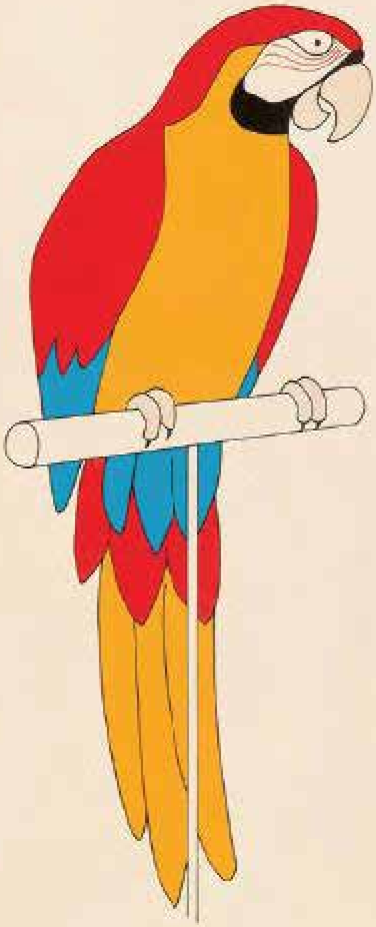
Allianz Lanka

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

Annual Report 2013

Allianz



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.

Content

Vision

To be the first choice insurer for customers

To be the perferred 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 out 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 conglomerates, headquartered in Munich, Germany.

Allianz SE is the world's largest Non-Life insurer and Europe's largest insurer by way of market capitalisation. Allianz SE is also among the world's largest asset managers, with third-party assets under management of over $ 1.4 trillion as at end- 2013. The Group has one of the world's strongest solvency ratios of 182%, and one of the world's best credit ratings among international insurers, and in 2013 achieved an operating profit of $ 10.1 billion.

The Allianz network spans over 70 countries. A team of about 148,000 employees serve more than 83 million customers worldwide. Allianz SE insures the majority of Global Fortune 500 companies.

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).

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 in 2005, Allianz Insurance Lanka has been one of the fastest growing insurers in Sri Lanka, with its topline growing by more than twenty times in the past nine years. Allianz Life Insurance Lanka Ltd. too has grown by more than eight times, to become a leading Life insurance company in Sri Lanka in just five years of operations.

Allianz Lanka has achieved many 'firsts' that have redefined industry benchmarks along the way. The Company was:

- the first Non Life insurance company to achieve rupees one billion in premium income within the first five years of operations
- the first Non Life 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 Life insurance company to make rupees five hundred million gross written premium within five years of operations
- the first and only insurance company to comply with the statutory requirement of having two separate legal entities for Life and Non Life business

Allianz Lanka insures some of the major infrastructure projects and buildings in Sri Lanka including the World Trade Centre Twin Towers, oil exploration in the Mannar basin, Shangri-La Hotel & Resort, Hambantota, the Arugam Bay bridge, the first wind power project and the Southern Highway.

About Allianz *(Contd.)*

The Allianz Group insures many of the world's largest and architecturally significant structures. In Asia alone, this includes 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.

Allianz continues to maintain its stability and dominance in the market with excellent financial strength ratings given by premier global rating agencies - "AA" by Standard & Poor's, "Aa3" by Moody's and "A+" by A.M. Best.

Renowned brand consultancy Interbrand has upped Allianz's brand value by 8% in 2013 to approximately $ 6.7 billion. Allianz ranks 63rd among the world's top brands in the Interbrand ranking of the 'Best Global Brands.'

Allianz SE has been voted the world's Most Ethical Insurer by the Ethisphere institute, the think tank that promotes best practices in global governance, business ethics, compliance and corporate responsibility. This endorsement was ratified by the FTSE4Good Index, which reconfirmed Allianz in 2013 and especially recognised the Group in the areas of 'countering bribery' and 'environmental management'.

The Group believes in involving itself in the issues of the times and has made many innovative contributions towards climate change and reducing greenhouse gas emissions by investing in renewable energies, ensuring climate neutrality in business operations, and designing green products. Allianz was also the first corporate in the world to establish a ESG Board in 2012 - a committee at board level tasked with ensuring that ecological and social issues are considered in decisions made throughout the organisation. Recognition of Allianz's green efforts was further confirmed by Interbrand which ranked Allianz among the top 50 'Best Global Green Brands,' and the Dow Jones Sustainability Index which named Allianz the Industry Group Leader in 2013.

An exceptional package of global and local corporate social responsibility initiatives buys into the Allianz brand experience. Allianz sponsors activities in areas which have a strong link with its business, for instance road safety and the Formula 1 Grand Prix, or helping people re-enter life after an accident through its support of Paralympic sports. The Allianz Junior Football Camp, the Allianz Golf Camp and the Music Camp with pianist Lang Lang are projects designed to foster youth in developing countries and promote intercultural exchange.

As the Official Global Partner of Formula 1 racing and insurer of over 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, Allianz translates the safety aspects and new technologies in Formula 1 racing into everyday road safety and accident prevention strategies to improve road safety worldwide.

This commitment to safety was 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. This is the first time ever that the bvfa has given a football stadium an award for exceptional fire safety. Allianz has now added two more Allianz stadiums to the family with the opening of multi-purpose stadium 'Allianz Riviera' in Nice, France, in 2013, and the proposed opening of the Allianz Parque in Sao Paulo, Brazil, in 2014.

About Allianz *(Contd.)*

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.

This partnership was brought to Sri Lankan shores in 2013. Allianz Lanka now partners the National Federation of Sports for the Disabled (NFSD), Sri Lanka, and with NFSD is actively popularising Paralympics in Sri Lanka in preparation for the 2016 Rio Paralympic Games.

In 2013, Allianz Lanka, for the first time, sponsored teenage football enthusiasts to attend junior football camps in Munich, Germany, and Bangkok, Thailand, and will continue this sponsorship annually.

In business since 1890, Allianz has not only survived two world wars and many calamities but has kept its promises and won the trust of customers.

