	358,537	61%	222,661	74%	128,141	390%	26,171
Loss for the period (Rs. '000)	60,613	51%	123,978	(64%)	75,716	(685%)	9,651
Investments (Rs. '000)	406,430	91%	212,677	12%	189,150	(18%)	231,775
Shareholder' Equity (Rs. '000)	222,541	58%	140,654	(15%)	164,632	(32%)	240,348

** Commenced business in November 2008.*

Directors' Profiles

Heinz Dollberg

Senior Advisor to the Board of Allianz SE, Asia, Middle East, North Africa division

Heinz was appointed to the Board of Allianz Insurance Lanka Limited and Allianz Life Insurance Lanka Limited in 2008.

Heinz Dollberg has been based in the Asia Pacific Division of Allianz SE in Munich since1998. In his current capacity, he is responsible for managing operations in Asia, the Middle East and North Africa, in collaboration with Allianz offices across the region. He travels frequently between Allianz headquarters in Munich and the subsidiaries, to oversee operations.

Heinz has over three decades experience at Allianz, having joined Allianz Life Insurance in 1978 in Stuttgart, Germany. Heinz has held various positions over the year, including Personnel Manager, General Manager, Chief Representative and Managing Director.

In the 1980's, he worked in Tokyo and Hongkong and was part of the pioneering team that established the Group's widespread operations in the Asia Pacific. In 1990 he was appointed Vice President of the Allianz Group's Overseas Division. Today, Allianz is present in 16 countries in the region and was promoted the following year as Executive Vice President of Asia Pacific Division. In October 2007, his area of responsibility was extended to five additional countries in the Middle East and North Africa, until his retirement from the Group in December 2010. However, he continues to provide Allianz with his expertise as Senior Advisor to the Board of Allianz SE, Asia, Middle East, North Africa division.

He has a degree in Law and held executive positions with numerous subsidiaries of Allianz. He was appointed Honorary Professor by two highly reputed universities: the Southwestern University of Chengdu, one of the premier universities of finance and economics in China as well as the Tongji University of Shanghai.

Karl-Heinz Jung

Chief Executive Officer Allianz SE Reinsurance Branch Asia Pacific

Karl was appointed to the Board of Allianz Insurance Lanka Limited and Allianz Life Insurance Lanka Limited in May 2011.

He began his insurance career with Frankona Reinsurance Company, Munich, Germany, in 1989. He joined Allianz in 1992 as a Reinsurance Underwriter of Allianz AG, Munich Germany, and became General Manager of the International Reinsurance Company, Luxembourg, a subsidiary of Allianz, in 1993. Three years later, he headed Department 3 of the Group Reinsurance Division (Treaty / Non-Life). During this period he also functioned as a Member of the Board of the Allianz Reinsurance Company, Dublin, Ireland and was in year 2001 appointed Head of Business Division Assistance and Member of the General Management of Mondial Assistance Germany, Allianz AG, Munich, Germany.

Between 2004 and 2007 he functioned as Chief Financial Officer, Member of the Executive Board as well as Member of several Supervisory Boards of the Mondial Assistance Group companies based in Paris, France. In 2008 he was appointed Head of Business Division Europe 2 of Allianz SE, Munich, Germany. From 2009 to August 2010 he took on the mantle of Chief Executive Officer of Allianz Insurance Company of Singapore

Directors' Profiles *(Contd.)*

Ltd, Singapore. From September 2010 to October 2011 he was appointed to Allianz SE Insurance Management Asia Pacific, Singapore and performed several functions in this capacity - Regional General Manager, Property & Casualty (P&C), Member of the Board of the Allianz P&C companies in Malaysia, Indonesia, China and Sri Lanka, and of Allianz Life-Company Sri Lanka. As of November 2011, he was promoted Chief Executive Officer of Allianz SE Reinsurance Branch Asia Pacific, Singapore.

Peter Huber

Regional General Manager Life & Health, Asia Pacific Insurance Management, of Allianz SE, Singapore

Peter was appointed to the Board of Allianz Life Insurance Lanka Limited in October 2011.

He joined Allianz in April 2011, having served a decade with the Swiss Life Group, where he held several senior management positions such as Chief Executive Officer, Swiss Life Private Placement Life Insurance (PPLI), and Chief Executive Officer Swiss Life Liechtenstein and Member of the Extended Executive Board of the Swiss Life Group.

Prior to this Peter held various positions with Arthur Andersen, Zurich, the St. Gallen Consulting Group (now Mercer Oliver Wyman) in St. Gallen, Frankfurt, Switzerland and Germany. Since joining Allianz he holds board positions in Allianz SE companies in China, Japan, Taiwan and Indonesia. He has been on the boards of the Swiss Life Group companies in Liechtenstein, Luxembourg, Dubai and Singapore and was also Senior Advisor to the International Planning Group (IPG) (Boston, Singapore and Hong Kong) and subsequently, Director of the supervisory board of the Financial Market Authority (FMA) of the Principality of Liechtenstein. He was also Vice-Chairman of the Liechtenstein Insurance Association (LVV).

Surekha Alles

Chief Executive Officer Allianz Lanka

Surekha was appointed to the Board of Allianz Insurance Lanka Limited and Allianz Life Insurance Lanka Limited in June 2010.

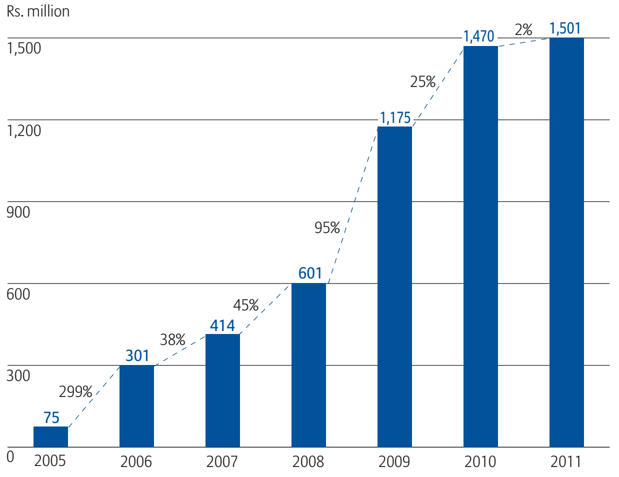
She joined Allianz Insurance Lanka Limited as Head of General Insurance Operations in 2005, and was elevated to the position of Chief Executive Officer one year later.

Surekha counts over 25 years in the field of insurance and has held various senior management positions in diverse areas of insurance. She is a Fellow of the Chartered Insurance Institute, London, is a Chartered Insurer, and holds a MBA from the University of Western Sydney. She is also a Senior Associate member of the Australian New Zealand Institute of Insurance and Finance.

Financial Overview

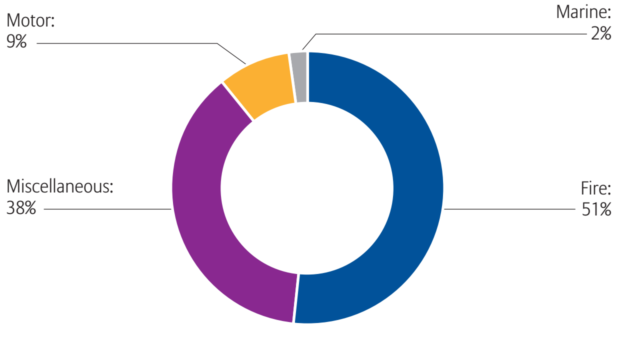
GENERAL INSURANCE

Gross Written Premium (GWP)



During the year, the Company continued its growth momentum and recorded a GWP of Rs. 1,501 million as against the GWP of Rs. 1,470 million in 2010. This year 's GWP has seen an improved contribution from retail distribution channels.

Premium by Classes

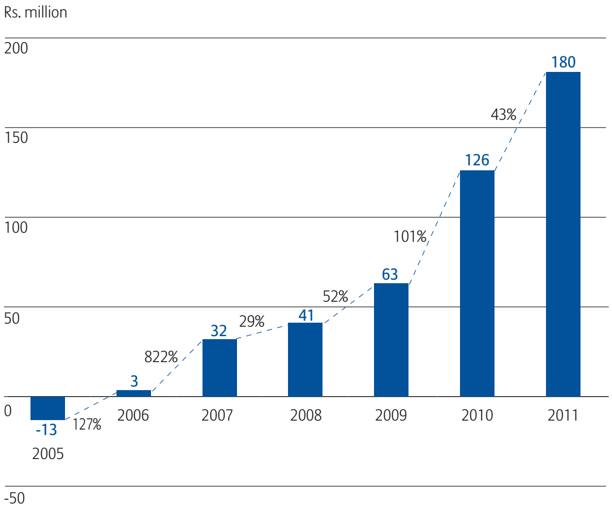


In the class-wise composition, 91% was from Non-Motor business which is Fire, Miscellaneous, and Marine.

The highest growth of 98% was recorded from the Miscellaneous class followed by Marine - 55% and Motor - 50%. Fire class which contributed more than 51% to overall GWP experienced negative growth when compared with 2010 figures. This was primarily due to a conscious decision made by the management to adhere to its strict underwriting policy amidst intensified competition, which focuses on writing good risks at appropriate risk premiums as opposed to mere topline growth.

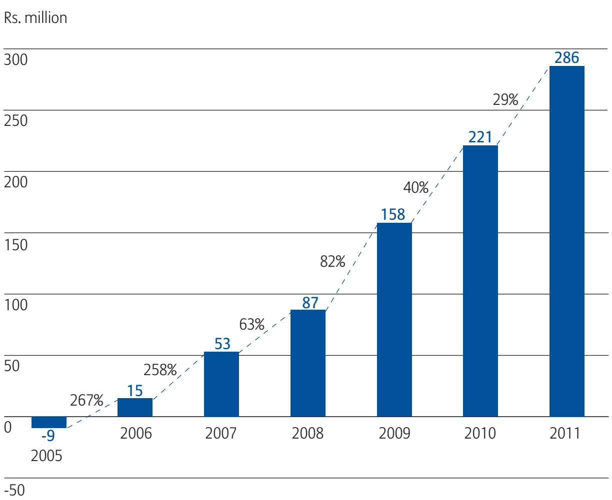
Financial Overview *(Contd.)*

Underwriting Profit



The Company delivered another outstanding year in terms of profitability, staying true to its excellent track record of the past years. A record 43% year on year growth in underwriting profit of Rs. 180 million was achieved. Allianz Lanka attributes its underwriting success to prudent underwriting practices, efficient operating cost mangement and favourable reinsurance arrangements.

Profit Before Tax (PBT)

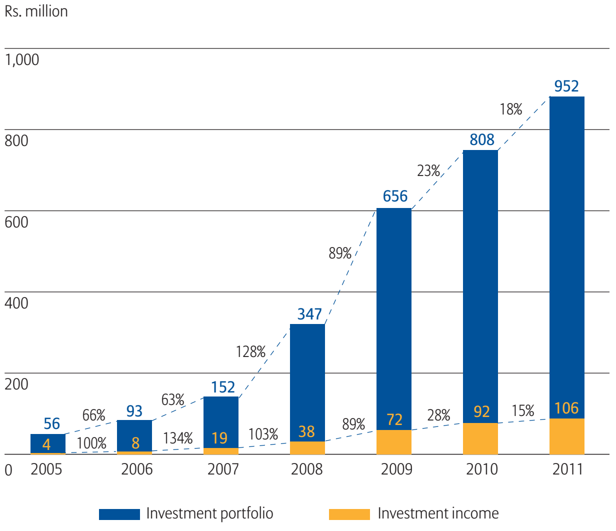


The Company recorded a significant growth in profit before tax amounting to Rs. 286 million during the year, which is a 29% growth over 2010. This was achieved after charging Rs. 169 million as staffing, marketing, depreciation and other expenses.

This is the highest profit after tax achieved in seven years of operations. The Company plans to retain the majority of its earnings surplus within, to boost its investment portfolio performance and for funding future expansion.

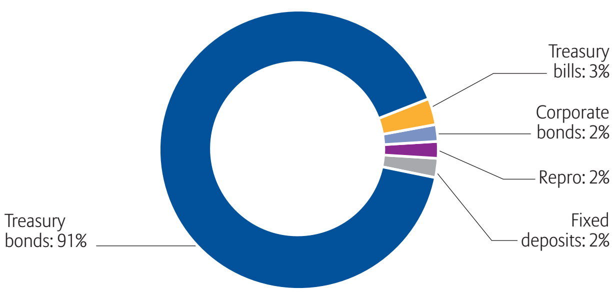
Financial Overview *(Contd.)*

Investment Portfolio



The investment portfolio has grown steadily by 18% year on year to Rs. 952 million, from Rs. 808 million in 2010. Investment income for 2011 has increased by 15% to Rs. 106 million. The Company has maintained its prudent investment approach by investing in low risk, highly liquid assets (mostly Government securities) which is in line with its risk tolerenace and return expectation.

Investment Portfolio - Asset Allocation

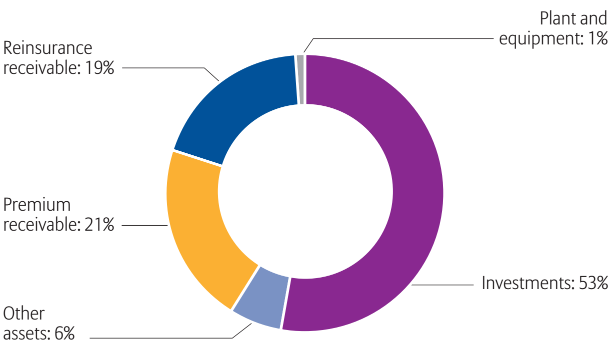


The Company's investment strategy is aligned to the guidelines set out by the Allianz Group for Property & Casualty Insurance businesses worldwide.

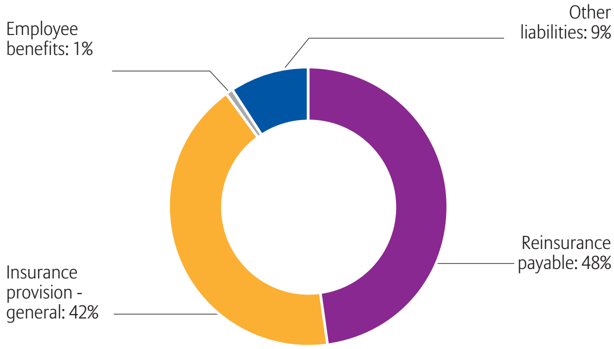
The strategy focuses on matching liability duration of the P&C insurance business through investments in highly liquid assets. Given the erratic nature in terms of size and frequency of liability claims it is of paramount importance that we maintain a highly liquid portfolio mainly consisting of short-end Government securities. Consequently, over 96% of the investments were held in Government securities with an average duration of less than 1.2 years.

Financial Overview *(Contd.)*

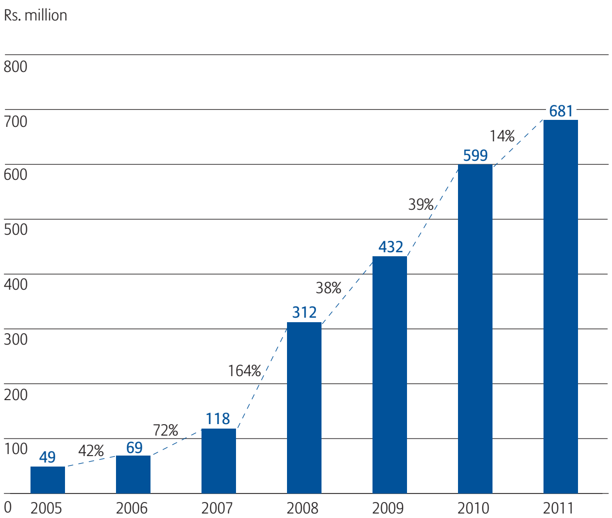
Asset Composition



Liability Composition



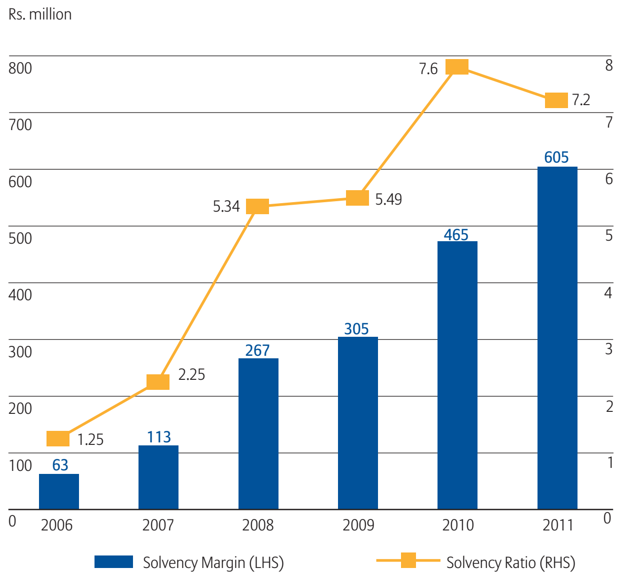
Net Assets



The net assets of the Company grew by 14% during the year to Rs. 681 million, compared with Rs. 599 million in 2010. During the year under review, the Company also made a Rs. 158.3 million dividend payment to its shareholders, which resulted in a lower rate of growth in net assets when compared with previous years.

Financial Overview *(Contd.)*

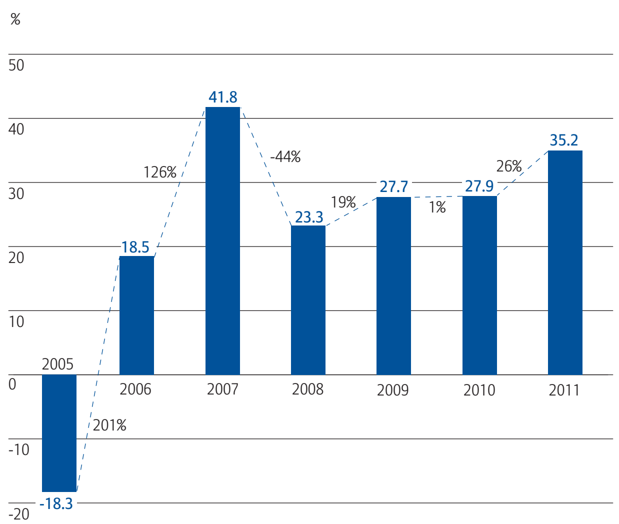
Solvency Margin



The solvency margin expresses an insurer's ability to pay insurance benefits and other payments. This is an important measure for an insurance company and measures its financial stability.

The Company's year-end regulatory solvency margin level stood at a comfortable 720%, which is well above the regulatory minimum of 100%. Higher profitability and a prudent investment strategy have helped the Company maintain a higher level of solvency even following a dividend ditribution to shareholders.

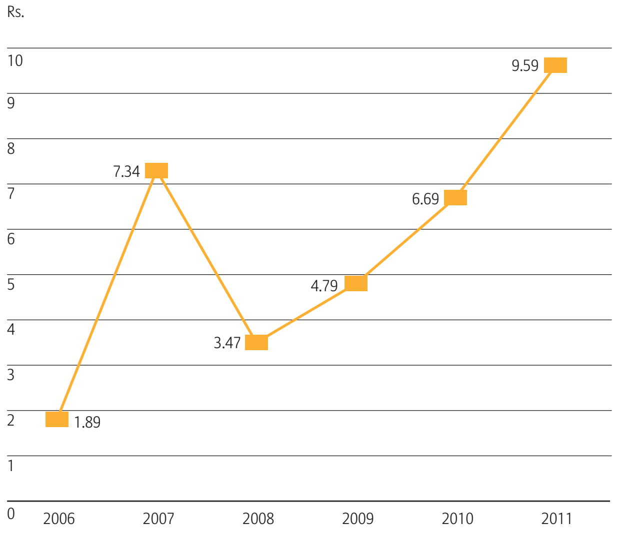
Return on Equity (ROE)



Return on equity has increased to 35%, compared to 28% recorded last year. Yet again this exemplifies the Company's continued focus on creating value to its shareholders.

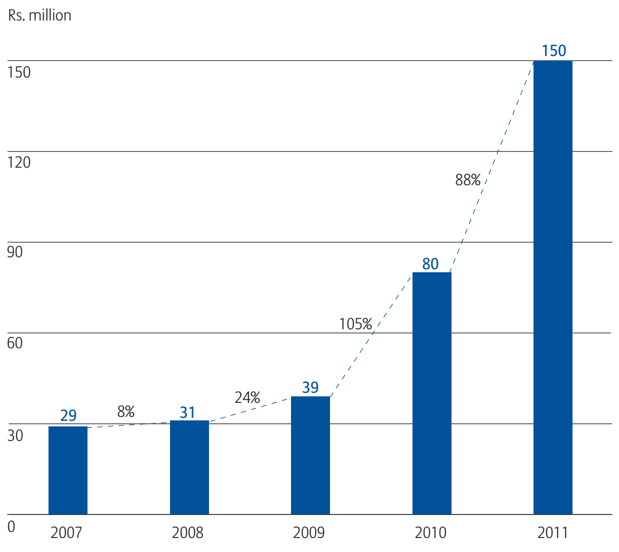
Financial Overview *(Contd.)*

Earnings per Share (EPS)



The positive momentum of the General Company's EPS over the past years continued in 2011, showcasing the substantial value generated by the Company for its shareholders. The Company's EPS grew by 43%, from Rs. 6.69 in 2010 to Rs. 9.59 in 2011 as profit attributable to the equity holders increased by the same percentage. The EPS figures for the past years are restated as per the Sri Lanka Accounting Standards, consequent to a capital infusion in 2008 and a bonus issue in 2009.

Economic Value Added (EVA)



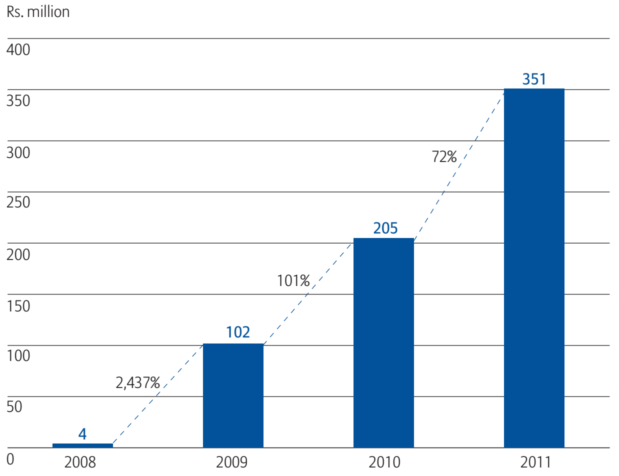
The Economic Value Added (EVA) measures the profitability of the Company after taking into account the cost of invested equity.