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

Financial Highlights

Non Life Gross Written Premium

Rs. **2,105mn**

Non Life Profit Before Tax

Rs. **249mn**

Non Life Combined Ratio

87%

Non Life Shareholders' Equity

Rs. **876mn**

Non Life Solvency

232%

Life Gross Written Premium

Rs. **829mn**

Life Reserves

Rs. **707mn**

Life Solvency

540%

Allianz at a Glance

	2013	Change from previous year	2012	Change from previous year	2011	Change from previous year	2010	Change from previous year	2009	Change from previous year	2008	Change from previous year
NON LIFE INSURANCE												
Income Statement												
Gross written premium (Rs. '000)	2,104,591	38%	1,521,463	1%	1,501,300	2%	1,469,538	25%	1,174,822	95%	601,103	45%
Underwriting profit after expenses (Rs. '000)	90,931	-50%	183,401	4%	175,737	40%	125,926	101%	62,603	52%	41,294	29%
Profit/(Loss) before tax (Rs. '000)	249,228	-20%	310,899	11%	281,191	27%	221,305	40%	158,312	82%	86,934	63%
Balance Sheet												
Total assets (Rs. '000)	2,727,215	38%	1,970,061	10%	1,793,914	11%	1,615,454	46%	1,105,444	58%	700,033	81%
Shareholders' equity (Rs. '000)	875,510	12%	780,285	16%	671,743	8%	620,122	44%	431,946	38%	312,280	164%
Return on net assets (%)	22.12%	-25%	29.41%	-16%	34.92%	29%	26.98%	-3%	27.7%	19%	23.3%	-44%
Earnings per share (Rs.)	7.75	-16%	9.18	-2%	9.38	40%	6.69	40%	4.79	38%	3.47	-53%
LIFE INSURANCE *												
Income Statement												
Gross written premium (Rs. '000)	828,790	56%	532,141	51%	351,299	72%	204,814	101%	101,816	2437%	4,013	
Loss for the period (Rs. '000)	39,527	-34%	59,587	1%	58,506	-53%	123,978	64%	75,716	685%	9,651	
Balance Sheet												
Total assets (Rs. '000)	1,077,008	72%	626,172	29%	485,034	62%	299,797	10%	273,503	5%	259,745	
Investments (Rs. '000)	908,592	73%	523,259	29%	393,807	78%	221,193	17%	189,150	-18%	231,775	
Shareholders' equity (Rs. '000)	261,958	69%	155,104	-30%	221,480	40%	158,086	-4%	164,632	-32%	240,348	

** Commenced business in November 2008*

Directors' Profiles

HEINZ DOLLBERG

Consultant, Asia Pacific Region, Allianz SE

Heinz was appointed to the Board of Allianz Insurance Lanka Ltd., in January 2004 and Allianz Life Insurance Lanka Ltd., in March 2008. He is currently working as a consultant for Allianz, following his retirement as Director of the Asia, Middle East and North Africa Division of Allianz SE, Munich. He held this position from 1998 to 2011 and oversaw the control, market research and negotiations of Mergers and Acquisitions. He joined the Allianz Group in 1978 as Manager at the Allianz headquarters at Stuttgart. Since then he gained experience in various positions with the Allianz Group which include General Manager of the International Department and Vice President of the Overseas Division, Allianz Group, Munich. Currently, he is a member of the Boards of Allianz Ayudhya Assurance Public Co. Ltd., (Thailand), Allianz China Life Insurance Co. Ltd., and Allianz China General Insurance Co. Ltd., (China), P.T. Asuransi Allianz Life Indo and P.T. Asuransi Allianz Utama (Indonesia) as well as Allianz companies in the Middle East.

In his capacity as Executive Vice President of Allianz, Heinz held directorships as Chairman/Director of various boards including Bajaj Allianz General Insurance Co. Ltd., (India), Bajaj Allianz Life Insurance Co. Ltd., (India), Allianz Insurance (Hong Kong) Ltd., and Allianz Fire and Marine Japan Ltd.

Heinz read for a degree in law from the University of Freiburg, Germany. He was appointed Honorary Professor by the Southwestern University of Chengdu, a premier university for finance and economics in China in March 2006, and by the Tongji University of Shanghai in November 2006.

SUREKHA ALLES

Chief Executive Officer
Allianz Lanka

Surekha was appointed to the Board of Allianz Insurance Lanka Ltd., and Allianz Life Insurance Lanka Ltd., in June 2010. She joined Allianz Insurance Lanka Ltd., as Head of General Insurance Operations in 2005, and was appointed Chief Executive Officer one year later. Surekha counts over 25 years in the insurance industry and has held various senior management positions in diverse areas of insurance. She is a Fellow of the Chartered Insurance Institute, London, 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.

RANGAM BIR

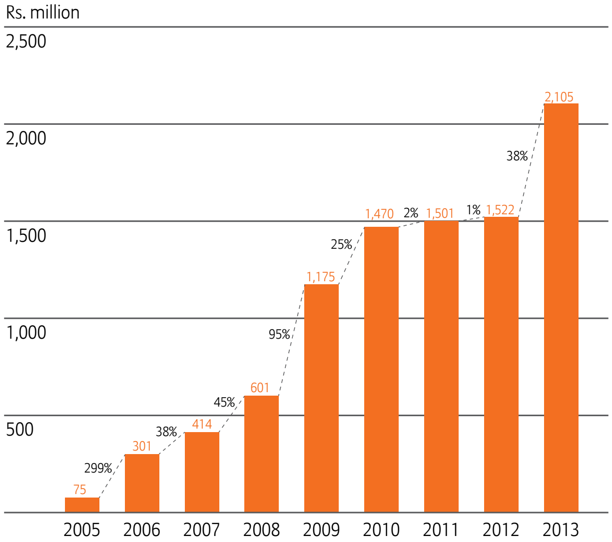
Regional General Manager
Allianz SE, Singapore Branch

Rangam was appointed to the Board of Allianz Insurance Lanka Ltd., in July 2013 and Allianz Life Insurance Lanka Ltd., in September 2013. Rangam has international insurance industry experience of over 15 years in Europe, the Middle East, Africa and Asia, and has a successful track record of leading insurance operations for a major European financial services group. As Regional General Manager of Allianz SE, Singapore, he is responsible for developing the life and health, property and casualty business in the Asia Pacific region. He also has cross-functional expertise in strategy, business development, sales and distribution, underwriting and operations in Non-life, Life and Reinsurance business.