The Company has continued to improve it's EVA during 2011, to Rs. 150 million. This is an increase of 88% from 2010 and due mostly to the effects of the increase in profitability during 2011.

Financial Overview *(Contd.)*

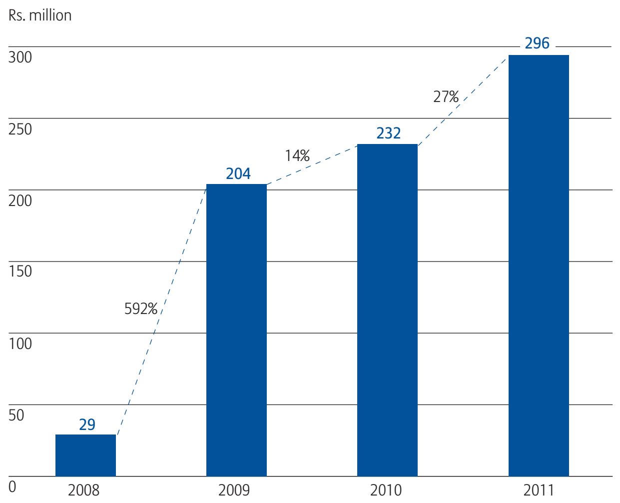
LIFE INSURANCE

Gross Written Premium (GWP)



In the year under review, gross written premium in the Life Company reached Rs. 351 million, a 72% growth over the previous year. The Company has continued its strong growth story for three consecutive years, exceeding the industry GWP growth of 36% recorded for 2011E.

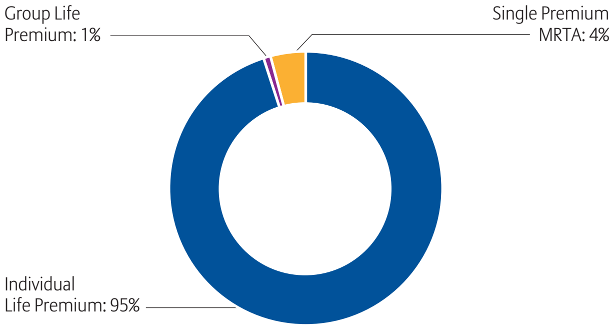
Annualized New Business Premium (ANBP)



The Company recorded an impressive growth in ANBP amounting to Rs. 295 million during the year, which is a 27% growth over 2010. The growth was a direct result of widening the branch network, thereby increasing accessibility and reach across the country. However, the Company faces a stiff challenge in terms of sales forces capacity due to the high turnover rate as a result of increased competition and new entrants to the Life insurance business. In order to maintain and improve Allianz service standards, the strength of our sales force is expected to be increased to targeted levels in 2012.

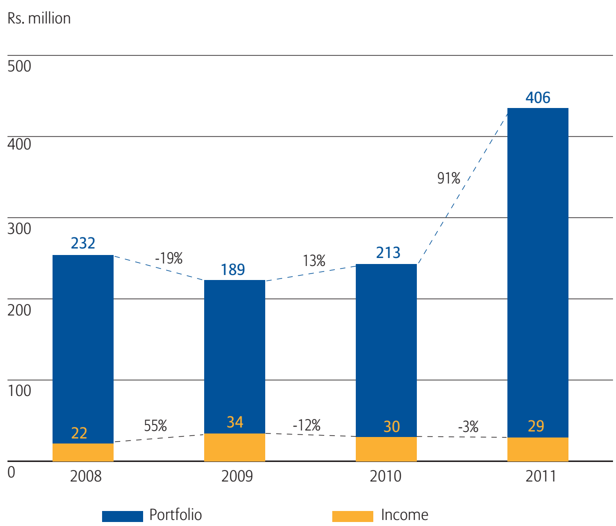
Financial Overview *(Contd.)*

Premium by Insurance Type



The individual Life segment continued to be the biggest contributor to GWP, recording a total GWP for the segment of Rs. 334 million. During the year the Company successfully launched a family product under the Universal Life platform and boosted product breath and diversity. In addition, the single premium Mortgage Reducing Term Assurance (MRTA) product segment in particular recorded significant growth during the year as a direct result of extending the Bancassurance channel.

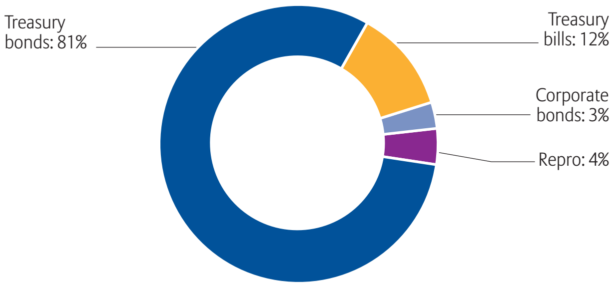
Investments



The investments portfolio has grown by 91% year on year. During the year the Company received a capital infusion of Rs. 142.5 million from Allianz SE to bolster its balance sheet. Investment income during the year dipped marginally year on year, by 3%. This is a direct result of lower market yields experienced during the first half of 2011.

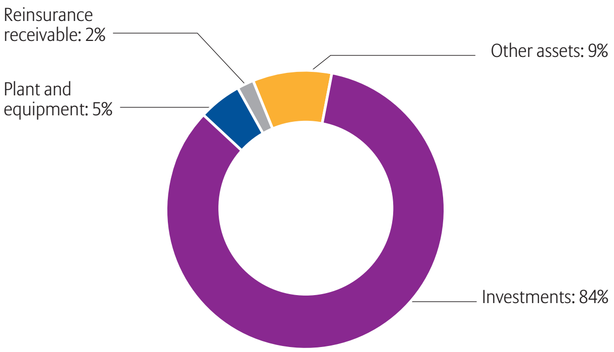
Financial Overview *(Contd.)*

Investment Portfolio - Asset Allocation

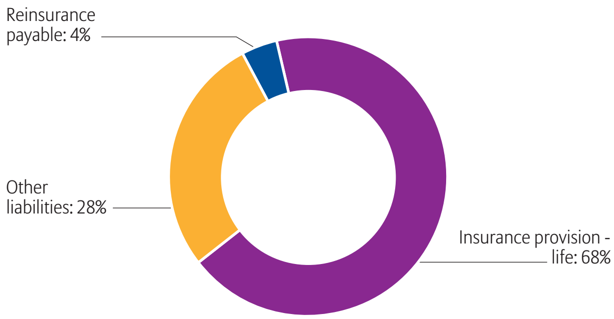


The Company continued its prudent investment strategy, with higher focus on the preservation of capital whilst earning a competitive risk adjusted return from its investments. The Company focuses on managing the duration of its asset portfolio to closely follow that of its liabilities. Consequently, over 80% of the Company's investments are in long term treasury bonds.

Asset Composition



Liability Composition

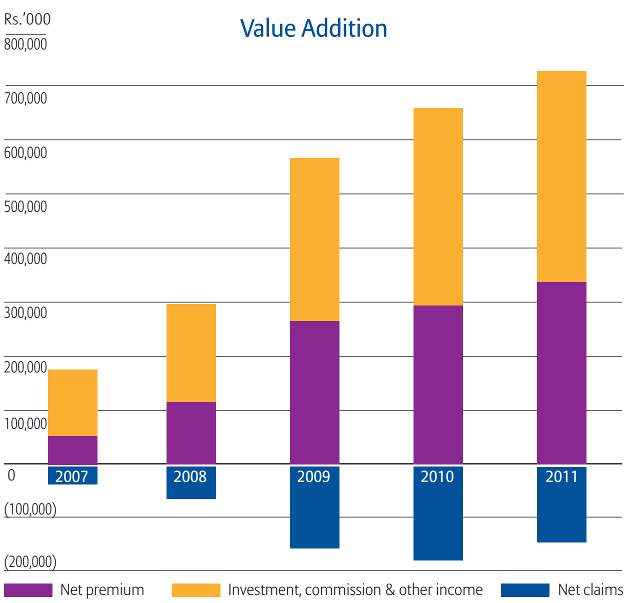


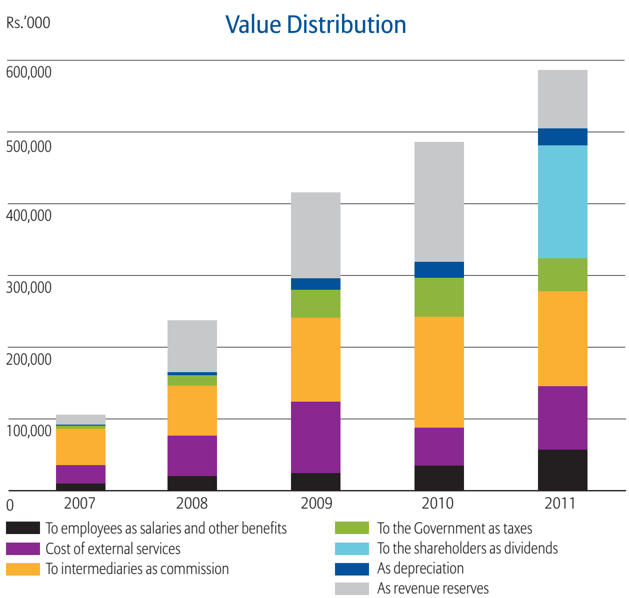
Statement of Value Added

GENERAL INSURANCE

Value Addition	2011 Rs.'000	2010 Rs.'000	2009 Rs.'000	2008 Rs.'000	2007 Rs.'000
Net premium	336,747	293,437	265,074	115,236	52,771
Investment, commission and other income	389,921	365,336	301,132	181,652	122,380
Net claims	(139,167)	(172,754)	(150,698)	(59,178)	(33,219)
Cost of external services	(88,458)	(53,152)	(99,454)	(56,569)	(25,485)
Total value added	**499,043**	**432,867**	**316,055**	**181,142**	**116,447**

Value Distribution	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
To employees as salaries and other benefits	56,912	11	34,534	8	24,245	8	19,919	11	9,986	9
To intermediaries as commissions	132,260	27	154,898	36	117,328	37	69,922	39	51,175	44
To the Government as taxes	46,594	9	53,996	12	38,646	12	14,190	8	3,669	3
To the shareholders as dividends	158,333	32	-	-	-	-	-	-	-	-
Retained with the business										
- as depreciation	23,419	5	22,130	5	16,170	5	4,367	2	2,079	2
- as revenue reserves	81,525	16	167,309	39	119,666	38	72,744	40	49,538	42
Total value distributed	**499,043**	**100**	**432,867**	**100**	**316,055**	**100**	**181,142**	**100**	**116,447**	**100**





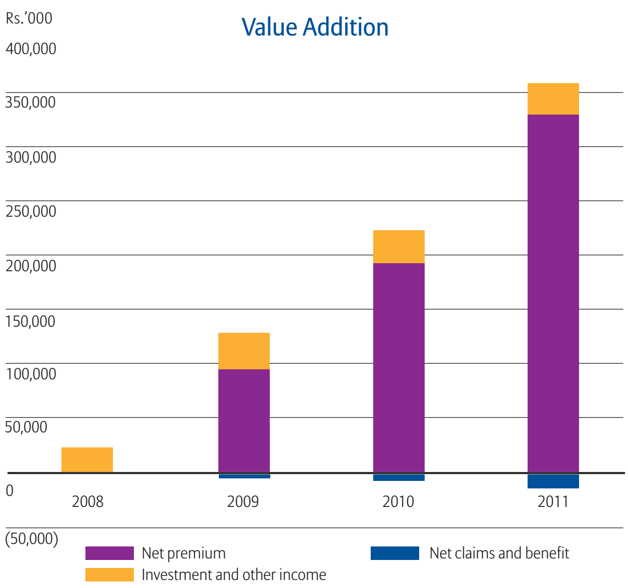
Statement of Value Added *(Contd.)*

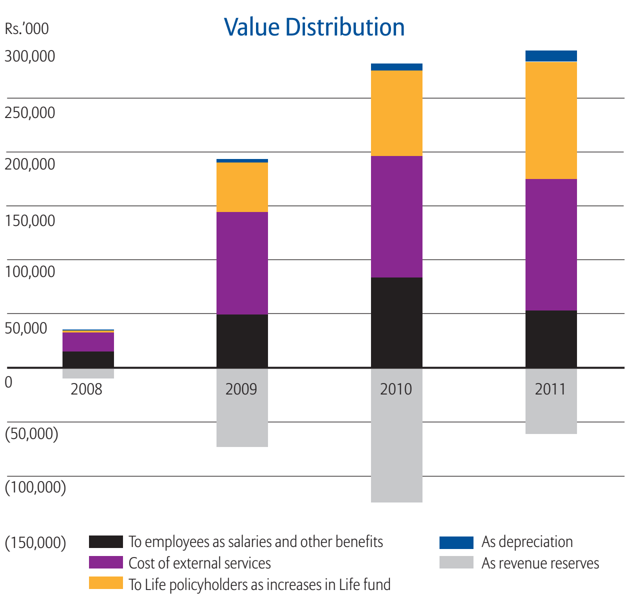
LIFE INSURANCE

Value Addition	2011 Rs.'000	2010 Rs.'000	2009 Rs.'000	2008 * Rs.'000
Net earned premium	329,558	192,569	94,322	3,280
Investment and other income	28,979	30,092	33,819	22,331
Net claims and benefits	(12,612)	(5,715)	(3,283)	-
Cost of external services	(122,044)	(112,992)	(95,056)	(17,856)
Total value added	**223,881**	**103,954**	**29,802**	**8,315**

Value Distribution	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
To employees as salaries and other benefits	52,765	24	83,365	80	49,136	165	14,611	176
To intermediaries as commissions	108,781	49	78,926	76	45,781	154	1,744	21
To Life fund	112,933	50	58,289	56	7,317	24	684	8
Retained with the business								
- as depreciation	10,015	4	7,352	7	3,284	11	927	11
- as revenue reserves	(60,613)	-27	(123,978)	-119	(75,716)	-254	(9,651)	-116
Total value distributed	**223,881**	**100**	**103,954**	**100**	**29,802**	**100**	**8,315**	**100**

** Commenced business in November 2008*





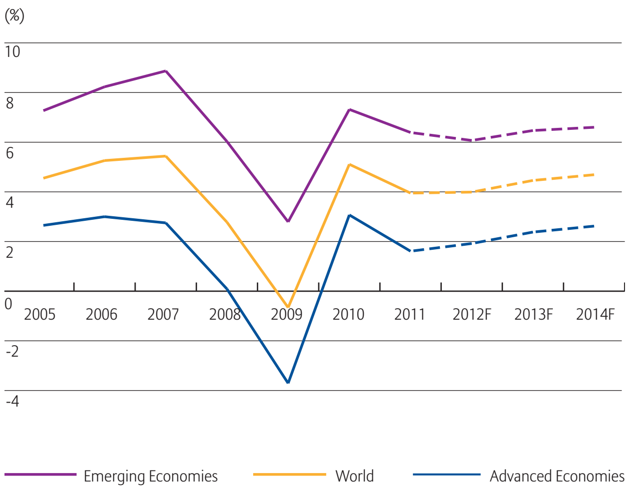
Economic Overview

World Economy

Economists over the world are taking stock of the year ended 2011, which saw the global economy expanding at a rate of 3.9%. Just as in 2007 when the US sub – prime crisis brought the world economy to a standstill, the debt crisis in the Eurozone slowed global economic progress considerably in 2011. Advanced economies, including US, EU (European Union), Japan and other developed countries, contributed to 50.4% of the world economic output while expanding by only 1.6%, while the emerging and developing economies including China, India, Middle East, Africa and developing Asia, contributed to 49.6% of the world economic output, with an expansion of 6.2%.

World economic power promised a shift towards the Asian region, dominated by India and China, with global expansion remaining unbalanced and the U.S economy continuing to remain weak, with little improvement shown in investor confidence in the general economy during 2011. The US employment to population ratio maintained at a mere 58% is expected to take at least another seven years to achieve full employment level.

Global GDP Growth



The year saw EU financial stability moving into the danger zone as sovereign bond spreads in the eurozone widened and the European Central Bank was compelled to play an increasingly vital role in sustaining the eurozone financial system. Despite the efforts of European policymakers to contain the eurozone debt crisis and related banking problems, the failure to find a comprehensive and decisive policy framework identified 2011 as being one of the darkest years in EU history.

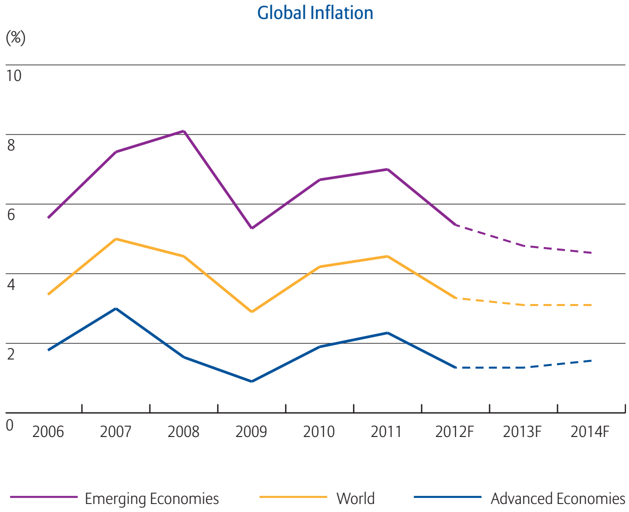
One of the major negatives in the 2011 world economy was the devastating effect of the earthquake and tsunami on Japan, earthquake in New Zealand, natural disasters and bad weather in Thailand, Australia, US and other countries which disrupted the supply of essentials and weighed heavily on industrial production, consumer sentiment and spending across the world.

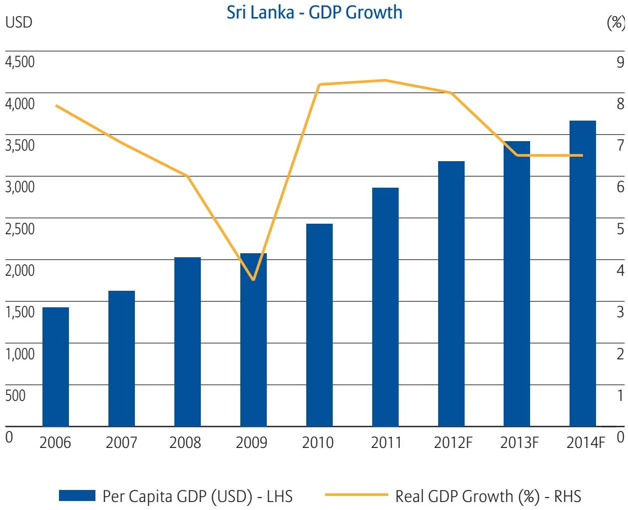
The political transition in various Middle Eastern and North African countries such as Tunisia, Egypt and Libya and beyond over the past year signifies the approach of a changing world order.

WORLD INFLATION continued to be high and unemployment caused severe pressure, especially in non-Asian countries. The volatile commodity prices led by oil which increased by 20%, the all-time high price levels recorded for gold, considered a safe haven, coupled with US stocks performing better than expected and the resilience of the frontier and emerging Asian region against outside shocks, all produced mixed results for financial markets across the world.

The oil price is expected to hit a comfortable three figure mark despite contracting demand in major economies in 2012. World inflation, though declining, will continue to pose threats in 2012. The IMF (International Monetary Fund) projected global expansion for 2012 is 3.9%, with advanced

Economic Overview *(Contd.)*





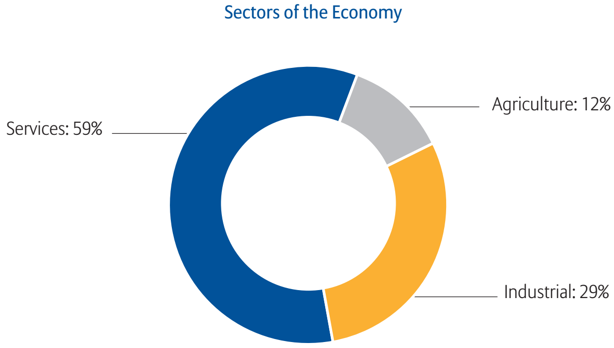
economies expanding by 1.8% and emerging and developing economies expanding by 6.0%. The 57th US presidential election, EU's adaptability to a challenging economic environment, international sanctions on Iran led by the US and the EU, dependability on the domestic and regional demand of emerging economies in the Asian region along with the improved consumer confidence on the financial sector, will determine the fate of 2012.

Sri Lankan Economy

Following the conclusion of the three-decade old ethnic conflict in 2009, the Sri Lankan economy has been growing from strength to strength. Despite the considerable slowdown of global economic activity, Sri Lanka remains one of the fastest growing economies in the region.

As at the third quarter of 2011, Sri Lanka's GDP showed a growth rate of 8.3%, which highlights the remarkable consistency in its progress since 2009. According to the IMF and ADB (Asian Development Bank), the economy is set to comfortably surpass the 2010 growth rate of 8.0% in 2011 by an estimated 8.3%.

The three main sectors that contributed directly to the overall GDP as at the third quarter of 2011 were Services, which accounted for 59.0%, Agriculture, which accounted for 12.0% and the Industrial sector, which accounted for 29.0%. The most remarkable expansion was shown by the Industrial sector with a 10.8% growth rate, while the Services sector expanded by 7.8% and the Agricultural sector expanded by 6.2%.



In the third quarter of 2011, the Construction sector recorded an annual growth of 17.3% , its highest quarterly rate since data collection began in 2002. The Manufacturing sector also

Economic Overview *(Contd.)*

showed a robust 7.7% growth, higher than the corresponding growth in the third quarter, of 6.5%, an expansion led by a 10.2% growth in the textile sector. The Tourism sector jumped 27.2% year on year, sustaining its exponential growth since the end of the war in May 2009.

As the island nation enjoyed peace for the third successive year, tourism showed remarkable improvement with nearly 860,000 tourist arrivals in 2011, which is a 30.8% increase from 2010. Apart from tourism, exceptional advances were seen in infrastructure development and foreign investments in the country, which also has a direct positive impact on tourism.