Financial Overview

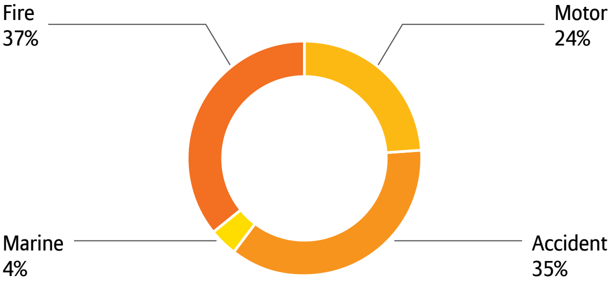
NON LIFE INSURANCE

Gross Written Premium (GWP)



The Company's GWP for the year grew by 38% Year over Year (YoY) to Rs. 2,105 million. Rapid branch expansion and aggressive growth in the motor and accident businesses were the key growth drivers. As of end-2013, the Company had 37 branches distributed islandwide.

Gross Written Premium by Class

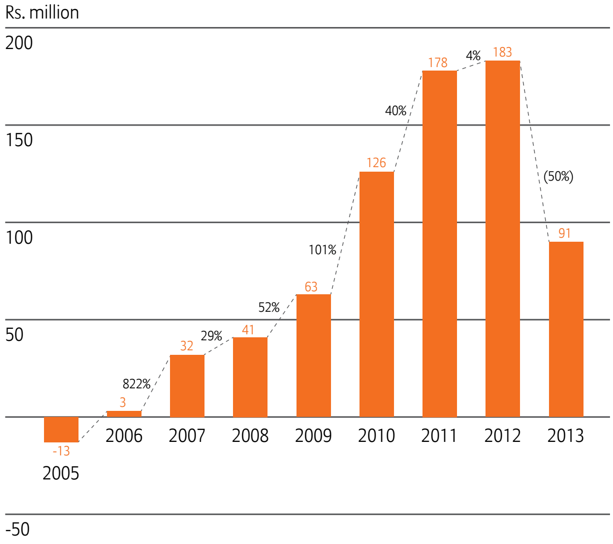


Non-motor business, which includes the fire, accident and marine classes, contributed 76% of the total GWP and saw a growth of 69% YoY. The accident and marine classes were the primary contributors to this growth, having increased by 94% and 137% YoY respectively.

The Company saw a robust growth of 186% YoY in its motor business driven by its expansion into retail business lines, and largely outperformed the industry growth of 5% during the period. The contribution to GWP from the motor class increased to 24%, from 9% in 2012.

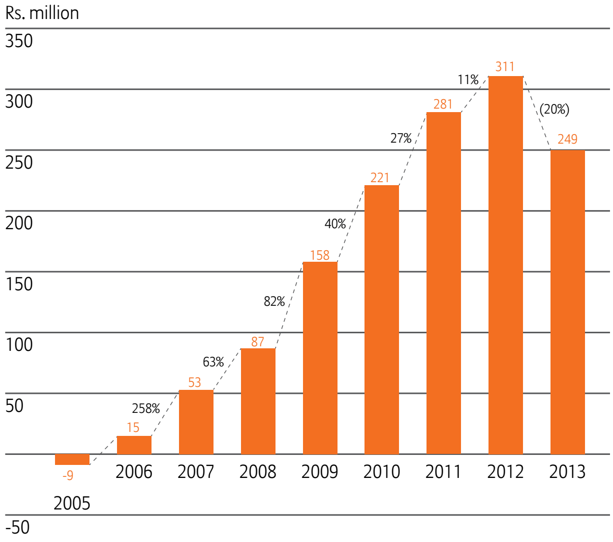
Financial Overview *(Contd.)*

Underwriting Profit



During 2013, the Company focused on aggressive branch and sales force expansion in order to lay the foundation for its long-term growth strategy. Heavy expenditure on expansion took a toll on profitability for the year, with underwriting profits declining by 50% YoY to Rs. 91 million. However, the short-term impact on profitability is expected to be more than compensated by the future payback from the investment in network expansion.

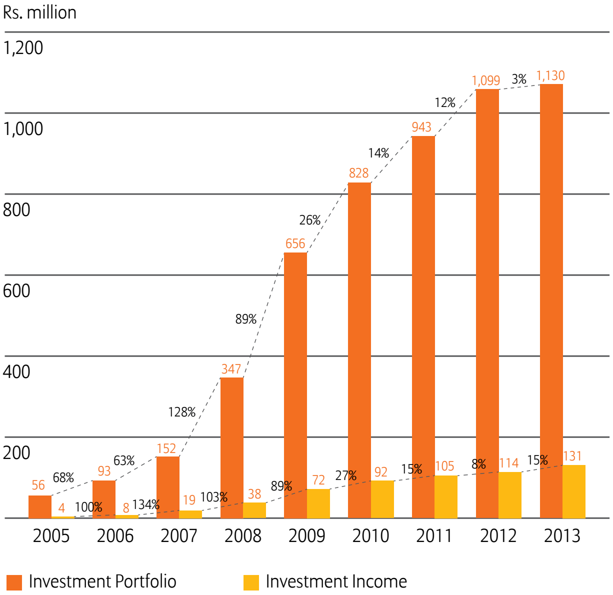
Profit Before Tax (PBT)



PBT dropped by 20% YoY to Rs. 249 million as a result of the decline in underwritting profits, which has been partly compensated for by the growth in investment income.

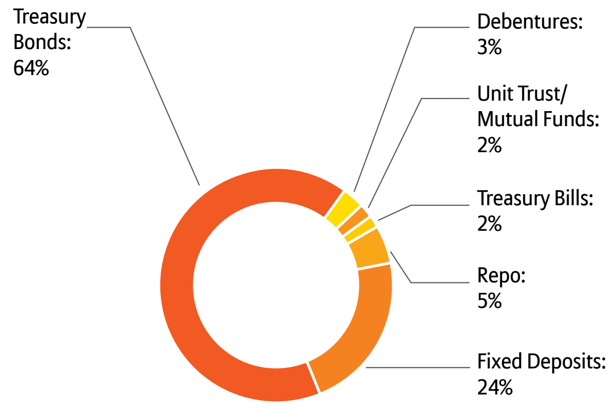
Financial Overview *(Contd.)*

Investment Portfolio



Despite the downward revision of policy rates by the Central Bank during the latter half of the year, the Company recorded a growth of 15% YoY in its investment income due to high yielding investments made prior to the revision. The investment portfolio saw a modest growth of 3% YoY to Rs. 1,130 million in 2013, after bearing the impact of a Rs. 111 million dividend paid to shareholders. A large majority of the Company's portfolio is held in government securities and fixed deposits as entailed by the Company's prudent risk strategy.

Investment Portfolio – Asset Allocation

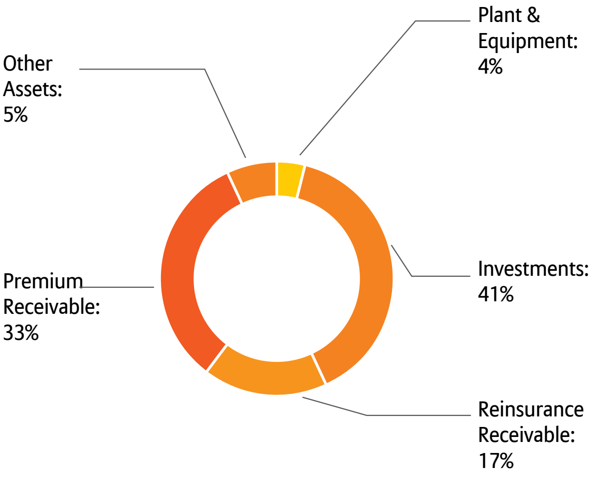


The Company's investment strategy is aligned with the guidelines set by the Allianz Group, which serves as the basis for investment decisions. The key objective is to meet insurance liabilities and increase shareholder value.

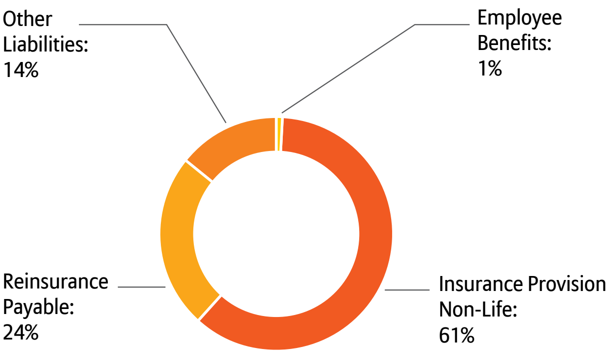
Given the unpredictable nature of the size and frequency of liability claims in the Non Life insurance industry, the Company ensures that it maintains a highly liquid portfolio. Around 70% of the portfolio was held in short-term assets maturing within a year. The fixed deposit exposure has been consciously increased to 24% from the 7% maintained in 2012, by taking advantage of the relatively higher yields offered by financial institutions.

Financial Overview *(Contd.)*

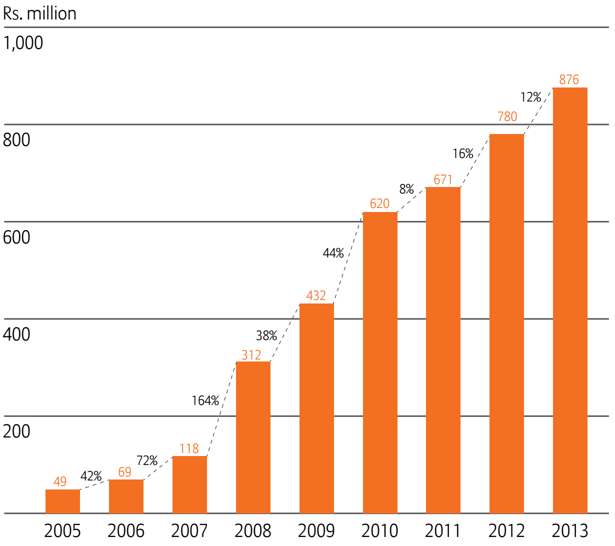
Total Asset Composition



Total Liability Composition



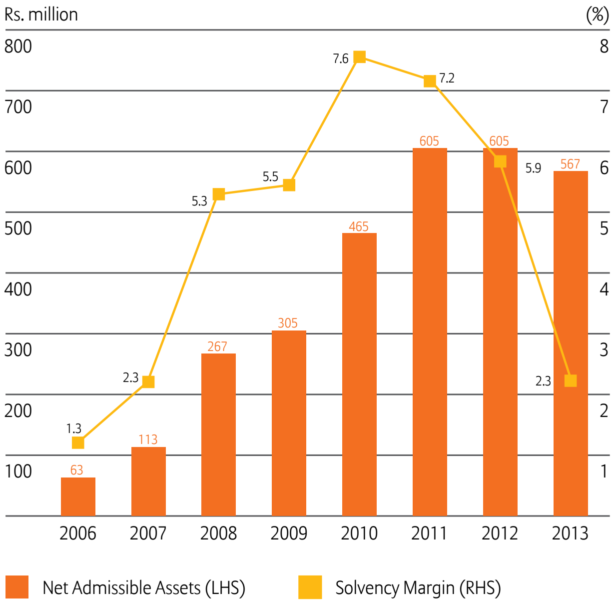
Net Assets



The net assets of the Company as of end-2013 stood at Rs. 876 million, which is a 12% growth YoY despite the negative impact of the decline in profitability and the dividend payment.

Financial Overview *(Contd.)*

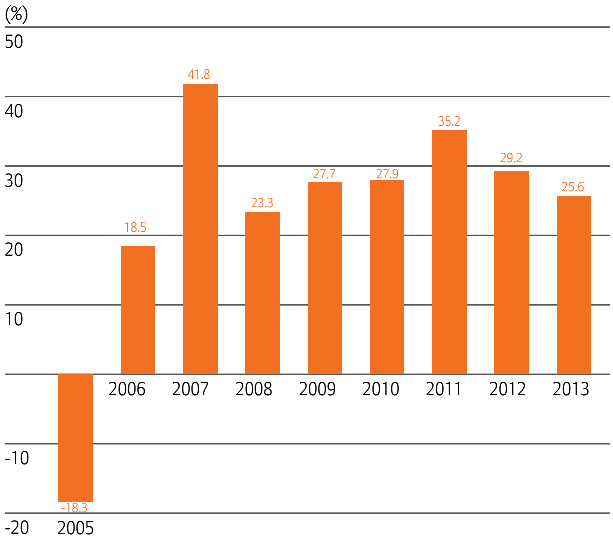
Solvency Margin



The solvency margin expresses an insurer's ability to pay insurance benefits and other payments, and is a vital measure of its financial stability.