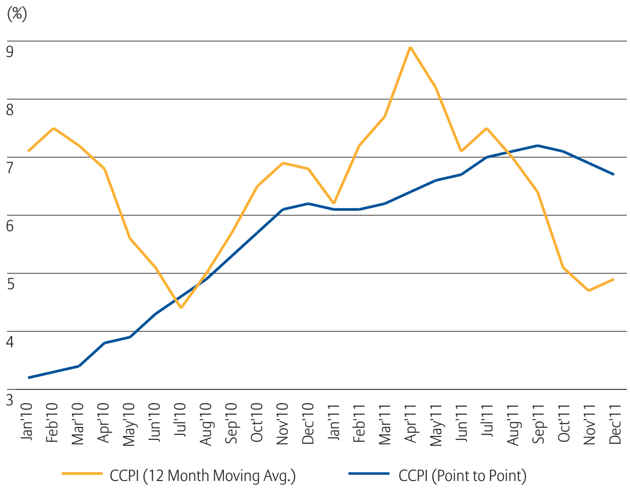
According to the Central Bank of Sri Lanka's (CBSL) latest estimate the economy is expected to grow at a rate of 7.2% in 2012.

The year witnessed mixed reactions in investor confidence resulting from steady inflation and a stable interest rate for the greater part of the year, improved credit ratings, revised tax policies, growth in trade activities, a consistent budget proposal and depreciation of the rupee towards the latter part of the year.

THE INFLATION LEVEL of the country was maintained at mid single digit level throughout 2011, as measured by the Colombo Consumer Price (CCPI). The year ended with point to point inflation in December 2011 of 4.9% and the 12-month moving average standing at 6.7%. The main inflation contributors were the global commodity prices and the floods early in the year, which destroyed crops in farming areas.

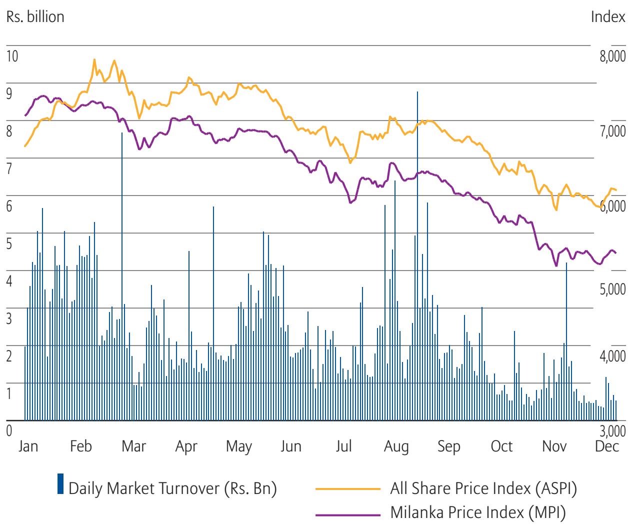
In 2011, foreign investors expressed continued interest in investing in the Government securities market as a result of growing uncertainties in advanced economies and greater prospects in emerging economies.

Inflation



THE COLOMBO STOCK EXCHANGE witnessed a much awaited correction in 2011 following consecutive record breaking years as the All Share Price Index (ASPI) dropped by 8.5% and the Milanka Price Index (MPI) dropped by 25.9%. Market capitalisation hardly changed, closing the year at Rs. 2.2 trillion. The year under review witnessed a net foreign outflow of Rs. 19.1 billion, compared to Rs. 26.4 billion in 2010.

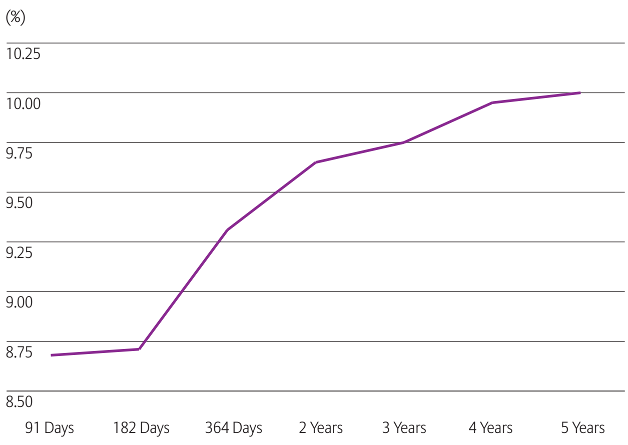
Colombo Stock Exchange (CSE)



Economic Overview *(Contd.)*

INTEREST RATES, which were steady during the first half of 2011 started to increase in the second half driven by strong private sector credit growth. The liquidity shortage was intensified by CBSL intervention to defend the dollar in the second half of 2011, which drained part of the excess liquidity off the market. As per the latest official data released, credit to business from Sri Lanka commercial banks rose by 34.5% to Rs. 2.0 trillion during the year to December 2011, substantially exceeding projections. Provisional estimates indicate that within the credit extended to the private sector by commercial banks, trade-related credit and credit driven by import-related items such as motor vehicles and consumer durables increased significantly. During the same period, credit to state enterprises rose 37.0% year on year to Rs. 198.5 billion and credit to the Central Government, to Rs. 833.6 billion, up 32.9%.

Government Securities Yield Curve



As at 31 December 2011

During the corresponding period, the rates on short-end Government securities increased by about 100bps whereas yields on medium term treasury bonds increased by 150bps.

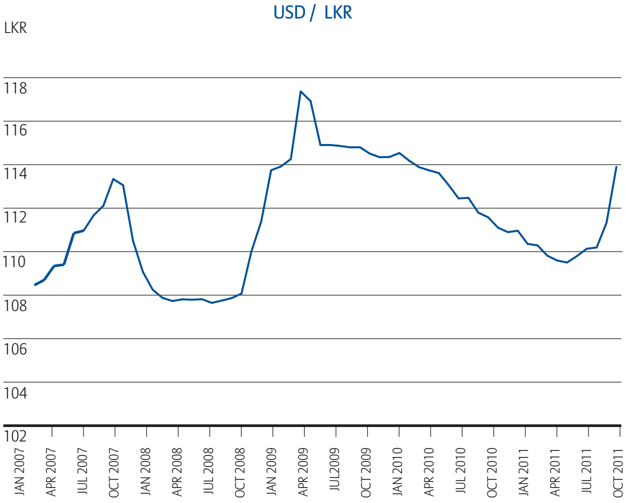
The year saw Moody's Investment Services and Standard and Poor's upgrade the country's sovereign rating outlook from "Stable" to "Positive" while Fitch Rating upgraded Sri Lanka's Long-Term Foreign and Local Currency Issuer Default Ratings to 'BB-' from 'B+' with the outlook on both ratings standing at "Stable". The rating upgrade reflected the peace dividend the country enjoys, stabilisation and recovery of the economy under its IMF programme and increased efforts to address the chronic budget deficit position. The rating also elevated the country's international presence in financial services and improved local and foreign investor confidence. Thus, 2011 saw Sri Lanka enjoy second position in the "Ease of doing business" ranking in the South Asian region done by the World Bank.

The Bank of America, Merill Lynch, Barclays Capital, HSBC and the Royal Bank of Scotland were joint book runners as Sri Lanka issued a 10 year sovereign bond of $ 1 billion for the third consecutive year at a competitive yield. This is a testament to just how far the country has progressed since the civil war ended in 2009, and contrasts sharply with the experience of its embattled European peers.

THE EXCHANGE RATE remained mostly stable until November 2011 due to CBSL intervention in maintaining stability to increase more foreign inflows and confidence. But the 2012 budget proposal devalued the rupee by 3.0% on November 21, 2011 with the aim of boosting Sri Lanka's tea, garment export industry and expatriate remittances, the three main foreign income sources for the $ 50 billion economy.

Following the devaluation of the rupee, the Central Bank raised the limit of foreign holdings on treasury bonds and bills to 12.5% from 10.0%, in order to enhance resource availability, while also easing the domestic savings-investment gap and thereby mitigating any pressure on interest rates.

Economic Overview *(Contd.)*



The Sri Lankan rupee closed the year at Rs. 113.90 against the US dollar, depreciating by 2.6% during the period compared to the appreciation of 2.7% in the corresponding period in 2010.

The year saw **EXPORTS AND IMPORTS** continue in the momentum generated by the economic revival the country witnessed in late 2009.

Sri Lanka's exporters shipped goods valued at $ 10.5 billion in 2011, a year on year growth upped to 22.4% with textiles and garments growing by 24.6% to $ 4.2 billion and rubber goods upped by 58.7% to $ 884 million. Exports grew by 20.9% in 2010, making 2011 the second year running in which exports grew by over 20.0%, the only occassion it has happened since 1951, according to CBSL data.

Despite exporters' record performance in world markets in difficult global conditions, Sri Lanka's imports grew by 50.4% to $ 20.2 billion as incomes of people were boosted by sources other than merchandise goods exports. According to Central Bank reports, the trade deficit in 2011 stood at $ 9.7 billion, a significant portion of which was for State-related infrastructure imports funded mainly by foreign loans. Motor vehicle, petroleum, electrical goods and infrastructure construction material imports dominated the imports segment in 2011. This included an additional $ 1 billion of oil imports for power generation following the inadequate rainfall that reduced hydropower output substantially during the year.

Industry Performance

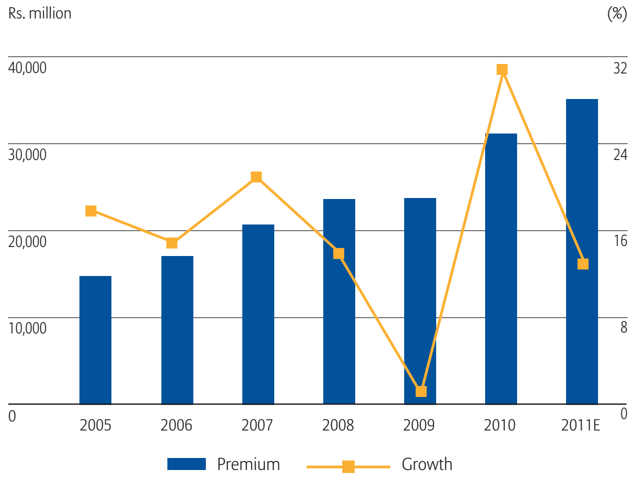
The insurance industry experienced another fruitful year of growth, benefitting from the overall growth of the economy and the increasing per capita and disposable income levels of the population.

LIFE INSURANCE business experienced a very successful year of growth. Overall, the Life insurance industry GWP for 2011E was Rs. 35.1 billion, a 36.0% growth over 2010. During the year the first year premium recorded a growth of 46.0% year on year whereas the renewal premium grew by 32.0%. Industry players believe the low interest rates offered by the banking system for deposits has made the investors more attracted towards investment-linked Life insurance products which promise a return more aligned to the market.

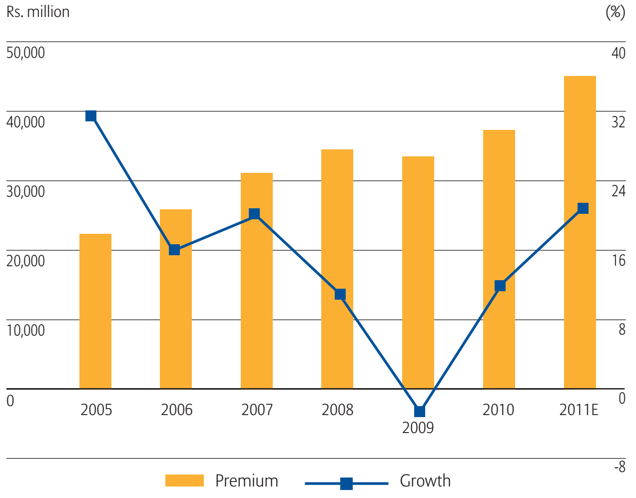
GENERAL INSURANCE business too faired impressively, recording a GWP growth of 21.0% year on year. Overall GWP for 2011E was Rs. 45.1 billion compared to Rs. 37.3 billion recorded in the previous year. The highest contribution came from the motor class which recorded 27.0% year on year growth whilst contributing 60.0% to overall GWP. The phenomenal growth witnessed in new motor vehicle registrations in 2011 drove up demand in this segment. However, rising interest rates and depreciation pressure on the rupee could slow down the motor vehicle imports and in turn, growth in this segment. Excluding motor, other classes of insurance recorded a total GWP of Rs. 18 billion with a 12.0% growth year on year.

Economic Overview *(Contd.)*

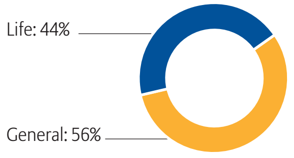
Life Insurance Industry Premium



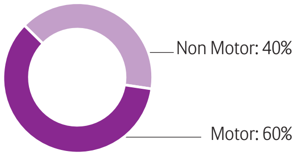
General Insurance Industry Premium



Industry Composition 2011E



General Insurance Composition 2011E



On the regulatory front, this year witnessed a couple of significant changes affecting the industry.

INSURANCE BOARD OF SRI LANKA (IBSL) tightened the regulatory framework for insurance companies during 2011. The Minimum Capital Requirement (MCR) was raised, with companies also required to separate their Life and General businesses by 2015 and be publicly listed by 2016.

One of the other key changes introduced by the IBSL was the change in the basis of calculating the value of the admissible assets for solvency margin calculation. As per extraordinary gazette no 1697/27 dated 18 March 2011, the solvency margin rules for both Life and General insurance were amended and were effective from 1 April 2011. The most significant effect of these changes was the market value calculation for marketable assets as opposed to the cost plus amortised value model which was hitherto used. The implications of this amendment although balance sheet positive initially due to higher market values from falling interest rates, pose significant mid to long-term challenges to the industry in general. The anomaly this presents due to only assets being marked to market whilst liabilities remain unchanged, could lead to the technical insolvency of insurers in distressed financial market environments.

Another significant development in the regulatory front was the progress made towards the implantation of the proposed Risk Based Capital (RBC) framework for Insurance companies in Sri Lanka. During the year, IBSL conducted a seminar in collaboration with the World Bank and Deloitte, India, to share the quantitative reports for the proposed RBC framework. Industry players were asked to revert with their comments and feedback to the results/proposals in the quantitative report prepared by Deloitte, India, before they were finalised.

Risk Management

As an insurance company, acceptance and active management of risks are core competencies of Allianz. This implies that the major mission for risk management is adequate risk steering, as opposed to mere risk avoidance or minimisation. Risk management therefore is an integral part of the management and control system, ensuring the timely identification, analysis, measurement, management and reporting of risks. This system provides the basis for successful value-based management, including the efficient allocation of capital and the optimisation of key performance measures through consistent consideration of risk-return implications.

The Company's risk management capabilities benefit from being a wholly-owned subsidiary of Allianz SE, as this provides access to Allianz's profound experience in this area along with the unparalleled state-of-the-art methodology employed by Allianz throughout the world.

At Allianz, the Board of Directors defines the levels of risks taken by the Company, taking into consideration all relevant limitations as well as the Company's business strategy. This view on risk-taking is formalised in the Company's risk strategy and reviewed during the annual management dialogue.

With the above in mind, the Company completed the task of formalising the Risk Policy during 2011, which provides the framework for all risk-relevant processes, methods and structures within the Company.

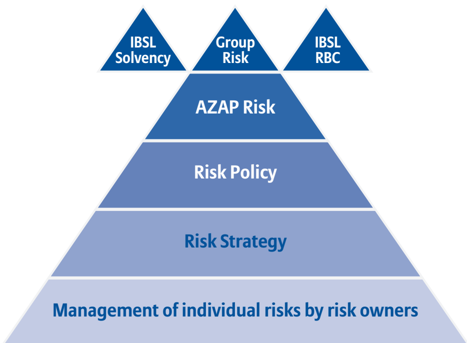


Figure 1 illustrates how the Company's Risk Policy is in alignment with the Allianz Group (AZ), Allianz Asia Pacific regional office (AZAP) risk policies and in line with the regulatory solvency and Risk Based Capital (RBC) requirements of Insurance Board of Sri Lanka (IBSL).

Risk Policy provides the framework for the Company's risk strategy and subsequently, for the actions of individual risk owners. Furthermore, it provides the framework for the Company's risk management efforts.

This risk strategy document determines the Company's appetite for taking risks as well as how we ensure that this appetite is not exceeded in various key areas of the business. Alignment between the risk strategy and the business strategy is ensured in the annual strategic planning process.

The risk appetite statements describe how much risk can be taken per unit of risk-bearing capacity and in doing so, reflects the preferences of various stakeholder groups.

Risk Organisation

The Company has adopted a "three lines of defense" strategy for its risk management and governance framework:

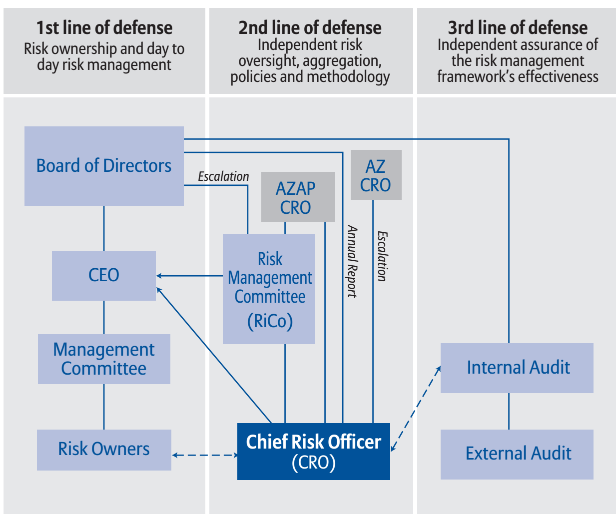


Figure 2: the Company's "three lines of defense" risk management organization

Risk Management *(Contd.)*

The three lines of defense framework operate as follows:

- staff in the first line of defense have direct responsibility for the management and control of the Company's risks (i.e. the Board of Directors, the Management committee and management and staff working within or managing business units – the risk owners)
- staff in the second line of defense co-ordinate, facilitate and oversee the effectiveness and integrity of the Company's risk management framework (i.e. the risk committee and risk management function)
- staff in the third line of defense provide independent assurance and challenge across all business functions in respect of the integrity and effectiveness of the risk management framework (i.e. internal and external audit).

Risk Owners

Risk owners are senior heads of divisions / departments who are directly responsible for the day-to-day operations of their respective division / department / units. The concept of risk owners is also applicable to project leaders of routine or ad hoc projects. While key risk owners are identified explicitly within the Company's Top Risk Assessment framework, inclusion into the list of top risks is not a pre-requisite of becoming a risk owner (rather risk ownership comes automatically with responsibility for processes or projects).

The roles and responsibilities of risk owners are to:

a. Identify, assess and implement action plans to handle risks arising from the operations/processes/projects under their charge.

b. Assign risk management responsibilities and accountabilities within their respective departments or team.

c. Take immediate actions on all unacceptable risks.

d. Review the effectiveness of existing control features and risk mitigating strategies.

e. To report periodically (at least annually) or ad hoc (in the case of significant developments) the departmental / project risk management situation to the CRO. The CRO reserves the right to increase the frequency of periodical reporting as deemed necessary (e.g. for top risks), and may ask for ad hoc reports at any time.

Risk owners are bound by this Risk Policy, the risk strategy that determines the amount of risk that the Company is willing to take with respect to their own risk(s) and tools and methodologies for risk identification, assessment, management and reporting that are provided by the risk management department.

The CRO and/or Internal Audit may escalate risk owner's non-compliance with these requirements along the CRO's usual escalation lines.

Risk Management Committee

The Risk Management Committee members are proposed by the Company's CEO. Its existence is a requirement of the Allianz Group Risk Policy. The main responsibilities of the Risk Management Committee include:

a. Promoting the Allianz risk culture and developing risk management talent for the Company.

b. Pre-approving the Company's risk management policy, risk strategy/appetite for risks and reviewing them at least annually to ensure alignment with local regulatory and Allianz Group requirements.

c. Monitoring the approved risk tolerance and exposures to individual risks.

Risk Management *(Contd.)*

Risk Management Process

Management of risks within the Company takes place in several process steps. These apply in principle to all risk categories considered important on the basis of the business activities and strategic risk focus of the Company. The risk management process at its highest level can be broken down into the following generic steps:

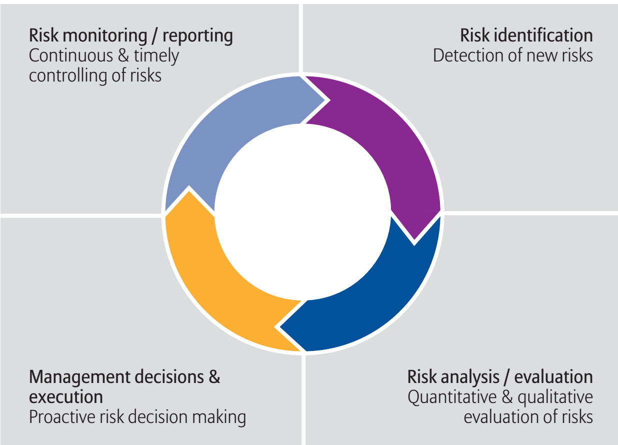


Figure 3: Generic risk management process

Precise procedures, responsible parties, frequency of analysis and reporting requirements for specific risk management processes depend on the methodology employed and are specified in greater detail outside this risk policy document. The following sections provide deeper insights into each of the four generic process steps provided above.

Risk Identification

In the context of risk identification, all existing risk categories, their sub-risks as well as their risk sources within the Company's business are determined and clearly distinguished from each other on a systematic and ongoing basis.

Early and comprehensive identification of risk is an essential element for the early warning systems required by statute and by the regulatory authorities. This system provides for the identification of potential risks or risk concentrations as early as possible, and also lays out reasonable and appropriate measures that are to be taken to manage the risk.

New risks can occur, given that the business environment is constantly changing and that new products are being developed and brought onto the market. Before commencing business with new products, types of business and in new markets, the risks inherent in them and the resultant effects on risk management must be identified.

Risk Measurement, Analysis and Evaluation

Following on from risk identification, risks are measured, analysed and evaluated, using quantitative as well as qualitative risk-appropriate methods and procedures. The methods used are verified continuously using, for examples, sensitivity analysis, stress tests, back testing and validation tests.

Interdependencies are to be taken into account and risk concentrations or accumulated risks are to be continuously analysed and evaluated.

Risk Management Decision and Execution

The risk management function initiates suitable strategies and concepts aimed both at the conscious acceptance of risks inherent in the business and at the avoidance/prevention, reduction, mitigation, transfer/ diversification of all identified and analysed risks in accordance with defined objectives.

Risk Monitoring and Reporting

Efficient risk reporting is necessary to achieve active and comprehensive control over existing risks. Within the scope of risk reporting, internal and external risk information which accords with the intentions of the Company and the resultant need for information on the part of decision-makers is collected, either at regular intervals or ad hoc, on the basis of need. This information is made available to the Board or other levels of management within the Company, thereby ensuring that the relevant decision-makers are suitably informed about the current risk situation and are able to react pro-actively and in a timely manner.

In Discussion

Manuel Bauer - *Member of the Board of Management of Allianz SE, Insurance Growth Markets*

Profile in brief

Manuel Bauer was appointed to the Board of Allianz SE in January this year, being responsible for Insurance Growth Markets. He is an industrial engineer by profession and commenced his relationship with Allianz two decades earlier, joining the Engineering Department of Allianz Versicherungs-AG, at the company's head quarter in Munich.

He has experience in both Middle Eastern as well as Asian markets as he functioned as Branch Manager of the Allianz operations in the Middle East, and also as CEO of Allianz Life in Korea. He was Head of the Global Life Unit of Allianz SE and as of last year, also appointed Head of Allianz SE's Central Eastern Europe, Middle East and North Africa (CEEMA) Unit. In this discussion, Bauer speaks about the business strategy that saw the Allianz Group through the financial crisis, and the insurance potential in Sri Lanka.

Q. The past few years experienced an economic recession, from which companies are recovering only now. Despite this, Allianz claims to have maintained a strong performance. How has the company managed this?

A. "My personal belief is that Allianz is one of the few companies in the industry that has done a lot of right things at the right time – from a very early stage on. We have applied effective risk management, perhaps earlier than others. And Allianz has been constantly focusing on its core business which is General Insurance, Life insurance and Asset Management.

Allianz managed its risks well and emerged highly profitable and financially stronger from the financial crisis years 2008 and 2009. This is the foundation for the resilience and stability our customers, investors and employees expect from us.

In Discussion *(Contd.)*

We have seen that insurance companies came out of the financial crisis in much better shape than, for example, the banks. Insurance companies worldwide weathered the crisis much better than banks.

Q. Allianz focuses on delivering customer experiences that exceed expectations. How do you adapt your strategy in what has been described as a highly competitive soft market in Sri Lanka?

A. In retail business we try to adopt exclusively local strategies, which means we try to understand who our customers are, what products they need and how Allianz can attract them. Products that we offer in Sri Lanka might not be sold in India or other countries or might be sold through different channels.

We adapt to each market and we focus on the segments in which we think we can give the customer the best possible protection.

We have a special tool in market management that is introduced across the Group. It determines, through interaction with our customers and potential customers, what we want to do, what we can do and how customers want to buy insurance in a given market.

Insurance needs and insurance buying is changing as we speak. So we try to understand how and where our customers want to buy our products. We are very decentralised and local in each country, of which Sri Lanka is no exception. Still, we can make customers benefit from the worldwide knowledge of the Group. This is one of the unique advantages we have.

Over the past years we have made all our companies sensitive to customer service. We introduced a system for monitoring and measuring customer service.
And once you start measuring this, you obviously start looking at improvements.

We ask several thousands of customers every year what they think about our services. All improvements are thus based on our customers' feedback. The Allianz culture is that of a company that will live to deliver on its promise at all times.

In the end, it is not important what we think we have achieved, but only what the customer tells us that he has experienced.

Q. What specific opportunities do you see – in Asia and more specifically, in Sri Lanka?

A. Asia is definitely a region of strategic importance to Allianz. Research tells us that four out of seven top global growth markets (namely China, India, South Korea and Japan) are found in the Asia Pacific. Also South Eastern countries like Thailand, Indonesia, Malaysia, Sri Lanka and India show promising growth and stimulus, not only in insurance but in general. Among the North East Asian countries, we see China to be in a very important role which could be extended.

Asian economies are doing well, but we must keep in mind that Asia is also getting very competitive, not only with the presence of big local insurance companies but also with the increasing presence of large multinationals.

In Sri Lanka, we are hopeful that the economy will be doing much better going forward, and we should start seeing a sharp increase in the penetration of insurance, especially in Life insurance. We are very optimistic about the Sri Lankan insurance market.

In Sri Lanka we began Non-Life operations seven years ago and Life operations three years ago, so we are relatively young and are gaining a foothold in the retail market and establishing our presence.

In Discussion *(Contd.)*

The achievement so far is amazing. Having said that, we should not forget that the company here is still in its early years and we will need to focus on growth in the coming years. With the expansion of the branch network, we will be looking at growing more in the small and medium business segments.

We will ensure that growth takes place where we can ensure sustainability and profitability. In Sri Lanka, as in any other market, we need to find those portions of the business that can generate value for the customer as well as for the Group.

Q. What does Allianz SE feel it can offer to a relatively mature market like Sri Lanka?

A. We, as a worldwide operating insurance company, can take strength from the fact that we have the expertise to operate in over 70 markets in the world, with 150,000 employees. We can really focus on synergies from other markets, particularly along product development.

When developing products for the Sri Lankan market, for example, we can use our worldwide experience to avoid making the same mistakes made by our competitors.

Another field of synergy is the risk management that might be changing while the Company is growing and needs progressively more expertise. This is where a group like Allianz has a big competitive advantage over smaller local competitors.

Q. What, if any, are the concerns that Allianz has when pursuing a long-term business presence in Sri Lanka?

A. Our concerns in any country are always about good and stable market conditions, which is the basis for our business and for investing in any country. Sri Lanka is a big market and a very good place to do business.

CEO's Review

The resurgence of business confidence and consequent expansion of the Sri Lankan economy opened up many new opportunities as well as challenges in 2011. This was another pivotal year for the country's continued economic recovery and Allianz Lanka, too, was successful in climbing on the growth bandwagon, achieving excellent business results.

The Sri Lankan economy grew by 8.3% in 2011 and per capita GDP increased to $ 2,860, from $ 2,430 a year earlier. This strong growth underpinned by low unemployment, higher personal disposable income and increased consumer credit extended by the banking sector resulted in healthy domestic demand and consumption. Furthermore, the Government continued to focus on infrastructure development, especially the upgrading of the road network in the country. This has significantly improved land connectivity, which contributed towards reviving economic activity in remote and underdeveloped areas that had hitherto been closed for business expansion.

Allianz Lanka has already adapted to the requirements of the amended Regulation of Insurance Industry Act stipulating two separate legal entities for Life and General business

The Regulation of Insurance Industry Act was amended in February 2011, which brought with it several changes to the existing regulatory environment, many of which the Company is already well placed to adapt to. Among them is the requirement to split composite insurance business into two separate legal entities for Life and General business, which Allianz has been structured to meet from inception in Sri Lanka.

CEO's Review *(Contd.)*

On business performance, the Life Company reported a GWP of Rs. 351 million, representing an impressive growth of 72%, the highest year on year growth recorded in the industry for 2011. It is noteworthy that the Universal Life product, a product that Allianz Lanka has pioneered in the Sri Lankan insurance market, has contributed over 95% of the premium income, confirming its strong acceptance and popularity in the country. The Life fund grew from Rs. 66 million to Rs.179 million, reflecting a year over year growth of 170%. We also achieved a commendable 40% growth in first year premium. Our successful performance and prudent investment strategy enabled us to declare a credit rate of 8.5% to our Life policyholders. The Life Company maintained its solvency margin at 16 times more than the regulatory minimum.

The General Company continued to achieve underwriting profit unmatched by most other industry players in a competitive soft market

This was another outstanding year in terms of profitability for the General Company. The Company achieved a net profit of Rs. 240 million with a growth of 43%. In a highly competitive soft market the Company continued to achieve underwriting profit, an achievement unmatched by most other players in the industry. Underwriting profits grew from Rs. 126 million to Rs. 180 million, a 43 % growth over last year.

Despite being the only insurer in Sri Lanka with no captive business, the General Company achieved a GWP of Rs. 1.5 billion. Of this, over 91% of GWP was contributed by non-motor business – fire, miscellaneous and marine classes. The Company continued with its prudent investment strategy, placing 96% of total investments in Government securities, and maintained a regulatory solvency margin seven times higher than the regulatory minimum. The Company also declared a dividend of Rs. 158.3 million to shareholder Allianz SE, and continued to create value with a Returns on Equity improving to 35% from 28% last year. The Net Assets also grew by 13%, to Rs. 681 million.

The General Company's strength has been, to date, in large corporate business. But this year the Company veered direction to focus on retail business. This had a positive outcome, with considerably improved contributions coming from our retail distribution channels, the branches.

Two new channels were introduced during the year – Bancassurance and the Direct Sales Force, both have already begun adding value. Health, Householders and Personal Accident policies were rebranded and reintroduced to accentuate the focus on retail business.

We expanded our branch network even further this year and have, today, 10 fully- fledged branches, three agency officers and 10 window officers operating islandwide. Our focus this year was on capturing the North and East business, a strategy that paid rich dividends with over 40% of Life new business coming from the North and the East.

Business ethics, a sales compliance policy, are some areas in which the agency sales force is trained to be outstanding professionals

The agency sales force has been our strength In Life business. The Company has invested considerable resources in training them to be outstanding professionals in the field. Business ethics, a professional code of conduct and a sales compliance policy are just some of the areas pursued.

In the area of corporate social responsibility, we provided the less fortunate youth in the former war-torn areas of the Jaffna peninsula with some of the basic amenities of life they lacked. The Vembady Girl's School in Jaffna was one such beneficiary of Allianz care. The victims of the floods in the North and East that devastated many homes and businesses were also helped by our field staff, who responded to their plight despite the difficult circumstances. The blood donation campaign for Thalassemia sufferers carried out in the Kurunegala district, was successful in collecting a record

CEO's Review *(Contd.)*

quantity of over 350 pints of blood plasma. We also reached out to the aged and differently abled among our customers by providing them with wheelchairs, an initiative that was warmly welcomed. I am proud of the way our staff worked as one, to meet the needs of the community we serve.

We follow our parent Allianz SE in adopting a strict compliance policy. This goes beyond mere compliance to local laws and regulations, and ensures integrity, accountability and transparency in all our business transactions.

For the future, a number of strategies have been identified to further establish and grow the Company sustainably whilst continuing to add value to our stakeholders. Volatility in global markets and the slowdown in Europe and North America are expected to push investors to pursue better returns in the emerging economies of Asia. By virtue of our talented work force, favourable demographics and strategic location, Sri Lanka stands to gain from this shift in global economic dynamics. Allianz Lanka has aggressive plans in place to build on this growth trajectory. We are committed to grow our business professionally and ethically rather than by merely focusing on increasing turnover.

We will take the Company forward in a modern, digitalised and fast moving environment that adds value to all stakeholders

We will further strengthen our retail business by using our existing branches and expanding our branch network to enable our customers in the peripheries to harness the benefits of more General insurance products. The coming year will see focus shifting from the North East to the South. We will support smaller and medium-sized businesses and will intensify our product development efforts by introducing innovative Life and General products. The Life insurance product portfolio is expected to be well bolstered in 2012 with the expected launch of Allianz Unit Linked Life insurance products that will cater to the growing demand for investment- linked insurance solutions.

We have plans to take the Company forward in a modern, digitalised and fast-moving environment which will add immense value to both customers and agents. Our agents can now issue quotations and upload up-to-the minute information at the touch of a key. In the near future they will be able to complete policies speedily wherever they are, without the necessity of access to the head office. The conveniences of mobile text messaging are also being accessed, for reminders, confirmations on payments etc. We will also introduce Web-based Life and General products in the near future.

We remain committed to professionalism. Allianz strongly believes in service as our main differentiator, the reason for us being our custermers' first choice insurer. With this in mind we have formulated a set of comprehensive KPIs to measure our service standards, and a complaints management system that identifies and remedies our shortfalls.

Having concluded another successful year, I wish to express my deep appreciation to all our stakeholders, who have partnered with us over the years. I also thank my Board of Directors whose direction and support have been invaluable to me. To our valued customers and other business partners whose support has been the cornerstone of our success, I convey my sincere gratitude.

Lastly, but not by any means the least, to my staff I say a warm 'thank you'. You are a true inspiration and I look to you to stand with me as we, together, take the Company forward to meet the challenges and opportunities of the future.

Surekha Alles
Chief Executive Officer

Allianz Insurance Lanka Ltd.
Allianz Life Insurance Lanka Ltd.
28 February 2012

Moments in Time with Allianz

Fostering team spirit and camaraderie among staff has been an effective motivational tool. Building trust and bonding among one another undoubtedly inspires our people to greater heights of commitment, which results in providing our customers with a service from the heart.

Several events were organised over the year to forger close bonds among staff at all levels .

Sales Convention Rewards Performances ‘Beyond Belief’

Our annual Sales Convention was held at Hotel Galadari in June. The theme was “Beyond Belief” and the Chief Guest was Heinz Dolberg. Executive Vice President, Allianz SE. The glittering event brought together all field sales force as well as sales staff from around the island, totaling over 300. For the second consecutive year, the Company feted the most productive and profitable sales personnel, inviting their spouses to share in their moment of glory.

Winners felicitated included - the best Sales Person - Thayakaran Sadanandan, the best Field Manager - Kaliappan Ingaran, the best Regional Manager - Lasantha Fernando, the best Agency Officer - Prasanna Rajapakse and the best Sales Person (Non-Life) - Niroshan Mudalige.

The Chief Guest congratulates the best Sales Person

Moments in Time with Allianz *(Contd.)*

Allianz SE Board Member visits Colombo

Meeting business partners

Mr. Bauer at the Town Hall meeting

The highlight of the year was the visit to the head office of Manual Bauer, Board Member of Allianz SE, and Kamesh Goyal, Regional CEO for Asia Pacific. While in Sri Lanka they had a meeting with the Insurance Board of Sri Lanka (IBSL), which they confirmed, was extremely productive and informative. For the first time ever, a town hall meeting was organised at the head office to meet all staff from Head office and the branches, which proved extremely interactive, with many staff asking a range of questions to which they received insightful answers. An evening event too was organised to meet business partners.

This was the first time ever that Allianz Lanka was graced with the presence of a senior board member. At a press interview, Mr. Bauer said that Sri Lanka had great promise for future growth, not only in insurance but overall. He made the point that Allianz is committed to customer service and uses several tools to measure and monitor customer service to ensure that our service is on par with the best in the world. Mr. Bauer also outlined the Company's plan to grow its retail, small and medium business whilst ensuring profitable yet sustainable growth.

Top Ten Congress Awards

Top Ten Congress Awards Ceremony

Top Ten Congress Award Winners

Moments in Time with Allianz *(Contd.)*

This annual event was held in December in Colombo and themed 'Quality Creates Excellence'. The chief guest was our CEO Surekha Alles and over 225 participants attended, with the Top 10 achievers for 2011 receiving their awards. The event brought to a close the 2011 sales year and announced plans for the forthcoming year.

Events at Yuletide

A grand Christmas party was organised for all Colombo staff. A Christmas carol competition was conducted between four groups - Support Services, General, Life and Sales & Marketing, with Support Services emerging the triumphant winner. The music, dancing and competitions added to the festivities.

A Night at the Movies

Head office staff had a movie night. Office closed early that day and the staff had fun, viewing the movie that received their highest votes. Pop corn and soda added the right touch to an enjoyable evening.

Christmas carols by staff

Enjoyable Staff Outing

This is an event anticipated for many months ahead. The annual outing for staff and their families was held in September at the Mahaweli Reach Hotel, Kandy. Over 200 staff stayed overnight with their families, and participated in many exciting and energetic events and competitions during the day. The more adventurous enjoyed day outings to the botanical gardens, city tours and trekking. Staff and their families got to know one other while relaxing in the scenic beauty of the hill country.

A Christmas decorations competition was also held among the floors at our head office. This competition provided staff with the opportunity to show their creativity and had the entire office brightened with seasonal décor. The third floor won, for their originality and creativity.

Annual company outing - Mahaweli Reach, Kandy

Moments in Time with Allianz *(Contd.)*

Our People, Our Greatest Asset

The year saw the opening of two branches - in Nugegoda in February and Jaffna in May. This was in accordance with our

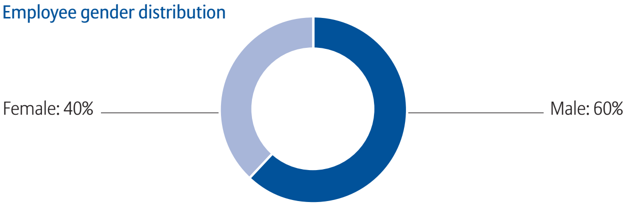
Jaffna Branch opening

Nugegoda Branch opening

plans to reach out to our growing customer base in these areas and to further strengthen our branch network in the country.

As at December 2011, our permanent cadre stood at 164, which is an increase of 22% over the previous year. We have also maintained a very healthy gender balance of 40% female staff.

Employee gender distribution



Recruiting the Talent of the Future

As part of our plans for the future, the Company commenced a recruitment programme to attract talent capable of taking the Company forward. Technical expertise was sought in particular. A many-faceted interview process included in areas such as conversation aptitude, leadership talent, general intelligence and long term commitment.

Employee Engagement Survey 2011

The annual Employee Engagement Survey was conducted in September. Allianz considers the survey to be a key means of obtaining employee feedback from its staff around the world, on its policies, practices and performance. The survey is anonymous and conducted electronically by a service provider in Munich, Germany.

The survey addresses the areas of strategic orientation, communication and collaboration, structures and processes, leadership behavior, learning and development and performance and compensation. The response rate from Sri Lanka was 86%.

The survey carried out in Sri Lanka revealed that Allianz Lanka staff had exceptionally high motivational levels while also pinpointing areas that need addressing. Allianz Lanka is proud of the fact that Sri Lanka boasts a 95% rating for the commitment and willingness of its employees to put in extra effort to support the Company's success .

The Management will continue to follow-up on survey feedback to ensure that survey results are addressed in the ensuing year.

Training and Developing our Greatest Asset

The Company reinforced its focus on training and developing its staff with several local and overseas raining programmes conducted throughout the year at a cost of over Rs. 3 million. Many staff were sent for overseas training in a range of disciplines - in health products, underwriting and claims to Bangkok, to a re-insurance and best practices mo-

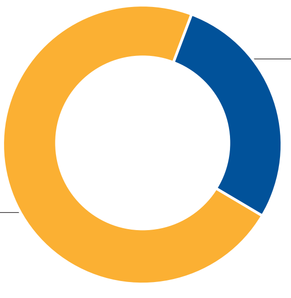
Moments in Time with Allianz *(Contd.)*

Staff attending foreign training

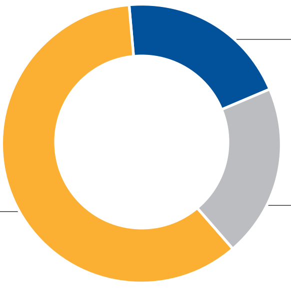
tor workshop in India, for training in claims to Singapore, and for property insurance training to Munich, to name a few. A staff member was sent on six months' training on actuarial work to our subsidiary in Malaysia. Staff followed many local training programmes as well as an in-house programme on - 'How to be a work station Leader' conducted by Dammika Kalapuge for all head office staff. This was a follow-up on the programme he conducted in the previous year.

Total training days were over 350 days, of which more than 20% was on training overseas.

Distribution of Training Mandays



Staff Training Type



Training Statistics

1. Staff on external local training: 24
2. Staff on in-house training: 84
3. Staff on foreign training: 22
4. Staff on miscellaneous training: 66

Building a Healthy Workforce

To encourage a healthy and active lifestyle, all staff were provided with gym membership. Many staff utilise these facilities and welcome the opportunity to use their leisure time more productively.

New Technology Streamlines HR

The Company implemented a comprehensive Human Resources Information System in May to streamline the human resources department and provide ready and accurate information for management decision-making. The system was essential to support the Company's staff expansion.

Sustainability Report

Despite the year's focus on expansion and development, the Company did not neglect its responsibility to the community it serves.

The year began with the devastating floods in the Trincomalee, Batticaloe and Vavuniya regions that affected several homes and businesses in these areas. Our field staff lost no

Donations for flood victims

time in responding to the needs of the flood victims and collected and distributed dry rations in Trincomalee, Batticaloe and Vavuniya, experiencing many hardships themselves while working in these water-logged areas.

The opening up of the Branch in Jaffna paved the way for many social responsibility programmes in the peninsula. The needs of the Vembady Girls School in Jaffna were identified and the

CSR at Vembady Girls school

school was provided with musical instruments and electronic equipment. The grand event organised by the school was a touching expression of their appreciation of our gesture.

We also initiated a free wheel chair distribution scheme to service our customer's islandwide. The scheme provides customers and employees in need, with a wheel chair to aid their mobility. The year-end saw Allianz partnering with the Mount Lavania Hotel and the Italian embassy in Colombo to sponsor a performance by operatic artists from world-renowned Milanese opera house Teatro Alla Scala. This event was a first of its kind in Sri Lanka and Allianz was pleased to have shared the opportunity of introducing international arts to the country.

A massive blood donation campaign was organised by the sales and marketing team of the Kurunegala branch in November.

Kurunegala town was awash in a sea of blue as the familiar Allianz corporate branding greeted donors arriving to provide life-giving blood plasma for Thalassemia sufferers. According to Blood Bank officials, a record quantity of nearly 350 pints of blood plasma were collected. Blood tests to identify the pres-

Blood donation campaign-Kurunegala

ence of Thalassemia were also carried out free of charge by the Blood Bank medical officers at the premises of the Allianz Lanka branch office, and many grateful parents brought their children to be tested.

The Kurunegala region has Sri Lanka's highest concentration of Thalassemia sufferers. The Mayor of Kurunegala, the Deputy Inspector General of Police as well as senior officers of the armed services, police and civic organisations of the area participated.

This year, the Company appointed a CSR team with a clear vision and commitment to focus on educatng the impoverished sections of the community.