The Company's solvency margin by end-2013, stood at a comfortable 227%, which is well above the regulatory minimum.

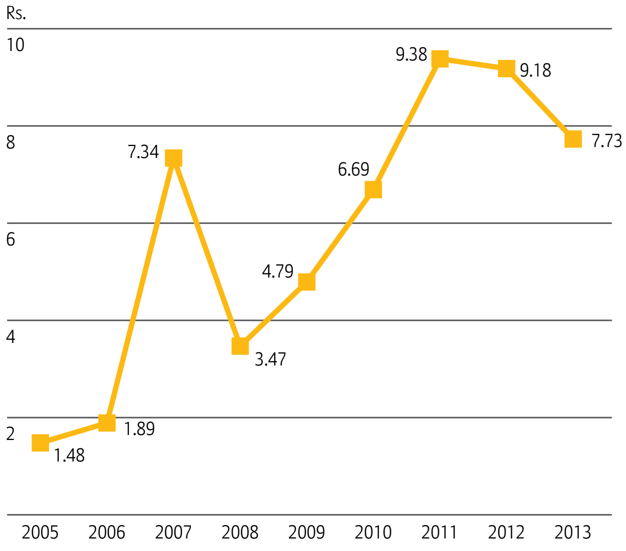
Return On Equity (ROE)



ROE dropped to 25.6% in 2013 compared to 29.2% in 2012, largely due to the strain on profitability from the heavy expansion activities during the year. However, the Company expects the investment in business expansion to contribute positively towards increasing shareholder value over the long-term.

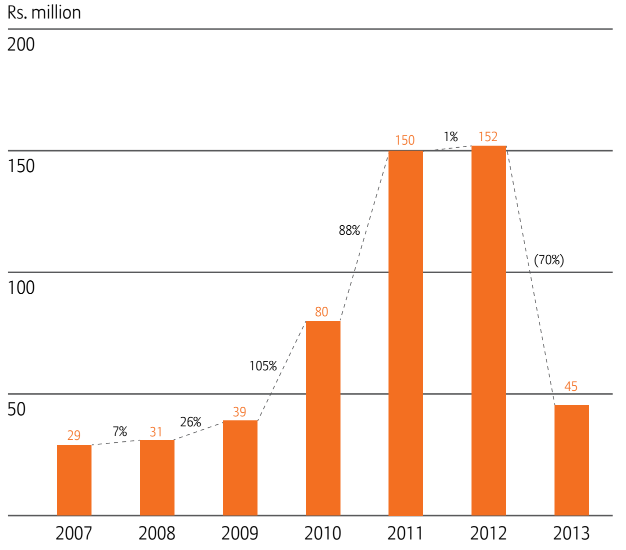
Financial Overview *(Contd.)*

Earnings Per Share (EPS)



The lower EPS in 2013 of Rs. 7.75 is as a result of investments made for expansion.

Economic Value Added (EVA)



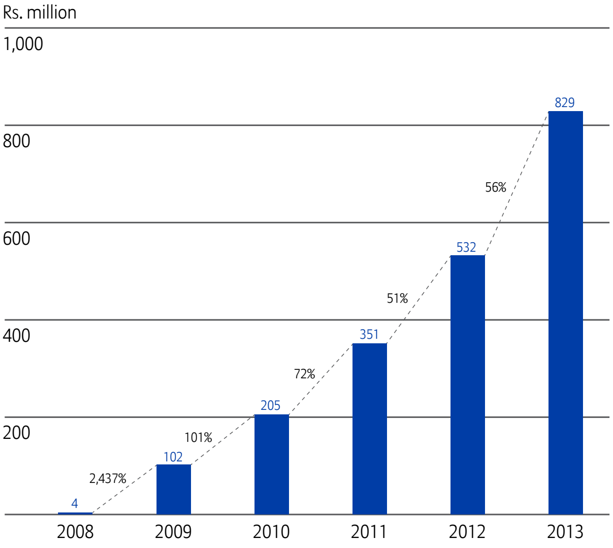
The Economic Value Added (EVA) measures the profitability of the Company after taking into account the cost of invested equity.

The Company has continued towards improving its EVA over the years, owing mainly to the solid growth in profitability. While the EVA continued to remain positive in 2013, it was lower than in previous years due to the higher expected cost of equity as a result of the increase in interest rates.

Financial Overview *(Contd.)*

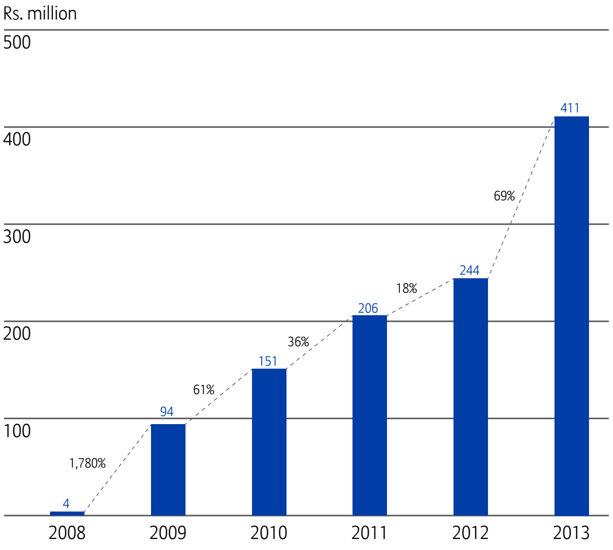
LIFE INSURANCE

Gross Written Premium (GWP)



The Life Insurance business continued to exceed industry performance, recording a GWP growth of 56% YoY to Rs. 829 million, whilst the industry grew at only 10%. The renewal premium grew by 31% YoY and contributed to 42% of GWP, while the single premium accounted for 9%.