Content

Allianz Insurance Lanka Ltd.

Financial Information

Allianz

Directors' Report

The Board of Directors of Allianz Insurance Lanka Limited has pleasure in presenting their Annual Report on the affairs of the Company, together with the Audited Financial Statements and the Auditors' Report for the financial year ended 31 December 2011.

The Audited Financial Statements were approved by the Board of Directors on 28 February 2012.

Principal Activity

The Company underwrites General insurance business. Income is derived from underwriting, underwriting management and investment income.

Shareholding

Allianz SE of Munich, Germany is the immediate and ultimate shareholder of the Company. The Allianz Group provides services in Insurance, Banking and Asset Management.

Review of Business and Future Developments

The Business Review, which includes details of the Company's development and performance, is set out in the Financial Overview on pages 9 to14. The future developments of the Company are presented in the CEO's Review on pages 32 to 34. These reports, together with the Audited Financial Statements, reflect the state of affairs of the Company.

Corporate Governance

The Board of Directors is committed to maintain an effective corporate governance structure and process and to be in compliance with all rules, regulations and best practices on corporate governance. The Company reports regularly and comprehensively to the Board of Directors on business development, the financial position and earnings, budgeting and achievement of objectives, compliance issues, and on the strategy and existing risk exposure.

Compliance with Laws and Regulations

The sustained success of the Company is based on trust, respect and the responsible, integrity-enriched behavior of all employees. All employees are governed by the code of conduct; we support and follow the guidelines and standards for rules-compliant and value-based corporate leadership.

The Company's compliance policy aims to ensure compliance with internationally recognised laws, rules and regulations to promote a culture of integrity and to safeguard the Company's reputation. In order to achieve this, the Company has implemented the following policies.

- Anti money laundering policy
- Anti-corruption policy
- Anti-fraud policy
- Gift and entertainment policy
- Sales compliance minimum standards

Strategic compliance initiatives, projects and policies are developed and implemented by Legal and Compliance in conjunction with the Group Compliance and the Compliance Standards Committee.

It is compulsory for all employees to participate annually in a a web-based anti-corruption and fraud training known as the 'Blue Box'. A certificate on preventing corruption and fraud is awarded upon sucessful completion.

Compliance will examine any suspected infringement of the internal compliance guidelines in cooperation with other departments, where appropriate. The standards of conduct established by the Allianz Group's Code of Conduct for Business Ethics and Compliance serve to implement guidelines and principles, and are obligatory for all employees.

Risk Management

As a provider of financial services, we consider risk management to be one of our core competencies. It is therefore an integral part of our business processes. The Allianz Group has put in place a comprehensive framework that ensures risks are properly identified, analysed and evaluated. Close risk monitoring and reporting allows us to detect deviations from our risk tolerance at an early stage. One of the significant developments in the area of risk management was the appointment and approval of the Risk Management Committee (RiCo). The RiCo is chaired by the Company's designated Chief Risk Officer.

Internal Risk Management efforts are strictly monitored and guided by the Allianz Group and regional risk management teams. The Company places greater emphasis on underwriting risk management, investment risk management and re-insurance risk management. The details of the Company's comprehensive risk management framework are given in the Risk Management Report on pages 26 to 28.

Financial Statements

The Company's Financial Statements duly signed by the Directors are provided on pages 48 to 68 and the Auditors' Report on the Financial Statements is provided on page 47 of this Annual Report.

Earnings Summary

For the year ended 31 December	2011 Rs.'000	2010 Rs.'000
Gross Written Premium (GWP):		
Accident	568,822	286,691
Fire	768,189	1,074,604
Marine	31,860	20,525
Motor	132,429	87,718
Total GWP	1,501,300	1,469,538
Net earned premium	336,747	293,437
Underwriting profit	180,401	125,926
Profit before taxation	286,452	221,305
Taxation	(46,594)	(53,996)
Profit after taxation	239,858	167,309
Profit brought forward from previous year	349,255	181,946
Dividend paid	(158,333)	-
Profit available for appropriation	430,780	349,255

Underwriting Results

The underwriting profit increased to Rs. 180 million (2010: Rs. 126 million).

The gross written premiums grew by 2 % to Rs. 1,501 million, from Rs.1,469 million.

Financial Results

The Company recorded a net profit of Rs. 240 million (2010: Rs. 167 million).

Investments

The details of investments held by the Company are disclosed in Note 3 to the Financial Statements.

One of the significant developments during 2011 on the investment management front was the drafting of a comprehensive Investment Policy Statement (IPS) for the Company. The IPS was first presented to the Finance & Investment Committee (FiCo) for clearance and later submitted for Board approval. The IPS discusses extensively the Company's return objective, risk tolerance and investment constraints within the regulatory and Group guidelines. It has also recommended a strategic asset allocation for the Company, derived in accordance with its risk and return objectives.

Asset allocation by class

As at 31 December	2011 Rs. '000	%	2010 Rs.'000	%
Sri Lanka Government securities	917,243	96	772,591	96
Fixed deposits	15,000	2	15,000	2
Corporate debentures	20,000	2	20,000	2
Total	952,243	100	807,591	100

Property and Equipment

Details of Property and Equipment are given in Note 4 to the Financial Statements.

Directors' Report *(Contd.)*

Solvency

The Statement of Solvency for General Insurance has been prepared in accordance with the Solvency Margin (General Insurance) Rules 2004 amended by the Extraordinary Gazette No 1697/27 of March 18, 2011 and is disclosed below.

The Company is well capitalised and is comfortably meeting its internal and regulatory solvency targets as of December 31, 2011.

For the year ended 31 December	2011 Rs.'000	2010 Rs.'000
Value of admissible assets	1,311,097	1,265,630
Total liability including technical reserves	705,870	800,159
Net admissible assets	605,227	465,471
Required solvency margin	84,076	61,169
Excess over required solvency margin	521,151	404,302

Dividends

During the year the Board of Directors for the first time declared and paid to the Shareholders a divided of Rs. 6.33 per share totaling Rs. 158 million.

The Board of Directors is satisfied with the solvency test in terms of the provisions of Companies Act, No. 7 of 2007, immediately after distribution of the dividends. A solvency certificate was obtained from the auditors Messrs. KPMG Ford, Rhodes, Thornton & Co.

Employment Policy

As a people business, our principal asset is intellectual capital and our highly motivated and skilled employees are critical to our success. Our employees' exceptional commitment and dedication to providing excellent service to our customers is crucial to our success and we place great emphasis on fostering leadership, talent and continuous personal development. Only by unlocking our employees' potential and enhancing our services can we achieve our primary goal of being a reliable partner to our customers.

We encourage equal opportunity, this involves recruiting, engaging, retaining, rewarding and developing our people solely on the grounds of their ability to do the job, and establishing and promoting a working environment free of discrimination.

We acknowledge top performance and reward it appropriately. Our compensation and benefit plans are designed to motivate our employees to successfully implement our strategies and business plans.

Allianz employees continued to receive global training opportunities in the Allianz Group, on current trends and developments in insurance worldwide, which ensures that the Allianz team has the required expertise to achieve corporate objectives. We believe we can create real competitive advantage by building and maintaining a high performance culture in the Company.

Stated Capital and Shareholders' Funds

In compliance with the Companies Act No. 07 of 2007 and the Financial Statements reflect the stated capital of the Company. The stated capital is the total of all amounts received by the Company in respect of the issued share capital. The stated capital of the Company as at 31 December 2011 was Rs. 250 million (2010: Rs. 250 million). There were no changes in the stated capital during the year.

The total reserves of the Company as at 31 December 2011 amounted to Rs. 431 million (2010: Rs. 349 million). The movement of reserves is shown in the Statement of Changes in Equity on page 50.

Directors

The following persons served as Directors of the Company during the year:

- Heinz Dollberg
- Surekha Alles
- Craig Ellis (until 30 April 2011)
- Karl Heinz Jung (since 1 May 2011)
- Don Tri Nguyen (until 31 August 2011)

Directors' Report *(Contd.)*

Directors' Remuneration and Other Benefits

CEO/Director's remuneration is decided by the Board, considering individual and Company performance. Due attention is also paid to industry standards, inflationary factors, future plans and Group policy when deciding the remuneration package to the CEO/Director. No remuneration is paid to Non-Executive Directors.

Directors' Interest in Contracts with the Company

None of the Directors had any material interests, either directly or indirectly, in any transactions or contracts with the Company other than as disclosed in 'Notes to the Financial Statements' (Note 23).

Statutory Payments

The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments due to the Government, other regulatory institutions and in relation to employees, have been made on time.

Environment

The Company's activities can have direct or indirect effects on the environment. It is the policy of the Company to minimise any adverse effects by recycling resources as much as possible and creating awareness among its staff on current global environment threats. The Company does its best to comply with the relevant environmental laws and regulations.

Going Concern

The Board of Directors made necessary review of the financial position and corporate plans for the ensuing years and is satisfied that the Company has adequate resources to continue its operations in the foreseeable future. Accordingly, the Financial Statements are prepared based on the going concern concept.

Auditors

The Financial Statements for the year ended 31 December 2011 have been audited by Messrs. KPMG Ford, Rhodes, Thornton & Company (Chartered Accountants), who will retire from office at the end of this Annual General Meeting. They have expressed their willingness to be re-appointed until the next Annual General Meeting at remuneration to be agreed upon.

On behalf of the Board.

Heinz Dollberg	**Surekha Alles**
Director	Director

Secretaries to the Company

EM & EN Agents and Secretaries (Pvt) Limited
28 February 2012

Certification of Incurred But Not Reported (IBNR) Reserve

Dr. Asha Joshi
AIA, FIAI

IBNR represents that amount of claims that may have been incurred prior to the end of the current accounting period but have not been reported or claimed. The IBNR provision also includes provision, if any, required for claims incurred but not enough reported (IBNER).

In calculation of the provision, I have relied on the information and data provided by the management of Allianz Insurance Lanka Ltd. I am assured that the figures given to me were tallied/reconciled with the Audited Accounts. They were verified to the extent possible to satisfy ourselves as to the reasonability of the data. Analysis of claims on gross and net of reinsurance has been done. The results have been determined largely in accordance with internationally generally accepted actuarial principles. I have certified IBNR provision net of reinsurance as SLRs 73,326,585 as on 31st December 2011.

Ashajoshi

Asha Joshi
Fellow of Institute of
Actuaries of India
31st Jan 2012

B607, Daffodils, sector 6 plot 36, Dwarka New Delhi 110075 Tel. 011-25088291, 020-24533907

Independent Auditors' Report

KPMG Ford, Rhodes, Thornton & Co.
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
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TO THE SHAREHOLDERS OF ALLIANZ INSURANCE LANKA LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of Allianz Insurance Lanka Limited, which comprise the balance sheet as at December 31, 2011, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes set out on pages 48 to 68 of this annual report.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Scope of Audit and Basis of Opinion

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

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

Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended December 31, 2011 and the financial statements give a true and fair view of the Company's state of affairs as at December 31, 2011 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

These financial statements also comply with the requirements of Section 151(2) of the Companies Act No. 07 of 2007. Further, pursuant to Regulations of Insurance Industry Act, No 43 of 2000, proper accounting records have been maintained as required by the related rules.

Ford Rhodes Thornton & Co.

Chartered Accountants
Colombo, Sri Lanka
28 February 2012

Balance Sheet

As at 31 December	Note	2011	2010
		Rs.'000	Rs.'000
Assets			
Investments	3	952,243	807,591
Property and equipment	4	19,020	26,330
Intangible assets	5	10,122	11,233
Reinsurance receivable		341,143	296,505
Premium receivable	6	376,570	326,035
Other assets	7	77,072	95,316
Deferred tax assets	20b	5,060	3,183
Cash and cash equivalents	8	18,485	19,827
Total assets		**1,799,715**	**1,586,020**
Liabilities and Shareholders' Equity			
Liabilities			
Insurance provision - General	9	468,653	520,252
Reinsurance creditors		535,829	336,200
Employee benefits	10	4,112	4,899
Other liabilities	11	87,801	96,957
Bank overdraft		22,540	28,457
Total liabilities		**1,118,935**	**986,765**
Shareholders' Equity			
Stated capital	12	250,000	250,000
Revenue reserves	13	430,780	349,255
Total shareholders' Equity		**680,780**	**599,255**
Total liabilities and Shareholders' Equity		1,799,715	1,586,020

The above balance sheet is to be read in conjunction with the Notes to the Financial Statements on pages 53 to 68.
These Financial Statements have been prepared in accordance with the Companies Act No. 7 of 2007.

Dineth Ediriweera
Chief Financial Officer

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.
Signed for and on behalf of the Board by:

Heinz Dollberg
Director

Surekha Alles
Director

Colombo
28 February 2012

Statement of Income

For the year ended 31 December	Note	2011 Rs.'000	2010 Rs.'000
Revenue	14	442,798	388,816
Gross written premium		1,501,300	1,469,538
Premium ceded to reinsurers		(1,080,919)	(1,163,694)
Net written premium		420,381	305,844
Net change in reserve for unearned premium		(83,634)	(12,407)
Net Earned Premium	14a	**336,747**	**293,437**
Benefits, Losses and Expenses			
Net insurance claims and benefits	15	(139,167)	(172,754)
Net acquisition cost		151,610	115,060
Total Benefits, Losses and Expenses		**12,443**	**(57,694)**
Net Premium less Benefits, Losses and Expenses		**349,190**	**235,743**
Other Revenue			
Income from investments	16	105,768	91,599
Other income	17	283	3,780
Expenses			
Operating and administration expenses	18	(168,789)	(109,817)
Profit before Taxation	19	**286,452**	**221,305**
Tax expenses	20	(46,594)	(53,996)
Net Profit for the Year		**239,858**	**167,309**
Earnings per share (Rs.)	21	9.59	6.69

The above Statement of Income is to be read in conjunction with the Notes to the Financial Statements on pages 53 to 68.

Statement of Changes in Equity

For the year ended 31 December 2011	Stated Capital Rs.'000	Revenue Reserves Rs.'000	Total Rs.'000
Balance as at 31 December 2009	**250,000**	**181,946**	**431,946**
Net profit for the year	-	167,309	167,309
Balance as at 31 December 2010	**250,000**	**349,255**	**599,255**
Dividend paid	-	(158,333)	(158,333)
Net profit for the year	-	239,858	239,858
Balance as at 31 December 2011	**250,000**	**430,780**	**680,780**

The above statement of changes in equity is to be read in conjunction with the Notes to the Financial Statements on pages 53 to 68.

Cash Flow Statement

For the year ended 31 December	Note	2011 Rs. '000	2010 Rs. '000
Cash Flow from Operating Activities			
Premium received from customers		1,450,764	1,274,181
Reinsurance premium paid		(650,143)	(797,020)
Claims paid		(389,211)	(216,392)
Reinsurance receipts in respects of claims		131,481	56,905
Cash paid to and on behalf of employees		(57,655)	(34,533)
Operating cash payments		(218,005)	(188,921)
Cash Inflow/(Outflow) from Operating Activities (Note A)		**267,231**	**94,220**
Employee benefit paid		(44)	-
Tax paid		(49,022)	(49,605)
Net Cash Flow from Operating Activities		**218,165**	**44,615**
Cash Flow from Investing Activities			
Purchase of investments		(585,651)	(574,536)
Proceeds on sale of investments		440,999	423,152
Purchase of intangible assets	5	(7,560)	(208)
Purchase of property and equipment	4	(7,438)	(8,045)
Interest income received		103,224	90,548
Proceeds on sale of property and equipment		1,169	17
Net Cash Flow from Investing Activities		**(55,257)**	**(69,072)**
Net Cash Flow before Financing Activities		**162,908**	**(24,457)**
Cash Flow from Financing Activities			
Dividend paid	12	(158,333)	-
Net Cash Flow from Financing Activities		**(158,333)**	**-**
Net Increase/(decrease) in Cash and Cash Equivalents (Note B)		**4,575**	**(24,457)**

Cash Flow Statement *(Contd.)*

	Note	2011 Rs. '000	2010 Rs. '000
A. Reconciliation of Operating Profit with Cash Flow from Operating Activities			
Profit before taxation		286,452	221,305
Depreciation charge	4	14,748	13,702
Provision for employee benefits	10	(743)	2,043
Amortization of intangible assets	5	8,671	8,428
Interest and other income		(106,937)	(91,615)
Increase in debtors		(74,385)	(349,305)
Increase in unearned premiums and deferred acquisition costs		80,270	39,811
Increase / (decrease) in claims provisions		(131,870)	165,337
Increase in creditors and accruals		191,025	84,514
Cash Inflow / (Outflow) from Operating Activities		267,231	94,220
Employee benefit paid		(44)	-
Tax paid		(49,022)	(49,605)
Net Cash Inflow / (Outflow) from Operating Activities		**218,165**	**44,615**
B. Net Increase / (Decrease) in Cash and Cash Equivalents			
Cash in hand and at bank	8	18,485	19,827
Bank overdraft		(22,540)	(28,457)
Net cash and cash equivalents as at 31 December 2011		(4,055)	(8,630)
Net cash and cash equivalents as at 31 December 2010		(8,630)	15,827
Net Increase / (Decrease) in Cash and Cash Equivalents		**4,575**	**(24,457)**

The above cash flow statement is to be read in conjunction with the notes to the Financial Statements on pages 53 to 68.

Notes to the Financial Statements

1. Corporate Information

1.1 Reporting Entity

Allianz Insurance Lanka Limited is a limited liability Company incorporated and domiciled in Sri Lanka. The registered office of the Company and the principal place of business is located at No. 92, Glennie Street, Colombo 02.

The immediate and ultimate holding Company is Allianz SE of Munich, Germany.

The Company was incorporated on 20 January 2004 and commenced General insurance business in January 2005.

1.2 Principal Activity

The Company is engaged in the business of General insurance.

2. Basis of Preparation

2.1 Statement of Compliance

The Financial Statements have been prepared and approved by the Directors in accordance with Sri Lanka Accounting Standards (SLASs), the requirements of the Companies Act, No. 07 of 2007, the Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995, the Regulation of Insurance Industry Act, No. 43 of 2000 and amendments thereto. The formats and disclosures, where applicable, are also in accordance with the Statement of Recommended Practice for Insurance Contracts (SORP) issued by the Institute of Chartered Accountants of Sri Lanka.

The Financial Statements of Allianz Insurance Lanka Limited for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the Board of Directors on 28 February 2012.

2.2 Responsibility for Financial Statements

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

2.3 Basis of Measurement

The Financial Statements are presented in Sri Lankan Rupees rounded to the nearest thousand and prepared on the historical cost convention.

2.4 Functional and Presentation Currency

The Financial Statements are presented in Sri Lankan Rupees, which is the Company's functional currency rounded to the nearest thousand, unless otherwise stated.

2.5 Use of Estimates and Judgements

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

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

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements, is included in the following notes.

Critical Accounting Estimate/Judgement	Disclosure Reference	
	Note	Page
Insurance provision - General	9	63
Unearned premium and deferred acquisition cost	9a & 9b	63
Reserve for gross outstanding claims	9c	63
Deferred taxation	20b	67
Reserve for IBNR	9d	64
Employee benefits	10	64

2.6 Materiality and Aggregation

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

2.7 Consistency of Accounting Policies

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

2.8 Foreign Currency Transactions

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

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

SIGNIFICANT ACCOUNTING POLICIES

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

The Company balance sheet represents the assets, liabilities and equity of the shareholders. The statement of income reflects the underwriting results and investment income and other income of the General insurance business.

The Directors have made an assessment of the Company's ability to continue as a going concern in the foreseeable future, and they do not foresee a need for liquidation or cessation of trading.

ASSETS AND BASIS OF THEIR VALUATION

2.9 Investments

a) Investments in Government Securities

Investments in treasury bills, treasury bonds and repurchase agreements are stated at cost, and interest is accrued upto year end.

b) Investments in Debt Instruments and Bank Deposits

Investments in debt instruments and bank deposits are stated at cost and interest is accrued over the maturity period.

The carrying value of long-term investments is reduced to recognise a decline other than temporary in the value of investments, determined on an individual investment basis.

2.10 Property and Equipment

a) Recognition and Measurement

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

Notes to the Financial Statements *(Contd.)*

Cost includes expenditure directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the cost of dismantling and removing the items and restoring on the site on which they are located. 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 and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

b) Gains and Losses on Disposal

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

c) Subsequent Costs

The cost of replacing part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably.

The cost of repairs and maintenance of property and equipment is charged to the statement of income as and when incurred.

d) Depreciation

Depreciation is recognised in the statement of income on the straight-line basis over the estimated useful lives of each component part of an item of property and equipment.

The estimated useful lives for the current and comparative periods are as follows,

Asset Class	Basis
Office equipment	3 years
Computer equipment	3 years
Furniture and fittings	5 years
Motor vehicles	5 years

Assets were depreciated from the month they were available for use and no depreciation is provided in the month of disposal.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

e) De-recognition

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

When replacement costs are recognised in the carrying amount of an item of property 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 de-recognised.

2.11 Intangible Assets

a) Recognition and Measurement

Intangible assets acquired by the Company which have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

b) Subsequent Expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in the statement of income as incurred.

c) Amortisation

Amortisation is recognised in the statement of income on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date they are available for use. The estimated useful life for the current and comparative periods for the intangible assets is 3 years.

The estimated useful life of an intangible asset in a service concession arrangement is the period when it is available for use to the end of the concession period.

2.12 Trade and Other Receivables

a) Premium Receivables

Collectability of premium and other debtors are reviewed on an ongoing basis. Debts, which are known to be uncollectible, are written off. A provision for doubtful debts is raised when some doubt as to collection exists.

b) Reinsurance Receivable

Reinsurance assets include the balances due from both insurance and reinsurance companies for paid and unpaid losses and loss adjustment expenses. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance receivables are recorded gross in the balance sheet unless a right to offset exists.

c) Other Receivables

Other receivables and dues from related parties are recognised at cost.

2.13 Cash and Cash Equivalents

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

2.14 Impairment of Assets

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

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs in sale. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessment of the time value of the money and risks specific to the asset or cash generating unit.

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

LIABILITIES AND PROVISIONS

2.15 Provisions

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

2.16 Reinsurance Payables

Reinsurance liability consists of reinsurance premium due to reinsurance in respect of the reinsurance contracts entered into by the Company.