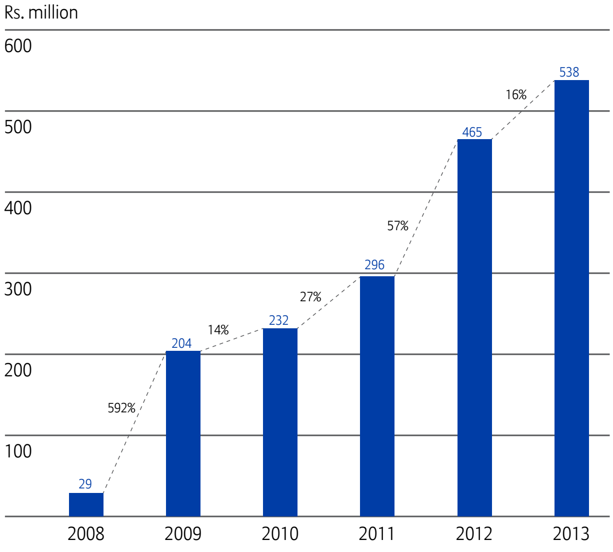
First Year Premium (FYP)



The FYP grew at an impressive 69% during the year. As a result, the contribution of the FYP increased to 49% of GWP against 46% in 2012.

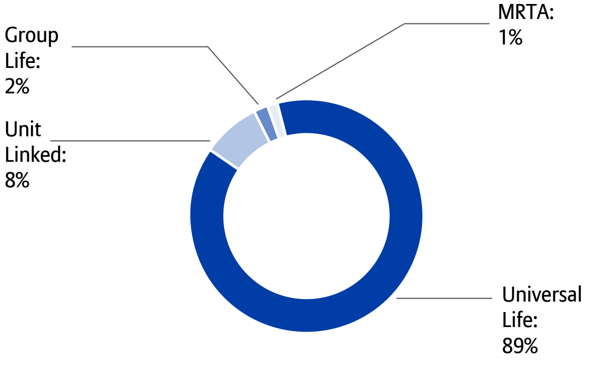
Financial Overview *(Contd.)*

Annualized New Business Premium (ANBP)



The Company recorded a 16% YoY growth in ANBP to Rs. 538 million. Expansion of the distribution network and introduction of the Unit-linked product were the primary drivers of this growth.

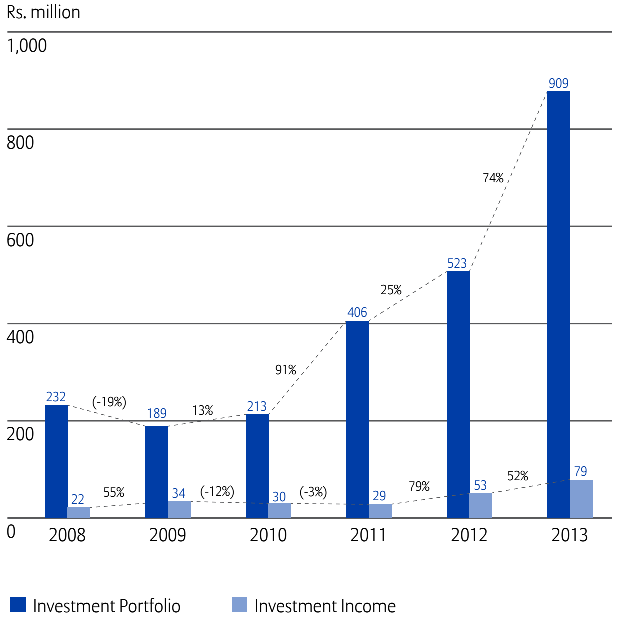
Gross Written Premium by Product



Universal Life products continued to dominate the product portfolio, accounting for 89% of GWP, while the newly - launched Unit-linked product contributed to 8%. The Unit-linked regular product was launched in March 2013 while the Unit-linked single premium product was launched in July 2013. GWP generated by Universal Life increased 43% YoY, while Group Life reported a 152% YoY growth in GWP.

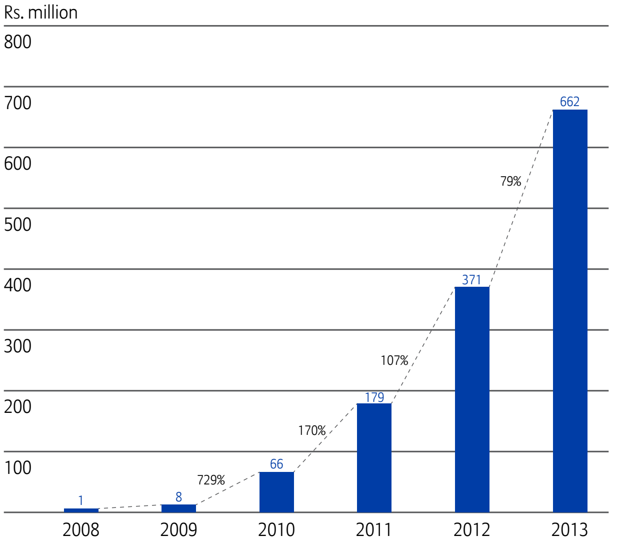
Financial Overview *(Contd.)*

Investment Portfolio



The investment portfolio grew by 74% YoY, primarily due to growth in new business. Despite the downward revision of policy rates by the Central Bank during the latter half of the year, investment income increased by 52% YoY as the Company benefited from high-yielding investments made in prior years. A large majority of the Company's portfolio is held in government securities and fixed deposits as entailed by the Company's prudent risk strategy.

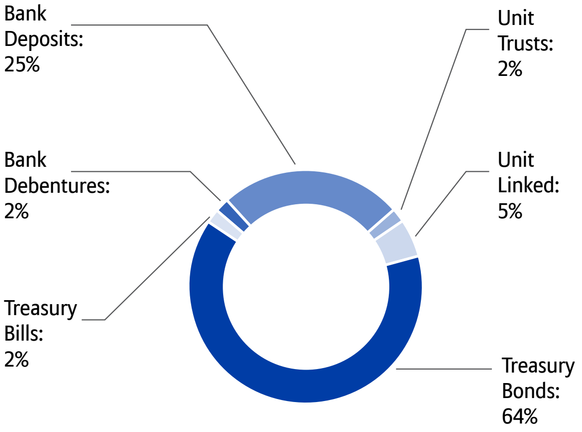
Life Fund Growth



The Life Fund increased by 79% YoY in 2013 and has grown by an average of 202% over the last four years.