2.17 Taxation

a) Current Taxes

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

b) Deferred Taxation

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

In addition, deferred tax is measured at the tax rates 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.

(c) Economic Service Charge (ESC)

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

(d) Social Responsibility Levy (SRL)

As per the provisions of Finance Act, No. 5 of 2005, as amended by Finance Act, No. 8 of 2008, a Social Responsibility Levy (SRL) was introduced with effect from 1 January 2005. SRL is payable at the rate of 1.5% on all taxes and levies chargeable as specified in the First Schedule of the Act

2.18 Employee Benefits

a) Defined Benefit Plan - Gratuity

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

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

The assumptions based on which the results of the actuarial valuation was determined are included in Note 10 to the Financial Statements.

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

The provision is not externally funded.

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

A defined contribution plan is a post-employment plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay a further amount. Obligations for contributions to the provident fund under Provident Fund Act No. 15 of 1958 as amended and the trust fund under Trust Fund Act No. 46 of 1980, covering all employees, are recognised as an employee benefit expense in profit and loss when they are due.

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

2.19 Stated Capital

The Company's stated capital comprises ordinary shares classified as equity.

GENERAL INSURANCE BUSINESS

2.20 Gross Written Premiums

Gross written premiums are generally recognised as written upon inception of the policy. Upon inception of the contract, premiums are recorded as written and are earned primarily on a pro rata basis over the term of the related policy coverage. However, for those contracts for which the period of risk differs significantly from the contract period, premiums are earned over the period of risk in proportion to the amount of insurance protection provided. Earned premiums are calculated on the 365 basis except for marine business, which is computed on a 60-40 basis.

Notes to the Financial Statements *(Contd.)*

2.21 Reinsurance premiums

Reinsurance premium expenses are recognised in the same accounting period as the gross written premium to which they relate or in accordance with the pattern of reinsurance services received.

2.22 Unearned Premium

The unearned premium reserve represents the portion of the gross written premium and reinsurance premium written in the current year but relating to the unexpired period of coverage.

Unearned premiums are calculated on the 365 basis except for marine business, which is computed on a 60-40 basis in accordance with the rules of the Insurance Board of Sri Lanka.

2.23 Unexpired Risks

Provision is made, where appropriate, for the estimated amount required over and above the unearned premium to meet future claims, and related expenses on the business in force as at 31 December.

2.24 Claims

Claims expenses and a liability for outstanding claims are recognised in respect of direct and inward reinsurance business. The liability covers claims reported but not yet paid, Incurred but not reported (IBNR) claims, Incurred but not enough reported (IBNER) and the anticipated direct and indirect costs of settling those claims. Claims outstanding are assessed by review of individual claim files and estimating changes in the ultimate cost of settling claims, The provision in respect of IBNR and IBNER is actuarially valued to ensure a more realistic estimation of future liability based on past experience and trends.

Actuarial valuations are performed on an annual basis. While the Directors consider that the provision for claims is fairly stated on the basis of information currently available, the ultimate liability will vary as a result of subsequent information and events. This may result in adjustments to the amounts provided. Such amounts are reflected in the Financial Statements for that period. The methods used and the estimates made are reviewed regularly.

2.25 Deferred Acquisition Costs

Deferred acquisition costs represent commissions and reinsurance commission, which are deferred and amortised over the period in which the related written premiums are earned.

INVESTMENT INCOME RECOGNITION

2.26 Interest

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

2.27 Other Income

Other income is recognised on an accrual basis

2.28 Expenditure Recognition

a) Expenses are recognised in the statement of income on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property and equipment in a state of efficiency has been charged to the statement of income in arriving at the profit for the year.

b) For the purpose of presentation of the statement of income, the Directors are of the opinion that the function of expenses method presents fairly the elements of the Company's performance, and hence such presentation method is adopted.

2.29 Earnings per Share

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

2.30 Cash Flow Statements

The cash flow statement has been prepared using the direct method. For cash flow purposes, cash and cash equivalents are presented net of bank overdrafts.

2.31 Commitments and Contingencies

Contingencies are possible assets or obligations that arise from a past event and would be confirmed only on the occurrence or non-occurrence of uncertain future events beyond the Company's control.

2.32 Events occurring after the Balance Sheet date

All material post-balance sheet events have been considered and, where appropriate, adjustments or disclosures have been made in Note No. 26 to the Financial Statements on Page No. 68.

2.33 New Accounting Standards issued but not Effective as at Balance Sheet date

The Institute of Chartered Accountants of Sri Lanka (ICASL) has issued a new volume of Sri Lanka Accounting Standards – 2011, applicable to financial periods beginning on or after 1 January 2012. These standards have many changes and consequential changes. The new accounting standards are prefixed both SLFRS and LKAS, which correspond to the relevant IFRS and IAS. Disclosure requirement under SLAS 10.30 and 10.31 have been exempted by the ICASL and therefore all differences and impacts arising from the new standards are not presented in these Financial Statements.

2.34 Comparative Information

The comparative information is re-classified wherever necessary to conform with the current year's presentation in order to provide a better presentation.

FINANCIAL RISK MANAGEMENT

2.35 Introduction and Overview

The Company has exposure to the following risks from its use of financial instruments like investments and receivables:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these Financial Statements. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The risk management committee (RiCo) is responsible for developing and monitoring the Company's risk management process.

2.36 Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty fails to meet contractual obligations, and arises principally from the Company's receivables from customers, and investment securities.

a) Trade and Other Receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer and the intermediaries. The Company has established a credit policy under which each new customer is analysed individually for creditworthiness before the Company standard payment terms and conditions are offered. The Company reviews credits granted to customers on a regular basis and takes necessary actions if any doubtful debts are identified.

b) Investments

The Company limits its exposure to credit risk by only investing in fixed income securities issued by the Government of Sri Lanka, licensed commercial banks and licensed specialised banks. The finance and investment committee (FiCo) is responsible for the management of the investment portfolios including the development of overall and portfolio-specific investment guidelines.

2.37 Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to Company reputation.

The Company monitors its cash flow requirements and optimises cash returns on investments. Typically, the Company ensures that it has sufficient cash on demand to meet expected claims, reinsurance premiums and operational expenses on due dates. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

2.38 Market Risk

Market risk is the risk that changes in market prices, such as interest rates, will affect Company income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. In order to manage market risk, the Company has adopted to the investment guidelines stipulated by the Regulator.

Notes to the Financial Statements *(Contd.)*

3 Investments

	2011 Rs.'000	2010 Rs.'000
Sri Lanka Government securities	917,243	772,591
Fixed deposit	15,000	15,000
Corporate debentures (3.1)	20,000	20,000
	952,243	807,591

3.1 Corporate Debentures

	2011		2010	
	Face value	Carrying value	Face value	Carrying value
Quoted	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Bank of Ceylon - 11.5% p.a.	20,000	20,000	20,000	20,000
	20,000	20,000	20,000	20,000

4 Property and Equipment

	Office equipment Rs.'000	Furniture and fittings Rs.'000	Computer equipment Rs.'000	Motor vehicles Rs.'000	Total Rs.'000
Cost					
Balance as at 1 January 2011	6,192	12,227	29,702	11,580	59,701
Additions during the year	1,171	1,875	4,284	108	7,438
Disposals	-	-	-	(1,590)	(1,590)
Balance as at 31 December 2011	7,363	14,102	33,986	10,098	65,549
Depreciation					
Balance as at 1 January 2011	4,010	5,226	17,549	6,586	33,371
Depreciation charge for the year	1,685	2,477	8,575	2,011	14,748
Accumulated depreciation on disposals	-	-	-	(1,590)	(1,590)
Balance as at 31 December 2011	5,695	7,703	26,124	7,007	46,529
Carrying Amount					
Balance as at 31 December 2011	1,668	6,399	7,862	3,091	19,020
Balance as at 31 December 2010	2,182	7,001	12,153	4,994	26,330

5 Intangible Assets

	2011 Rs.'000	2010 Rs.'000
Acquisition Cost		
Balance as at 1 January	25,475	25,267
Additions	7,560	208
Balance as at 31 December	33,035	25,475
Amortisation		
Balance as at 1 January	14,242	5,814
Amortisation charge for the year	8,671	8,428
Balance as at 31 December	22,913	14,242
Carrying Amount as at 31 December	10,122	11,233

Intangible assets represent the cost of acqusition (Rs.31.5 million) of an insurance management system from Data Quest S.A.L and HR system of Rs.1.5 million
The assets have been amortised during the period as per the SLAS 37- Intangible Assets

Notes to the Financial Statements *(Contd.)*

6 Premium Receivable

	2011 Rs.'000	2010 Rs.'000
Premium receivable	389,252	332,082
Provision for bad debts	(12,682)	(6,047)
Premium receivable net of provision	376,570	326,035

7 Other Assets

	2011 Rs.'000	2010 Rs.'000
Interest receivable	43,859	41,316
Other debtors and receivables	29,427	24,113
Amounts due from Allianz Life Insurance Lanka Ltd.	3,786	29,887
	77,072	95,316

8 Cash and Cash Equivalents

	2011 Rs.'000	2010 Rs.'000
Cash in hand	447	247
Cash at bank	18,038	19,580
	18,485	19,827

9 Insurance Provision - General

	2011 Rs.'000	2010 Rs.'000
Reserve for net unearned premium (9a)	212,378	128,744
Reserve for net deferred acquisition cost (9b)	91,370	94,734
Reserve for gross outstanding claims (9c)	91,578	215,902
Reserve for IBNR (9d)	73,327	80,872
	468,653	520,252

9a Reserve for Net Unearned Premium

	2011 Rs.'000	2010 Rs.'000
Balance as at 1 January	128,744	116,337
Transfers during the year	83,634	12,407
Balance as at 31 December	212,378	128,744

9b Reserve for Net Deferred Acquisition Cost

	2011 Rs.'000	2010 Rs.'000
Balance as at 1 January	94,734	67,331
Transfers during the year	(3,364)	27,403
Balance as at 31 December	91,370	94,734

9c Reserve for Gross Outstanding Claims

	2011 Rs.'000	2010 Rs.'000
Balance as at 1 January	215,902	99,635
Transfers during the year	140,563	448,925
Claims approved during the year	(264,887)	(332,658)
Balance as at 31 December	91,578	215,902

9d Reserve for IBNR

	2011 Rs.'000	2010 Rs.'000
Balance as at 1 January	80,872	31,802
Transfers during the year	(7,545)	49,070
Balance as at 31 December	73,327	80,872

9e Reconciliation between Insurance Provision and Technical Reserve

	2011 Rs.'000	2010 Rs.'000
General insurance provision	468,652	520,252
Reinsurance receivables on claims outstanding	(50,599)	(186,606)
Technical reserve	418,053	333,646

The Gereral insurance technical reserve of Rs. 418 million as at 31 December 2011 includes the provision of IBNR claims of Rs. 73 million that has been certified by an independent consulting actuary Dr. Asha Joshi. According to the actuary certificate dated 31 January 2012 the IBNR reserve as at 31 December 2011 is Rs. 73 million.

10 Employee Benefits

	2011 Rs.'000	2010 Rs.'000
Balance as at 1 January	4,899	2,856
Provision made during the year	(743)	2,043
Payments during the year	(44)	-
Balance as at 31 December	4,112	4,899

As at 31 December 2011, the gratuity liability was actuarially valued under the Projected Unit Credit (PUC) by M/S. K. A. Pandit Consultants & Actuaries (ISO 9001:2008 certified). The actuarial valuation will be performed on an annual basis (2010 - no actuarial valuation). Previously the gratuity liability was valued under the gratuity formula method in accordance with SLAS 16 'Employee Benefits'.

Actuarial Assumptions

Principal actuarial assumptions as at the reporting date expressed as weighted averages were

	2011	2010
Discount rate at 31 December	10%	8%
Future salary increment rate per annum	12%	12%
Normal retirement age	55 & 60 years	55 years
Attrition rate	2% at each Age+25% Service Related	N/A
Mortality table	LIC (1994-96)	N/A

11 Other Liabilities

	2011 Rs.'000	2010 Rs.'000
Agency commission payable	19,383	24,835
Government levies	18,577	8,190
Tax payable	29,048	29,600
Other creditors and accrued expenses	20,793	34,332
	87,801	96,957

Notes to the Financial Statements *(Contd.)*

12 Stated Capital

	2011 Rs.'000	2010 Rs.'000
Balance as at 1 January	250,000	250,000
Issued during the year	-	-
25,000,000 fully paid ordinary shares at Rs. 10/-	250,000	250,000

13 Revenue Reserve

	2011 Rs.'000	2010 Rs.'000
Balance as at 1 January	349,255	181,946
Dividend paid	(158,333)	-
Net profit/(loss) for the period	239,858	167,309
Balance as at 31 December	430,780	349,255

14 Revenue

	2011 Rs. '000	2010 Rs. '000
Gross written premium	1,501,300	1,469,538
Less: Premium ceded to reinsurers	(1,080,919)	(1,163,694)
Net written premium	420,381	305,844
Net change in reserve for unearned premium	(83,634)	(12,407)
Net earned premium	336,747	293,437
Income from investments	105,768	91,599
Other income	283	3,780
Total revenue	442,798	388,816

14a Net Earned Premium

	2011 Rs. '000	2010 Rs. '000
Gross written premium		
Accident	568,822	286,691
Fire	768,189	1,074,604
Marine	31,860	20,525
Motor	132,429	87,718
	1,501,300	1,469,538
Premium ceded to reinsurers	(1,080,919)	(1,163,694)
Net written premium	420,381	305,844
Increase in unearned premium	(83,634)	(12,407)
Net earned premium	336,747	293,437

Notes to the Financial Statements *(Contd.)*

15 Net Insurance Claims and Benefits

	2011 Rs. '000	2010 Rs. '000
Gross claims		
Accident	128,020	104,260
Fire	52,214	214,500
Marine	(283)	3,472
Motor	77,391	59,496
Total gross claims	257,342	381,728
Reinsurance recoveries	(118,175)	(208,974)
Insurance claims and benefits (net)	139,167	172,754

16 Income from Investments

	2011 Rs. '000	2010 Rs. '000
Interest income	105,768	91,599

17 Other Income

	2011 Rs. '000	2010 Rs. '000
Exchange gain/(loss)	(5,132)	207
Sundry income	5,415	3,573
	283	3,780

18 Operating and Administration Expenses

	2011 Rs. '000	2010 Rs. '000
Staff expenses (18a)	56,912	34,534
Administration and establishment expenses	72,693	33,584
Selling expenses	13,759	14,625
Depreciation	14,748	13,702
Amortisation	8,671	8,428
Nation building tax	2,006	4,944
	168,789	109,817

18a Staff Expenses

	2011 Rs. '000	2010 Rs. '000
Wages and salaries	33,301	22,601
Employee provident fund	3,614	2,140
Employee trust fund	919	535
Provision for employee benefits (10)	(743)	2,043
Staff welfare	2,974	1,107
Training expenses	1,290	1,114
Other costs	15,557	4,994
	56,912	34,534

Number of Employees	2011	2010
As at the end of the financial year	120	102

Notes to the Financial Statements *(Contd.)*

19 Profit Before Taxation

	2011 Rs. '000	2010 Rs. '000
Profit before tax for the year is stated after charging the following expenses		
Depreciation	14,748	13,702
Auditors' remuneration - Audit	660	625
Legal fees	207	247

20 Tax Expenses

	2011 Rs. '000	2010 Rs. '000
Current tax expenses		
Current period (20a)	52,914	44,872
Social responsibility levy	-	740
Deemed dividend tax provision/(reversal)	(4,443)	4,443
Deferred tax expenses		
Reversal and origination of temporary differences (20b)	(1,877)	3,941
Income tax expenses from continuing operations	**46,594**	**53,996**
Total income tax expenses	**46,594**	**53,996**

20a Current Income Tax Expenses

	2011 Rs. '000	2010 Rs. '000
Accounting profit	286,452	221,305
Aggregate disallowed items	32,581	51,044
Aggregate allowable expenses	(19,467)	(15,946)
Aggregate exempt income	(110,589)	(128,197)
Taxable profit	188,977	128,206
Statutory tax rate	28%	35%
Current income tax expenses	52,914	44,872

20b Recognised Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2011 Rs.'000	2010 Rs.'000	2011 Rs.'000	2010 Rs.'000	2011 Rs.'000	2010 Rs.'000
Property and equipment	358	118	-	-	358	118
Employee benefits	1,151	1,372	-	-	1,151	1,372
Bad debt provisions	3,551	1,693	-	-	3,551	1,693
Differed tax assets / (liabilities)	5,060	3,183	-	-	5,060	3,183
Reversal and (origination) of temporary differences					(1,877)	3,941

Notes to the Financial Statements *(Contd.)*

Analysis of differed tax assets	2011 Temporary Difference Rs.'000	2011 Tax Rs.'000	2010 Temporary Difference Rs.'000	2010 Tax Rs.'000
Property and equipment	1,275	358	422	118
Employee benefits	4,112	1,151	4,899	1,372
Bad debt provision	12,682	3,551	6,047	1,693
	18,069	5,060	11,368	3,183

Movement in deferred tax balance during the year	Balance 1 January 2010	Recognised in profit or loss	Balance 31 December 2010	Recognised in profit or loss	Balance 31 December 2011
Property and equipment	(1,305)	1,423	118	240	358
Employee benefits	1,000	372	1,372	(221)	1,151
Bad debt provision	7,429	(5,736)	1,693	1,858	3,551
	7,124	(3,941)	3,183	1,877	5,060

21 Earnings per Share

Earnings per share is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding as at year end.

	2011 Rs.'000	2010 Rs.'000
Profit attributable to ordinary shareholders (Rs. '000)	239,858	167,309
Weighted average no. of ordinary shares ('000)	25,000	25,000
Earnings per share (Rs.)	9.59	6.69

22 Transactions with Group Companies

Company	Relationship	Nature of Transaction	2011 Rs.'000	2010 Rs.'000
Allianz SE	Group Company	Reinsurance arrangement	536,088	563,081
		Dividend paid	158,333	-
Allianz Life Insurance Lanka Ltd.	Group of Allianz SE	Reimbursable expenses (net)	26,101	33,593

23 Transactions with Key Management Personnel

The key management personnel include the Board of Directors. There was no remuneration or fees paid and there were no transactions with key management personnel for the year ended 31 December 2011.

24 Capital Commitments

The Company does not have significant capital expenditure commitments as at the balance sheet date.

25 Contingent Liabilities

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

26 Events after the Balance Sheet date

There were no material events occurring after the balance sheet date which require adjustments or disclosures in the Financial Statements.

27 Comparative Information

No changes were made to the comparative classifications and presentation.

Content

Allianz Life Insurance Lanka Ltd.

Financial Information

Directors' Report

The Board of Directors of Allianz Life Insurance Lanka Limited has pleasure in presenting their Annual Report on the affairs of the Company together with the Audited Financial Statements and the Auditors' Report for the financial year ended 31 December 2011.

The Audited Financial Statements were approved by the Board of Directors on 28 February 2012.

Principal Activity

The Company underwrites Life insurance business. Income is derived from underwriting, underwriting management and investment income.

Shareholding

Allianz SE of Munich, Germany, is the immediate and ultimate shareholder of the Company. The Allianz Group provides services in Insurance, Banking and Asset Management.

Review of Business and Future Developments

The business review, which includes details of the Company's development and performance, is set out in the Financial Overview on pages 15 to 17. The future developments of the Company are presented in the CEO's Review on pages 32 to 34. These reports, together with the Audited Financial Statements, reflect the state of affairs of the Company.

Corporate Governance

The Board of Directors is committed to maintain an effective corporate governance structure and process and to be in compliance with all rules, regulations and best practices on corporate governance. The Company reports regularly and comprehensively to the Board of Directors on business development, the financial position and earnings, budgeting and achievement of objectives, compliance issues, and on the strategy and existing risk exposure.

Compliance with Laws and Regulations

The sustained success of the Company is based on trust, respect and the responsible, integrity-enriched behavior of all employees. All employees are governed by the code of conduct; we support and follow the guidelines and standards for rules-compliant and value-based corporate leadership.

The Company's compliance policy aims to ensure compliance with internationally recognised laws, rules and regulations to promote a culture of integrity and safeguard the Company's reputation. In order to achieve this, the Company has implemented the following policies.

- Anti money laundering policy
- Anti-corruption policy
- Anti-fraud policy
- Gift and entertainment policy
- Sales compliance minimum standards

Strategic compliance initiatives, projects and policies are developed and implemented by Legal and Compliance in conjunction with the Group Compliance and the Compliance Standards Committee.

It is compulsory for all employees to participate annually in a a web-based anti-corruption and fraud training known as the 'Blue Box'. A certificate on preventing corruption and fraud is awarded upon sucessful completion.

Compliance will examine any suspected infringement of the internal compliance guidelines in cooperation with other departments, where appropriate. The standards of conduct established by the Allianz Group's Code of Conduct for Business Ethics and Compliance serve to implement guidelines and principles, and are obligatory for all employees.

Risk Management

As a provider of financial services, we consider risk management to be one of our core competencies. It is therefore an integrated part of our business processes. The Allianz Group has put in place a comprehensive framework that ensures risks are properly identified, analysed and evaluated. Close risk monitoring and reporting allows us to detect deviations from our risk tolerance at an early stage. One of the significant developments in the area of risk management was the appointment and approval of the Risk Management Committee (RiCo). The RiCo is chaired by the Company's designated Chief Risk Officer.

Internal risk management efforts are strictly monitored and guided by the Allianz Group and regional risk management teams. The Company places greater emphasis on underwriting risk management, investment risk management and re-insurance risk management. The details of the Company's comprehensive risk management framework are given in the Risk Management Report on pages 26 to 28.

Turnover

The gross written premium for the year was Rs. 351 million and Rs. 205 million for 2010.

Financial Statements

The Company Financial Statements duly signed by the Directors is provided on pages 76 to 94 and the Auditors' Report on the Financial Statements is provided on page 75 of this Annual Report.

Investments

The details of investments held by the Company are disclosed in Note 3 to the Financial Statements.

One of the significant developments in investment management during 2011 was the drafting of a comprehensive Investment Policy Statement (IPS) for the Company. The IPS was first presented to the Finance and Investment Committee (FiCo) for its clearance and later submitted for Board approval. The IPS discusses extensively the Company's return objective, risk tolerance and investment constraints within the regulatory and Group guidelines. It has also recommended a strategic asset allocation for the Company derived in accordance with its risk and return objectives.

Actuarial Valuation

Liabilities for Life policies are determined by the Appointed Actuary. A crediting rate of 8.5% has been recommended to the Life policyholders for the financial year ending 31 December 2011 (2010 : 14%). The rate is determined after taking into consideration the yield obtained on relevant matching assets.

Property and Equipment

Details of property and equipment are given in Note 4 to the Financial Statements.

Solvency

The Statement of Solvency for Life insurance has been prepared in accordance with the Solvency Margin (Life insurance) Rules 2002 amended by Extraordinary Gazette No. 1697/27 of March 18, 2011 and is disclosed below.

The Company is well capitalised and is comfortably meeting its internal and regulatory solvency targets as of December 31, 2011.

For the year ended 31 December	2011 Rs.'000	2010 Rs.'000
Value of admissible assets	393,874	217,284
Total liability including policy liability	252,908	139,845
Net admissible assets	140,966	77,439
Required solvency margin	8,961	3,315
Excess over required solvency margin	132,005	74,124

Directors' Report *(Contd.)*

Employment Policy

As a people business, our principal asset is intellectual capital and our highly motivated and skilled employees are critical to our success. Our employees' exceptional commitment and dedication to providing excellent service to our customers is crucial to our success and we place great emphasis on fostering leadership, talent and continuous personal development. Only by unlocking our employees' potential and enhancing our services can we achieve our primary goal of being a reliable partner to our customers.

We encourage equal opportunity. This involves recruiting, engaging, retaining, rewarding and developing our people solely on the grounds of their ability to do the job and establishing and promoting a working environment free of discrimination.

We acknowledge top performance and reward it appropriately. Our compensation and benefits plans are designed to motivate our employees to successfully implement our strategies and business plans.

Allianz employees continued to receive global training opportunities in the Allianz Group, on current trends and developments in insurance worldwide, which ensures that the Allianz team has the required expertise to achieve corporate objectives. We believe we can create real competitive advantage by building and maintaining a high performance culture in the Company.

Stated Capital and Shareholders' Funds

In compliance with Companies Act No. 07 of 2007, the Financial Statements reflect the stated capital of the Company. The stated capital is the total of all amounts received by the Company in respect of the issued share capital. The stated capital of the Company as at 31 December 2011 was Rs. 493 million (2010: Rs. 350 million). The stated capital of the Company increased by Rs. 143 million during the year.

Directors

The following persons served as Directors of the Company during the year:

- Heinz Dollberg
- Surekha Alles
- Craig Ellis (until 30 April 2011)
- Karl Heinz Jung (since 1 May 2011)
- Peter Huber (since 1 October 2011)

Directors' Remuneration and Other Benefits

CEO/Director's remuneration is decided by the Board, considering individual and Company performance. Due attention is also paid to industry standards, inflationary factors, future plans and Group policy when deciding the remuneration package to the CEO/Director. No remuneration is paid to Non-Executive Directors.

Directors' Interest in Contracts with the Company

None of the Directors had any material interests, either directly or indirectly, in any transactions or contracts with the Company other than as disclosed in 'Notes to the Financial Statements' (Note 22).

Statutory Payments

The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments due to the Government, other regulatory institutions and in relation to employees, have been made on time.

Environment

The Company's activities can have direct or indirect effects on the environment. It is the policy of the Company to minimise any adverse effects by recycling resources as much as possible and creating awareness among its staff on current global

Directors' Report *(Contd.)*

environment threats. The Company does its best to comply with the relevant environmental laws and regulations.

Going Concern

The Board of Directors made necessary review of the financial position and corporate plans for the ensuing years and is satisfied that the Company has adequate resources to continue its operations in the foreseeable future. Accordingly, the Financial Statements are prepared based on the going concern concept.

Auditors

The Financial Statements for the year ended 31 December 2011 have been audited by Messrs. KPMG Ford, Rhodes, Thornton & Company (Chartered Accountants), who will retire from office at the end of this Annual General Meeting. They have expressed their willingness to be re-appointed until the next Annual General Meeting at remuneration to be agreed upon.

On behalf of the Board.

Heinz Dollberg	**Surekha Alles**
Director	Director

Secretaries to the Company

EM & EN Agents and Secretaries (Pvt) Limited
28 February 2012

Actuary's Report - Life

To the shareholders of Allianz Life Insurance Lanka Limited

I have conducted a liability valuation for the business as at 31 December 2011.

I am satisfied that I have been provided with adequate records in order to determine an appropriate value of liabilities as at 31 December 2011.

I am satisfied that, as at 31 December 2011, the Company is capable of meeting all liabilities to policyholders, as well as meeting the statutory solvency margin with a considerable buffer.

C. R. Barnard

Chris Barnard

Fellow of the Institute of Actuaries (UK)
27 February 2012

Independent Auditors' Report

KPMG Ford, Rhodes, Thornton & Co.
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
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TO THE SHAREHOLDERS OF ALLIANZ LIFE INSURANCE LANKA LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of Allianz Life Insurance Lanka Limited, which comprise the balance sheet as at December 31, 2011, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes set out on pages 76 to 94 of this annual report.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Scope of Audit and Basis of Opinion

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

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

Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended December 31, 2011 and the financial statements give a true and fair view of the Company's state of affairs as at December 31, 2011 and its loss and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

These financial statements also comply with the requirements of Section 151(2) of the Companies Act No. 07 of 2007. Further, pursuant to Regulations of Insurance Industry Act, No 43 of 2000, proper accounting records have been maintained as required by the related rules.

Ford Rhodes Thornton & Co.

Chartered Accountants
Colombo, Sri Lanka
28 February 2012

Balance Sheet

As at 31 December	Note	2011 Rs. '000	2010 Rs. '000
Assets			
Investments	3	406,430	212,677
Property and equipment	4	25,065	23,787
Intangible assets	5	4,738	-
Reinsurance receivable		10,710	3,108
Other assets	6	23,373	34,442
Cash and cash equivalents	7	15,778	8,351
Total assets		**486,094**	**282,365**
Liabilities and Shareholders' Equity			
Liabilities			
Insurance provision - Life	8	179,223	66,290
Reinsurance creditors		10,645	7,252
Other liabilities	9	69,802	65,484
Employee benefits	10	1,254	820
Bank overdraft		2,629	1,865
Total Liabilities		**263,553**	**141,711**
Shareholders' Equity			
Stated capital	11	492,499	349,999
Revenue reserves	12	(269,958)	(209,345)
Total Shareholders' Equity		222,541	140,654
Total Liabilities and Shareholders' Equity		486,094	282,365

The above balance sheet is to be read in conjunction with the Notes to the Financial Statements on pages 81 to 94.

These Financial Statements have been prepared in accordance with the Companies Act No 7 of 2007.

Dineth Ediriweera
Chief Financial Officer

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

Signed for and on behalf of the Board by:

Heinz Dollberg
Director

Surekha Alles
Director

Colombo
28 February 2012

Statement of Income

For the year ended 31 December	Note	2011 Rs.'000	2010 Rs.'000
Revenue	13	358,537	222,661
Gross written premium	13a	351,299	204,814
Premium ceded to reinsurers		(21,741)	(12,245)
Net written premium		329,558	192,569
Benefits, Losses and Expenses			
Increase in Life insurance provision	8a	(112,933)	(58,289)
Net insurance claims and benefits	14	(12,612)	(5,715)
Net acquisition costs	15	(111,814)	(81,149)
Total Benefits, Losses and Expenses		(237,359)	(145,153)
Net Premium less Benefits,Losses & Expenses		92,199	47,416
Other Revenue			
Income from investment	16	28,979	30,092
Expenses			
Other operating and administration expenses	17	(181,791)	(201,486)
Loss before Taxation	18	(60,613)	(123,978)
Tax expenses	19	-	-
Net Loss for the Year		(60,613)	(123,978)
Loss per Share (Rs.)	21	(1.56)	(4.38)

The above statement of income is to be read in conjunction with the Notes to the Financial Statements on pages 81 to 94.

Statement of Changes in Equity

For the year ended 31 December 2011	Note	Stated Capital Rs.'000	Revenue Reserves Rs.'000	Total Equity Rs.'000
Balance as at 31 December 2009		**249,999**	**(85,367)**	**164,632**
Shares issued during the year		100,000	-	100,000
Net loss for the year		-	(123,978)	(123,978)
Balance as at 31 December 2010		**349,999**	**(209,345)**	**140,654**
Shares issued during the year	11	142,500	-	142,500
Net loss for the year		-	(60,613)	(60,613)
Balance as at 31 December 2011		**492,499**	**(269,958)**	**222,541**

The above statement of changes in equity is to be read in conjunction with the Notes to the Financial Statements on pages 81 to 94.

Cash Flow Statement

For the year ended 31 December	Note	2011	2010
		Rs.000	Rs.000
Cash Flows from Operating Activities			
Premium received from customers	13a	351,299	204,814
Reinsurance premium paid		(18,351)	(10,089)
Claims paid	9a	(14,085)	(7,204)
Reinsurance receipts in respects of claims		2,925	3,394
Cash paid to and on behalf of employees		(52,330)	(53,687)
Other operating cash payments		(225,477)	(229,566)
Cash Inflow/(Outflow) from Operating Activities (Note A)		43,981	(92,338)
Income tax paid		-	-
Net Cash Flow from Operating Activities		43,981	(92,338)
Cash Flow from Investing Activities			
Purchase of investments		(615,540)	(131,929)
Proceeds on sale of investment		421,787	108,402
Disposal of property and equipment		-	16
Purchase of property and equipment	4	(16,031)	(13,008)
Interest income received		29,966	31,579
Net Cash Flow from Investing Activities		(179,818)	(4,940)
Net Cash Inflow before Financing Activities		(135,837)	(97,278)
Cash Flow from Financing Activities			
Proceeds from share issue	11	142,500	100,000
Net Cash Flow from Financing Activities		142,500	100,000
Net Increase/(Decrease) in Cash and Cash Equivalents (Note B)		6,663	2,722

Cash Flow Statement *(Contd.)*

For the year ended 31 December	Note	2011	2010
		Rs.000	Rs.000
A. Reconciliation of Operating Profit with Cash Flow from Operating Activities			
Loss before taxation		(60,613)	(123,978)
Depreciation charge		10,015	7,352
Interest income	16	(28,979)	(30,092)
Decrease in other assets / (increase)		2,481	21,320
Increase in Life Insurance provision		112,933	58,289
Increase / (Decrease) in creditors		8,144	(25,229)
Net Cash Inflow/(Outflow) from Operating Activities		43,981	(92,338)
B. Increase /(decrease) in cash and cash equivalents			
Cash in hand & at bank	7	15,778	8,351
Bank overdraft		(2,629)	(1,865)
Net cash & cash equivalents as at 31 December 2011		13,149	6,486
Net cash & cash equivalents as at 31 December 2010		6,486	3,764
Net Increase/(Decrease) in Cash and Cash Equivalents		6,663	2,722

The above cash flow statement is to be read in conjunction with the notes to the Financial Statements on pages 81 to 94.

Notes to the Financial Statements

1. Corporate Information

1.1 Reporting Entity

Allianz Life Insurance Lanka Limited is a limited liability company incorporated and domiciled in Sri Lanka. The registered office of the Company and the principal place of business is located at No. 92, Glennie Street, Colombo 02.

The immediate and ultimate holding company is Allianz SE of Munich, Germany.

The Company was incorporated on 24 March 2008 and commenced Life insurance business in November 2008.

1.2 Principal Activity

The Company is engaged in the business of Life insurance.

2. Basis of Preparation

2.1 Statement of Compliance

The Financial Statements have been prepared and approved by the Directors in accordance with Sri Lanka Accounting Standards (SLASs), the requirements of Companies Act, No. 07 of 2007, the Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995, the Regulation of Insurance Industry Act, No. 43 of 2000 and amendments thereto. The formats and disclosures where applicable are also in accordance with the Statement of Recommended Practice for Insurance Contracts (SORP) issued by the Institute of Chartered Accountants of Sri Lanka.

The Financial Statements of Allianz Life Insurance Lanka Ltd for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the Board of Directors on 28 February 2012.

2.2 Responsibility for Financial Statements

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

2.3 Basis of Measurement

The Financial Statements are presented in Sri Lankan rupees rounded to the nearest thousand and prepared on the historical cost convention.

2.4 Functional and Presentation Currency

The Financial Statements are presented in Sri Lankan Rupees, which is the Company's functional currency, rounded to the nearest thousand unless otherwise stated.

2.5 Use of Estimates and Judgements

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

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

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements, is included in the following notes.

Notes to the Financial Statements *(Contd.)*

Critical Accounting Estimate/Judgement	Disclosure Reference	
	Note	Page
Insurance provision - Life	8	90
Employee benefits	10	91
Deferred taxation - utilisation of losses	19b	93

2.6 Materiality and Aggregation

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

2.7 Consistency of Accounting Policies

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

2.8 Foreign Currency Transactions

All foreign exchange transactions are converted to Sri Lanka Rupees, which is the reporting currency, at the rates of exchange prevailing at the time the transactions were effected.

SIGNIFICANT ACCOUNTING POLICIES

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

The Company balance sheet represents the assets, liabilities and equity of the shareholders. The statement of income reflects the underwriting results and investment income and other income of the Life insurance business.

The Directors have made an assessment of the Company's ability to continue as a going concern in the foreseeable future, and they do not foresee a need for liquidation or cessation of trading.

ASSETS AND BASIS OF THEIR VALUATION

2.9 Investments

a) Investment in Government Securities

Investment in treasury bills, treasury bonds and repurchase agreements are stated at cost and interest is accrued upto the year end.

b) Investments in Debt Instruments and Bank Deposits

Investments in debt instruments and bank deposits are stated at cost and interest is accrued over the maturity period.

The cost of an investments is the cost of acquisition inclusive of brokerage fees, duties and bank fees.

The carrying amount of long-term investments is reduced to recognise a decline other than temporary in the value of investments, determined on an individual investment basis.

2.10 Property and Equipment

a) Recognition and measurement

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

Cost includes expenditure directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the cost of dismantling and removing the items and restoring on the site on which they are located. 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 and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

b) Gains and Losses on Disposal

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within 'other income/other expenses' in profit or loss.

c) Subsequent Costs

The cost of replacing part of an item of property and equipment is recognised in the carrying amount of the item, if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably.

The cost of repairs and maintenance of property and equipment is charged to the statement of income as and when incurred.

d) Depreciation

Depreciation is recognised in the statement of income on the straight-line basis over the estimated useful lives of each component part of an item of property and equipment.

The estimated useful lives for the current and comparative periods are as follows.

Asset Class	Basis
Office equipment	3 years
Computer equipment	3 years
Furniture and fittings	5 years
Motor vehicles	5 years

Assets were depreciated from the month they were available for use and no depreciation is provided in the month of disposal.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

e) De-recognition

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

When replacement costs are recognised in the carrying amount of an item of property 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 inspection is de-recognised.

2.11 Intangible Assets

a) Recognition and Measurement

Intangible assets acquired by the Company, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

b) Subsequent Expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in the statement of income as incurred.

Notes to the Financial Statements *(Contd.)*

c) Amortisation

Amortisation is recognised in the statement of income on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful life for the current and comparative periods for the intangible asset is 3 years.

The estimated useful life of an intangible asset in a service concession arrangement is the period when it is available for use, to the end of the concession period.

2.12 Trade and Other Receivables

a) Reinsurance Receivable

Reinsurance assets include the balances due from both insurance and reinsurance companies for paid and unpaid losses and loss adjustment expenses. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance is recorded gross in the balance sheet, unless a right to offset exists.

b) Other Receivables

Other receivables and dues from related parties are recognised at cost.

2.13 Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand and demand deposits readily convertible to known amounts of cash and subject to insignificant risks of changes in value.

2.14 Impairment of Assets

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated. The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs in sale. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of the money and risks specific to the asset or cash generating unit.

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

LIABILITIES AND PROVISIONS

2.15 Provisions

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

2.16 Reinsurance Payables

Reinsurance liability consists of reinsurance premium due to reinsurance in respect of the reinsurance contracts entered into by the Company.

2.17 Taxation

a) Current Taxes

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

b) Deferred Taxation

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

In addition, deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

c) Social Responsibility Levy (SRL)

As per the provisions of the Finance Act, No. 5 of 2005, as amended by the Finance Act, No. 8 of 2008, a Social Responsibility Levy (SRL) was introduced with effect from 1 January 2005. SRL is payable at the rate of 1.5% on all taxes and levies chargeable as specified in the First Schedule of the Act.

2.18 Employee Benefits

a) Defined Benefit Plan - Gratuity

Provision has been made for retirement gratuities from the first year of service for all employees in conformity with SLAS 16. However, 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 nor actuarially valued. The gratuity liability is valued using the gratuity formula method as required by Sri Lanka Accounting Standard 16 ‘Employee Benefits’.

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

A defined contribution plan is a post-employment plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay a further amount. Obligations for contributions to the provident fund under Provident Fund Act No. 15 of 1958 as amended and the trust fund under Trust Fund Act No. 46 of 1980, covering all employees, are recognised as an employee benefit expense in profit and loss when they are due.

Notes to the Financial Statements *(Contd.)*

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

2.19 Stated Capital

The Company's stated capital comprises ordinary shares classified as equity.

LIFE INSURANCE BUSINESS

2.20 Gross Written Premiums

Premiums from Life insurance contracts that are non participating are recognised as revenue when cash is received from the policyholder.

The single premium contracts' premiums are recognised as income when cash is received.

2.21 Reinsurance Contracts

Outward reinsurance premiums are recognised when payable. Reinsurance recoveries are credited to match the relevant gross claims.

2.22 Claims

Death claims are recorded on the basis of notifications received. Surrenders, maturities and annuity payments are recorded when due. Claims payable include direct costs of settlement. The interim payments and surrenders are accounted for only at the time of settlement.

The actuarial valuation takes into account all liabilities and is based on assumptions recommended by the appointed Actuary.

2.23 Insurance Provision - Life

Long duration contract liabilities included in the life insurance fund, result primarily from non-participating Life insurance products. Short duration contract liabilities are primarily group term, accident and health insurance products. The actuarial reserve/insurance provision has been established based upon the following.

- Interest rates which vary by product, as required by regulations issued by the Insurance Board of Sri Lanka
- Mortality rates based on published mortality tables adjusted for actual experience, as required by regulations issued by the Insurance Board of Sri Lanka.
- Surrender rates based upon actual experience.

INVESTMENT INCOME RECOGNITION

2.24 Interest

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

2.25 Other Income

Other income is recognised on an accrual basis

2.26 Expenditure Recognition

a) Expenses are recognised in the statement of income on the basis of a direct association between the cost incurred and the earnings of specific items of income. All expenditure incurred in the running of the business and in maintaining the property and equipment in a state of efficiency has been charged to statement of income in arriving at the profit for the year.

b) For the purpose of presentation of the statement of income the Directors are of the opinion that the function of expenses method presents fairly the elements of the Company's performance and hence, such presentation method is adopted.

2.27 Earnings per Share

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

2.28 Cash Flow Statements

The cash flow statement has been prepared using the direct method. For cash flow purposes, cash and cash equivalents are presented net of bank overdrafts.

2.29 Commitments and Contingencies

Contingencies are possible assets or obligations that arise from a past event and would be confirmed only on the occurrence or non-occurrence of uncertain future events beyond the Company's control.

2.30 Events occurring after the Balance Sheet date

All material post-balance sheet events have been considered and, where appropriate, adjustments or disclosures have been made in Note No 25 to the Financial Statements on Page No. 94.

2.31 New Accounting Standards issued but not effective as at Balance Sheet date

The Institute of Chartered Accountants of Sri Lanka (ICASL) has issued a new volume of Sri Lanka Accounting Standards-2011, applicable to financial periods beginning on or after 1 January 2012. These standards have many changes and consequential changes. The new accounting standards are prefixed both SLFRS and LKAS which correspond to the relevant IFRS and IAS. Disclosure requirement under SLAS 10.30 and 10.31 have been exempted by the ICASL and therefore all differences and impacts arising from the new standards are not presented in these Financial Statements.

2.32 Comparative Information

The comparative information is re-classified wherever necessary to conform with the current year's presentation in order to provide a better presentation.

FINANCIAL RISK MANAGEMENT

2.33 Introduction and Overview

The Company has exposure to the following risks from its use of financial instruments like investments and receivables:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these Financial Statements. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The risk management committee (RiCo) is responsible for developing and monitoring the Company's risk management process.

2.34 Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty fails to meet contractual obligations, and arises principally from the Company's receivables from customers, and investment securities.

a) **Investments**

The Company limits its exposure to credit risk by only investing in fixed income securities issued by the Government of Sri Lanka, licensed commercial banks and licensed specialised banks. The finance and investment committee (FiCo) is responsible for the management of the investment portfolios including the development of overall and portfolio-specific investment guidelines.

b) **Other Receivables**

The Company's exposure to credit risk is influenced mainly by the individual characteristics of the intermediaries.

2.35 Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company monitors its cash flow requirements and optimises cash returns on investments. Typically the Company ensures that it has sufficient cash on demand to meet expected claims, reinsurance premiums and operational expenses on due dates. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

2.36 Market Risk

Market risk is the risk that changes in market prices, such as interest rates, will affect Company income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters whilst optimising the return. In order to manage market risk, the Company has adapted to the investment guidelines stipulated by the Regulator.