Financial Overview *(Contd.)*

Investment Portfolio – Asset Allocation

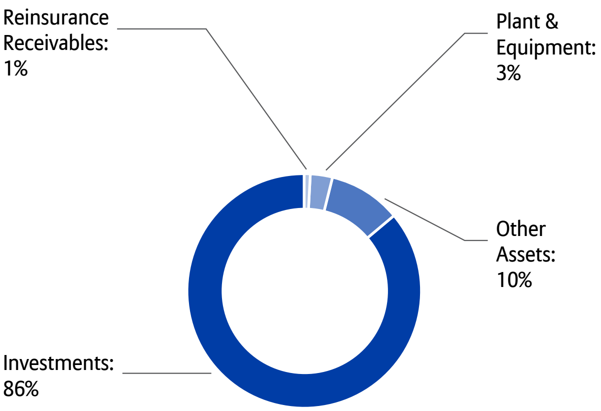


The Company's investment strategy is aligned with the guidelines set by the Allianz Group, which serve as the basis for investment decisions. The Company's objective is to contribute to the growth of surplus through capital appreciation and to earn competitive risk-adjusted returns.

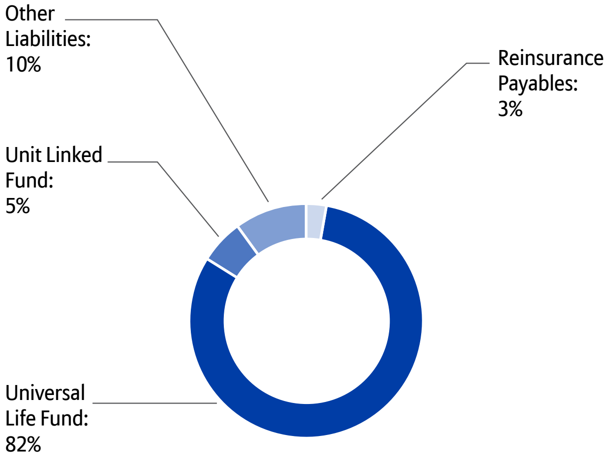
Long-dated treasury bonds continued to dominate investments and accounted for 64% of portfolio assets, while high- quality fixed deposits accounted for 25% (4% in 2012).

The strategic asset allocation has been set to ensure that duration mismatches between the Company's assets and liabilities are minimised, to reduce interest rate risk and liquidity risk.

Asset Composition



Liability Composition



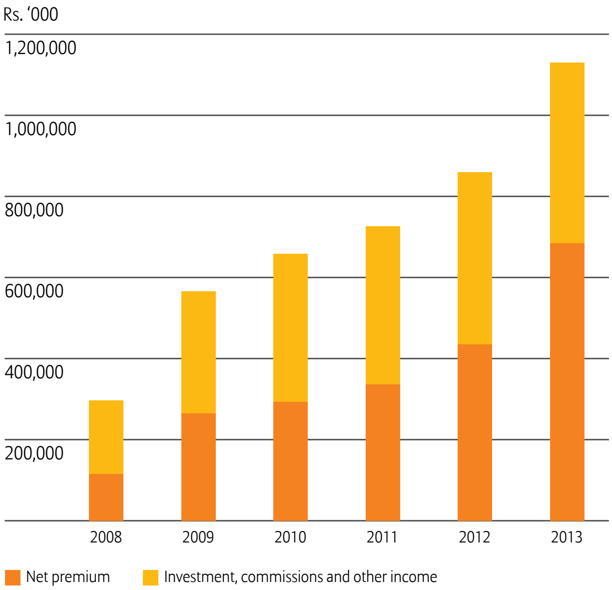
Statement of Value Added

NON-LIFE INSURANCE

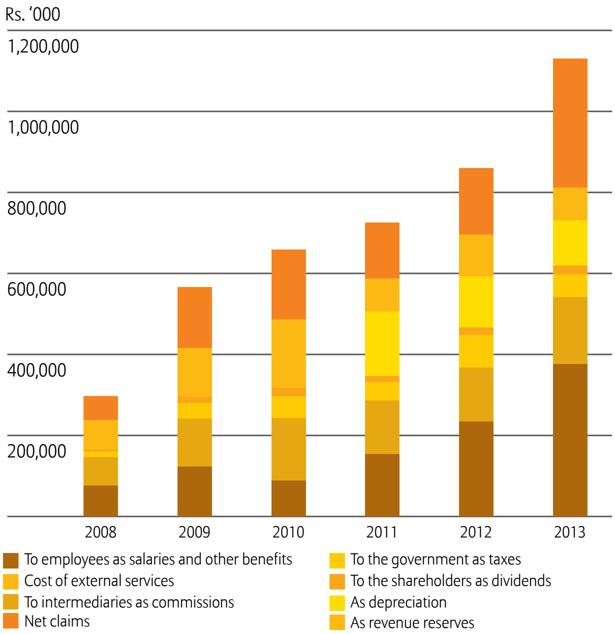
Value Addition	2013	2012	2011	2010	2009	2008
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Net premium	684,309	435,561	336,747	293,437	265,074	115,236
Investment, commission and other income	445,540	424,328	389,323	365,336	301,132	181,652
Net claims	(317,839)	(163,837)	(139,168)	(172,754)	(150,698)	(59,178)
Cost of external services	(134,664)	(116,399)	(91,867)	(53,152)	(99,454)	(56,568)
Total value added	677,346	579,653	495,035	432,867	316,055	181,142

Value Distribution	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
To employees as salaries and other benefits	241,366	36	117,508	20	61,575	12	34,534	8	24,245	8	19,919	11
To intermediaries as commissions	165,906	24	133,191	23	132,260	27	154,898	36	117,328	37	69,922	39
To the government as taxes	55,408	8	81,382	14	46,594	9	53,996	12	38,646	12	14,190	8
To the shareholders as dividends	111,250	16	125,000	22	158,333	32	-	-	-	-	-	-
Retained with the business												
- as depreciation	21,417	3	18,109	3	14,748	3	22,130	5	16,170	5	4,367	2
- as revenue reserves	81,999	12	104,463	18	81,525	16	167,309	39	119,666	38	72,744	40
Total value distributed	677,346	100	579,653	100	495,035	100	432,867	100	316,055	100	181,142	100