3 Investments

	2011 Rs.'000	2010 Rs.'000
Sri Lanka Government securities	396,430	202,677
Corporate debentures (3.1)	10,000	10,000
	406,430	212,677

3.1 Corporate Debentures

	2011		2010	
	Face value	Carrying value	Face value	Carrying value
Quoted	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Bank of Ceylon - 11.5% p.a.	10,000	10,000	10,000	10,000
	10,000	10,000	10,000	10,000

4 Property and Equipment

	Computer equipment Rs.'000	Office equipment Rs.'000	Motor vehicle Rs.'000	Furniture and fittings Rs.'000	Total Rs.'000
Cost					
Balance as at 1 January 2011	6,659	4,628	5,500	18,533	35,320
Additions	2,881	2,933	-	5,321	11,135
Disposals	-	-	-	-	-
Balance as at 31 December 2011	9,540	7,561	5,500	23,854	46,455
Depreciation					
Balance as at 1 January 2011	3,679	1,514	917	5,423	11,533
Charge for the year	2,359	2,157	1,100	4,241	9,857
Disposals	-	-	-	-	-
Balance as at 31 December 2011	6,038	3,671	2,017	9,664	21,390
Carrying Amount					
Balance as at 31 December 2011	3,502	3,890	3,483	14,190	25,065
Balance as at 31 December 2010	2,980	3,114	4,583	13,110	23,787

5 Intangible Assets

	2011 Rs.'000	2010 Rs.'000
Acquisition Cost		
Balance as at 1 January	-	-
Additions	4,896	-
Balance as at 31 December	4,896	-
Amortisation		
Balance as at 1 January	-	-
Amortisation charge for the year	158	-
Balance as at 31 December	158	-
Carrying Amount as at 31 December	4,738	-

Intangible assets represent the cost of acqusition (Rs. 4.9 million) of an acturial software (Prophet Professionals) from SunGard iWorks Ltd.
The asset has been amortised during the period as per the SLAS 37 (Intangible Assets)

Notes to the Financial Statements *(Contd.)*

6 Other Assets

	2011 Rs.'000	2010 Rs.'000
Interest receivable	9,074	10,061
Other debtors and receivables	14,299	24,381
	23,373	34,442

7 Cash and Cash Equivalents

	2011 Rs.'000	2010 Rs.'000
Cash at bank	8,365	8,135
Cash in hand	7,413	216
	15,778	8,351

8 Insurance Provision - Life

The valuation of the Life insurance business as at 31 December 2011, was made by Mr. Chris Barnard, a Fellow of the Institute of Actuaries, for and on behalf of Allianz Life Insurance Lanka Ltd.

In accordance with the Actuary's report, the sum of provision Rs.179.2 million includes the liability in respect of IBNR, UPR, Interest credit reserves, Guarantee reserves, and Contingency reserves. In the opinion of the Actuary, the provision is adequate to cover the liabilities pertaining to the long term insurance.

Actuarial Assumptions	2011	2010
Mortality table used	A67/70	A67/70

8a Movement in Insurance Provision - Life

	2011 Rs.'000	2010 Rs.'000
Balance as at 1 January	66,290	8,001
Increase in the Life fund	112,933	58,289
Balance as at 31 December	179,223	66,290

9 Other Liabilities

	2011 Rs.'000	2010 Rs.'000
Commission payable	13,883	6,058
Claims payable (9.a)	12,179	3,126
Premium in deposit	20,284	13,371
Other creditors and accrued expenses	19,670	13,042
Amounts due to Allianz Insurance Lanka Ltd	3,786	29,887
	69,802	65,484

9a Movement of Claims Payable

	2011 Rs.'000	2010 Rs.'000
Balance as at 1 January	3,126	489
Claims approved during the year	23,138	9,841
Claims paid during the year	(14,085)	(7,204)
Balance as at 31 December	12,179	3,126

Notes to the Financial Statements *(Contd.)*

10 Employee Benefits

	2011 Rs.'000	2010 Rs.'000
Balance as at 1 January	820	508
Provision made during the year	434	312
Balance as at 31 December	1,254	820

The retirement benefit plan entitles a retired employee to receive payment equal to 1/2 of final salary multiplied by the number of completed years of service. However, under the Payment of Gratuity Act No. 12 of 1983, the liability of the employee arises only on completion of five years of continued service. The retirement benefit plan valuation is carried out based on the gratuity formula method in accordance with SLAS 16 "Employee Benefits".

Actuarial Assumptions

Principal actuarial assumptions as at the reporting date expressed as weighted averages were

	2011	2010
Discount rate at 31 December	10%	8%
Future salary increases	12%	12%
Normal retirement age	55	55

11 Stated Capital

	2011 Rs.'000	2010 Rs.'000
Balance as at 1 January	349,999	249,999
Issued during the year	142,500	100,000
49,249,850 fully paid ordinary shares	492,499	349,999

During the year the Company has issued 14,250,000 shares of Rs. 10 per share

12 Revenue Reserve / (Accumulated Losses)

	2011 Rs.'000	2010 Rs.'000
Balance as at 1 January	(209,345)	(85,367)
Net loss for the year	(60,613)	(123,978)
Balance as at 31 December	(269,958)	(209,345)

13 Revenue

	2011 Rs.'000	2010 Rs.'000
Gross written premium	351,299	204,814
Premium ceded to reinsurers	(21,741)	(12,245)
Net written premium	329,558	192,569
Income from Investments	28,979	30,092
Total Revenue	358,537	222,661

13a Gross Written Premium

	2011 Rs.'000	2010 Rs.'000
Universal life premium	333,591	200,073
Group life premium	4,651	2,032
Single premium	13,057	2,709
	351,299	204,814

Notes to the Financial Statements *(Contd.)*

14 Net Insurance Claims and Benefits

	2011 Rs.'000	2010 Rs.'000
Life insurance claims, death, disabilities and hospitalisation	23,138	9,841
Reinsurance recoveries	(10,526)	(4,126)
	12,612	5,715

15 Net Acquisition Costs

	2011 Rs.'000	2010 Rs.'000
Net policy acquisition cost	108,781	78,926
Other insurance related cost	3,033	2,223
	111,814	81,149

16 Income From Investments

	2011 Rs.'000	2010 Rs.'000
Interest income	28,979	30,092
	28,979	30,092

17 Operating and Administration Expenses

	2011 Rs.'000	2010 Rs.'000
Staff expenses (17a)	52,765	83,365
Administration and establishment expenses	76,631	59,982
Selling expenses	42,380	50,787
Depreciation (4)	10,015	7,352
	181,791	201,486

17a Staff Expenses

	2011 Rs.'000	2010 Rs.'000
Wages and salaries	24,636	27,533
Employee provident fund	2,958	3,320
Employee trust fund	701	826
Provision for employee benefits (10)	434	312
Staff welfare	2,659	2,123
Training expenses	791	1,999
Other costs	20,586	47,252
	52,765	83,365

Number of Employees		
As at the end of the financial year	44	29

Notes to the Financial Statements *(Contd.)*

18 Loss Before Taxation

Loss before tax for the year is stated after charging the following expenses	2011 Rs.'000	2010 Rs.'000
Depreciation (4)	10,015	7,352
Auditors' remuneration - Audit	455	330

19 Tax Expenses

The Company is liable for income tax at 28% of its taxable profit. However, no provision is made in view of the tax loss. The tax loss carried forward as at 31 December 2011 is Rs. 639,794,530 (2010 - Rs. 398,232,492).

19a Current Income Tax Expenses

	2011 Rs.'000	2010 Rs.'000
Accounting loss	(60,613)	(123,978)
Aggregate disallowed items	13,483	9,887
Aggregate allowable expenses	-	(13,230)
Aggregate exempt income	(194,432)	(125,489)
Taxable loss	(241,562)	(252,810)
Tax loss brought forward	(398,233)	(145,423)
Statutory tax rate	28%	35%
Current income tax expenses	Nil	Nil

Previous year's tax loss was restated to Rs.252,810,536 based on the final tax computation

19b Deferred Tax Assets and Liabilities

Unrecognised deferred tax assets	2011 Rs.'000	2010 Rs.'000
Deferred tax assets have not been recognised in respect of the following items.		
Tax loss carried forward	(639,795)	(398,233)
Provision for employee benefits	1,254	820
Total deductible temporary difference	(638,540)	(397,413)
Unrecognised deferred tax assets	(178,791)	(111,276)

Unrecognised deferred tax liabilities

No provision has been made in respect of deferred taxation as the Company has incurred tax losses and the temporary differences are not expected to reverse due to the above component and it is not probable that future taxable profits will be available against which the Company can utilise the benefits therefrom. Taxable temporary differences do not arise as the claiming of capital allowances is governed under Section 25 of Inland Revenue Act of 2006, which is not applicable to Life insurance business as it should follow the provisions in Section 92 (1) of Inland Revenue Act of 2006, where the profits of a company, whether mutual or proprietary, from the business of Life insurance, shall be the investment income of the Life insurance fund, less the management expenses (including commissions) attributable to that business.

19c The Company is entitled to the following notional tax credit in case of a future tax liability

	2011 Rs.'000	2010 Rs.'000
Notional tax credit	11,566	8,611

Notes to the Financial Statements *(Contd.)*

20 Transactions with Group Companies

Company	Relationship	Nature of Transaction	2011 Rs.'000	2010 Rs'000
Allianz SE	Group Company	Reinsurance arrangement	1,468	377
Allianz Insurance Lanka Ltd.	Group of Allianz SE	Reimbursable expenses (net)	(26,101)	(33,593)

21 Loss per Share

Loss per share is calculated by dividing the net loss for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding as at year end.

	2011	2010
Net loss for the year (Rs.'000)	(60,613)	(123.978)
Weighted average no. of ordinary shares ('000)	38,854	28,333
Loss per share (Rs.)	(1.56)	(4.38)

22 Transactions with Key Management Personnel

Key management personnel include the Board of Directors. There was no remuneration or fees paid and there were no transactions with key management personnel for the year ended 31 December 2011.

23 Capital Commitments

There were no capital commitments outstanding as at the balance sheet date.

24 Contingent Liabilities

There were no contingent liabilities or litigation outstanding as at the balance sheet date.

25 Events after the Balance Sheet date

There were no material events occurring after the balance sheet date which require adjustments or disclosures in the Financial Statements.

26 Comparative Information

No changes were made to the comparative classification and presentation.

Seven Year Summary

ALLIANZ INSURANCE LANKA LTD

Statement of Income for the year ended 31 December	2011	2010	2009	2008	2007	2006	2005
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Gross Written Premium	1,501,300	1,469,538	1,174,822	601,103	414,017	300,949	75,402
Net earned premium	336,747	293,436	265,074	115,236	52,771	24,922	6,775
Income from investments and other income	106,051	95,379	95,709	45,640	21,199	11,394	3,996
Insurance claims and benefits (net)	(139,167)	(172,754)	(150,698)	(59,178)	(33,219)	(18,239)	(7,503)
Underwriting and net acquisition cost/income (including reinsurance)	151,610	115,060	88,096	66,090	50,006	19,293	4,340
Expenses	(168,789)	(109,816)	(139,869)	(80,854)	(37,549)	(22,503)	(16,508)
Profit before taxation	286,452	221,305	158,312	86,934	53,207	14,867	(8,900)
Income tax expense	(46,594)	(53,996)	(38,646)	(14,190)	(3,669)	(2,105)	-
Net Profit for the Year	239,858	167,309	119,666	72,744	49,538	12,762	(8,900)

Balance Sheet as at 31 December	2011	2010	2009	2008	2007	2006	2005
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Assets							
Investments	952,243	807,591	656,207	347,368	151,914	93,388	55,618
Property and equipment	19,020	26,330	31,988	22,963	2,287	3,708	4,773
Intangible assets	10,122	11,233	19,453	9,802	-	-	-
Reinsurance receivables	341,143	296,505	125,480	133,939	104,561	75,308	12,948
Premium receivables	376,570	326,035	130,678	104,593	76,520	57,937	24,939
Other assets	77,072	95,316	111,342	23,680	4,022	2,148	2,485
Deferred tax assets	5,060	3,183	7,124	2,884	3,273	-	-
Cash and cash equivalents	18,485	19,827	23,172	54,804	43,618	31,000	7,861
Total Assets	1,799,715	1,586,020	1,105,444	700,033	386,195	263,488	108,624
Liabilities and Shareholders' Equity							
Liabilities							
Insurance provision - General	468,653	520,252	315,105	238,503	146,349	112,811	24,587
Reinsurance creditors	535,829	336,200	240,657	86,537	88,505	56,121	19,734
Employee benefits	4,112	4,899	2,856	966	567	355	126
Other liabilities	87,801	96,957	107,535	46,881	28,954	19,043	15,575
Bank overdraft	22,540	28,457	7,345	14,866	3,409	6,285	-
Total Liabilities	1,118,935	986,765	673,498	387,753	267,784	194,615	60,022
Shareholders' Equity							
Stated capital	250,000	250,000	250,000	188,635	67,510	67,510	60,001
Revenue reserves	430,780	349,255	181,946	123,645	50,901	1,363	(11,399)
Total Shareholders' Equity	680,780	599,255	431,946	312,280	118,411	68,873	48,602
Total Liabilities and Shareholders' Equity	1,799,715	1,586,020	1,105,444	700,033	386,195	263,488	108,624

Four Year Summary

ALLIANZ LIFE INSURANCE LANKA LTD

Statement of Income for the year ended 31 December	2011	2010	2009	2008*
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Gross Written Premium	351,299	204,814	101,816	4,013
Net earned premium	329,558	192,569	94,322	3,840
Income from investment and other income	28,979	30,092	33,819	22,331
Insurance claims and benefits (net)	(12,612)	(5,715)	(3,283)	-
Net acquisition cost	(111,814)	(81,149)	(48,014)	(1,849)
Increase in Life insurance provision	(112,933)	(58,289)	(7,317)	(684)
Expenses	(181,791)	(201,486)	(145,243)	(33,289)
Profit before taxation	(60,613)	(123,978)	(75,716)	(9,651)
Income tax expenses	-	-	-	-
Net Profit for the Year	(60,613)	(123,978)	(75,716)	(9,651)

Balance sheet as at 31 December	2011	2010	2009	2008*
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Assets				
Investments	406,430	212,677	189,150	231,775
Property and equipment	25,065	23,787	18,147	6,210
Intangible assets	4,738	-	-	-
Reinsurance receivables	10,710	3,108	2,376	-
Other assets	23,373	34,442	57,981	19,238
Cash and cash equivalents	15,778	8,351	5,849	2,522
Total Assets	486,094	282,365	273,503	259,745
Liabilities and Shareholders' Equity				
Liabilities				
Insurance provision - Life	179,223	66,290	8,001	684
Reinsurance creditors	10,645	7,252	5,098	937
Other liabilities	69,802	65,481	93,179	17,776
Employee benefits	1,254	820	508	-
Bank overdraft	2,629	1,865	2,085	-
Total Liabilities	263,553	141,711	108,871	19,397
Shareholders' Equity				
Stated capital	492,499	349,999	249,999	249,999
Revenue reserves	(269,958)	(209,345)	(85,367)	(9,651)
Total Shareholders' Equity	222,541	140,654	164,632	240,348
Total Liabilities and Shareholders' Equity	486,094	282,365	273,503	259,745

** Commenced business in November 2008*

Glossary of Insurance Terms

Accumulation
The situation where a significant number of risks insured or reinsured with the same company may be affected simultaneously by a loss event.

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. e.g. commissions.

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 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, they are an immediate annuity. If they start at some point in the future, they are a deferred annuity.

Beneficiary
A person named by the policyholder as the recipient of the sum insured and other benefits due in the event of the policyholders' death.

Cedent
Client of a reinsurance company (also see primary insurers)

Claims
The amount payable under a contract of insurance arising from the occurrence of an insured event.

Claims Incurred
A claim is incurred when the event giving rise to the claim occurs. Claims incurred include paid claims and movements in outstanding claims.

Claims Incurred But Not Reported (IBNR)
Claims arising out of events that have occurred by the balance sheet date but have not been reported to the insurer at that date.

Claims Outstanding – General Insurance Business
The amount provided to cover the estimated ultimate cost of settling claims arising out of events that have occurred by the balance sheet date, including IBNR claims and claims handling expenses less amounts already paid in respect of those claims.

Claims Outstanding – Life Insurance Business
The amount provided to cover the estimated cost of settling claims arising out of events that have been notified by the balance sheet date, being the sum due to beneficiaries together with claims handling expenses less amounts already paid in respect of those claims.

Co-Insurance
An arrangement whereby two or more insurers enter into a single contract with the insured to cover a risk in agreed proportions, at a specified premium.

Commissions
A payment made to a broker or a sales agent in return for selling and servicing an insurer's products.

Glossary of Insurance Terms *(Contd.)*

Crediting Rate
This is the interest rate declared to the policyholder by the Company at the end of every year, based on the investment performance of the policyholder's fund.

Deferred Acquisition Costs - General Insurance Business
Under the annual basis of accounting, acquisition costs relating to the unexpired period of risk of contracts in force at the balance sheet date that are carried forward from one accounting period to subsequent accounting periods.

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.

Insurance Risk
Uncertainty over the likelihood of an insured event occurring, the quantum of the claim, or the time when claims payments will fall due.

Insurance Provision - General
This usually relates to the proportion of net written premiums relating to periods of risk after the accounting date, which are deferred to subsequent accounting periods, the related net acquisition costs and gross claims outstanding.

Insurance Provision - Life
The fund or funds maintained by an insurer in respect of its Life insurance business in accordance with the Regulation of Insurance Industry Act No. 43 of 2000 and subsequent amendments thereto.

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 and subsequent amendments thereto.

Net Combined Ratio - General Insurance
This indicates the profitability of the insurer's operations by combining the net loss ratio with the net expenses ratio. The combined ratio does not take account of investment income and other income.

Net Earned Premium
In the case of General insurance business, the proportion of written premiums (including where relevant those of prior accounting periods) attributable to the risks borne, net of premiums ceded to reinsurance.

Net Expense Ratio
A formula used by the Company to relate income to acquisition and administrative expenses excluding Nation Building Tax (NBT) (e.g. commission, staff, selling and operating expenses).

Formula:

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

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

Formula:

$$\frac{\text{Net claims incurred}}{\text{Net earned premium}}$$

Non-Participating Business
Life insurance business where the policyholder is not entitled to a share of the Company's profits and surplus but entitled to receive benefits based on the contractual agreement.

Policy Loans
A loan from the insurer to a policy holder on the security of the surrender value of a Life insurance policy. The loan is normally limited to a percentage of the current surrender value of the policy, and interest is charged on such loans.

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).

Reinsurance
An arrangement whereby one party (the reinsurer) in consideration for a

Glossary of Insurance Terms *(Contd.)*

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 Commission
Commission received or receivable in respect of premiums 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 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.

Solvency Margin - General
The difference between the value of assets and value of liabilities required to be maintained by the insurer who carries on General insurance business as defined in Solvency Margin (General Insurance) rules 2004 made under section 26 of the Regulation of Insurance Industry Act No. 43 of 2000.

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

Surrender Value
The amount payable by an insurer to a policyholder on termination of an insurance policy before the expiry of its term (more common in Life insurance).

Underwriting Profit
The underwriting result generated by transacting General insurance business without taking into account the investment income.

Written Premium - General Insurance Business
Premiums that 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.

Corporate Information

Company Name	-	**Allianz Insurance Lanka Ltd.**	**Allianz Life Insurance Lanka Ltd.**
Legal Form	-	A public limited liability company incorporated as Allianz Insurance Company 2008, Lanka Ltd., on 20 January 2004 under Companies Act No. 17 of 1982 in Sri Lanka. The Company was re-registered as Allianz Insurance Lanka Ltd., under Companies Act No. 7 of 2007.	A public limited liability company incorporated in Sri Lanka on 24 March under the Companies Act No. 7 of 2007.
Company Registration Number	-	PB 323	PB 3493
Tax Identification Number (TIN)	-	114011487	134034939
VAT Registration Number	-	114011487- 7000	
Board of Directors	-	Heinz Dollberg Surekha Alles Karl Heinz Jung	Heinz Dollberg Surekha Alles Karl Heinz Jung Peter Huber
Auditors	-	KPMG Ford Rhodes, Thornton & Co. (Chartered Accountants), 32A, Sir Mohamed Macan Markar Mawatha, Colombo 3.	KPMG Ford Rhodes, Thornton & Co. (Chartered Accountants), 32A, Sir Mohamed Macan Markar Mawatha, Colombo 3.
Consultant Actuaries	-	Asha Joshi B607, Daffodils, Sector 6 Plot 36, Dwarka, New Delhi, 110075 India.	Chris Barnard Allianz SE, Koeniginstrasse 28, 80802 Munich, Germany
Secretaries	-	EM &EN Agents and Secretaries (Pvt) Ltd. M & N Building, No. 2, Deal Place, Colombo 3. Colombo 3.	EM &EN Agents and Secretaries (Pvt) Ltd. M & N Building, No. 2, Deal Place,
Bankers	-	Citibank Hongkong & Shanghai Banking Corporation Bank of Ceylon Sampath Bank PLC	Deutsche Bank AG Standard Chartered Bank Commercial Bank of Ceylon PLC. Sampath Bank PLC National Development Bank PLC
Registered Office	-	No. 92, Glennie Street, Colombo 2.	No. 92, Glennie Street, Colombo 2.

Corporate Information *(Contd.)*

Branches

Colombo City
No. 92, Glennie Street,
Colombo 02.
Tel: 011-2300400
Fax: 011-2304404
E-mail: city@allianz.lk

Galle
1st Floor, No. 141, Colombo Road,
Kaluwelle, Galle.
Tel: 091-2227392
Fax: 091-2227393
E-mail: galle@allianz.lk

Gampaha
No. 6/2, Sri Kurusa Road, Gampaha.
Tel: 033-2234995
Fax: 033-2234994
E-mail: gampaha@allianz.lk

Jaffna
No. 100, Manipay Road
Jaffna.
Tel: 021-2221761, 021-2224963
Fax: 021-2221762
E-mail: jaffna@allianz.lk

Kandy
No. 27/3/1, HSBC Building
Cross Street, Kandy.
Tel: 081-2205152
Fax: 081-2205153
E-mail: kandy@allianz.lk

Kurunegala
No. 174, Negombo Road,
Kurunegala.
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Fax: 037-2230535
E-mail: kurunegala@allianz.lk

Negombo
No. 51, Thammita Road, Negombo.
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Fax: 031-2228477
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Nugegoda
No. 331A, High Level Road,
Nugegoda.
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Fax: 011-2828333
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Trincomalee
No. 447, 2nd Floor,
Dockyard Road, Tricomalee.
Tel: 026-2226255
Fax: 026-2226254
E-mail: trincomalee@allianz.lk

Vavuniya
No. 45, 2nd Cross Street,
Seylan Bank Building, Vavuniya.
Tel: 024-2225473
Fax: 024-2225523
E-mail: vavuniya@allianz.lk

Agency Offices

Ambalangoda
No. 21, Aluthpara.
Ambalangoda.
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A. S. Building, No. 229 1/2,
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Notes

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