Value Addition



Value Distribution



Statement of Value Added *(Contd.)*

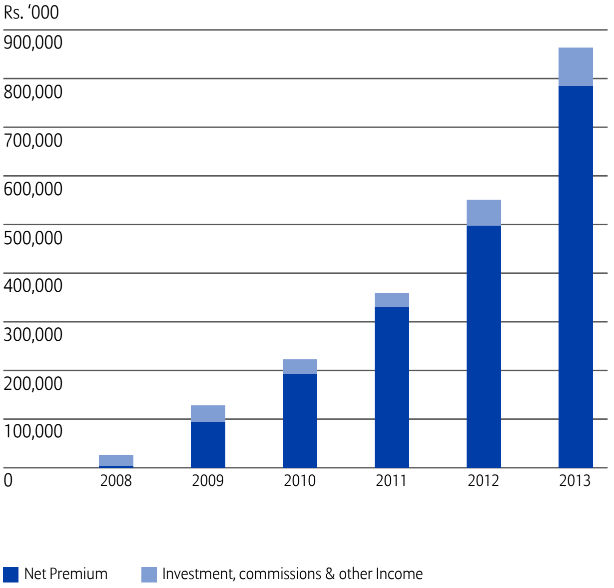
LIFE INSURANCE*

Value Addition	2013 Rs.'000	2012 Rs.'000	2011 Rs.'000	2010 Rs.'000	2009 Rs.'000	2008 Rs.'000
Net premium	784,600	497,452	329,558	192,569	94,322	3,840
Investment and other Income	78,931	52,753	31,087	30,092	33,819	22,331
Net claims and benefits	(23,316)	(15,877)	(12,612)	(5,715)	(3,283)	-
Cost of external services	(256,509)	(167,200)	(124,151)	(112,992)	(95,056)	(17,856)
Total value added	583,706	367,129	223,882	103,954	29,802	8,315

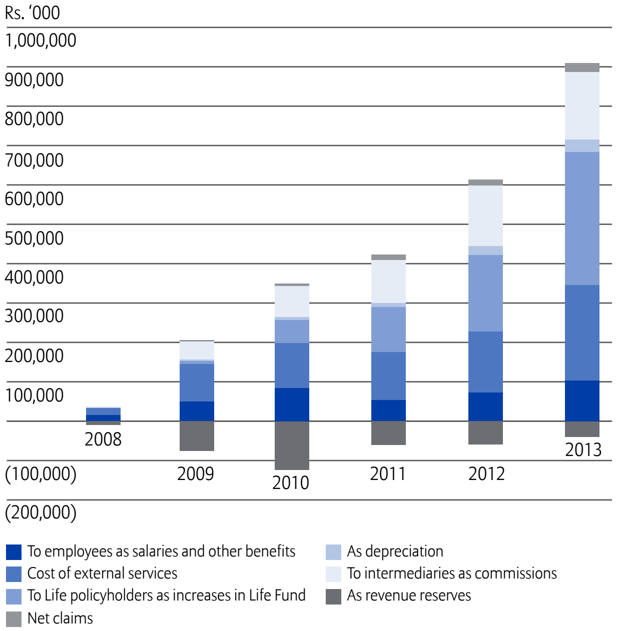
Value Distribution	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
To employees as salaries and other benefits	103,447	18	72,039	19	52,765	24	83,365	80	49,136	165	14,611	176
To intermediaries as commissions	167,881	29	150,136	40	108,782	49	78,926	76	45,781	154	1,744	21
To Life policyholders as increases in Life Fund	335,881	58	191,674	51	112,933	50	58,289	56	7,317	24	684	8
Retained with the business												
As depreciation	16,024	3	12,867	6	10,015	4	7,352	7	3,284	11	927	11
As reserves	(39,527)	-7	(59,587)	-16	(60,613)	-27	(123,978)	-119	(75,716)	-254	(9,651)	-116
Total value distributed	583,706	100	367,129	100	223,882	100	103,954	100	29,802	100	8,315	100

** Commenced business in November 2008*

Value Addition



Value Distribution



Economic Overview

WORLD ECONOMY

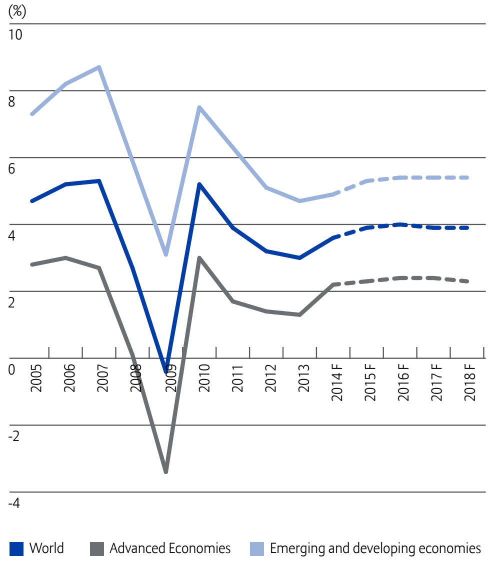
The global economy continued to progress on the path to recovery, albeit at a more modest growth than previously predicted. The International Monetary Fund (IMF) announced a 3.0% increase in output, which was markedly lower than the 3.5% expected in the beginning of 2013. While the key advanced economies recovered on the strength of improving consumer sentiment and supportive fiscal policies, the dominant emerging economies failed to meet optimistic projections, burdened by weak domestic demand and tight financial conditions. Credit risk continued to be priced at a high premium, although central banks maintained very low policy rates. Unemployment remained at an elevated level in advanced economies, especially in the European and MENA regions where it is expected to remain mostly at or just above this level in 2014.

The growth rate of advanced economies, which accounted for 61% of global output, slowed to 1.3% compared with 1.4% in 2012. Some of the largest European economies showed marked signs of recovery from recession, with improving consumer confidence and favorable policy measures driving spending.

The United States economy fared slower than expected, increasing output by 1.9% compared to a forecast 2.0%. The IMF predicts that the advanced economies' contribution to global GDP will reduce marginally to 59% in 2018.

Emerging and developing economies, which now contribute to 39% of world output, failed to bridge the gap as in prior years, growing only by 4.7% against a predicted 5.5%. Weakening domestic demand spurred by tighter financial conditions and policy measures had a contagion effect on most of the emerging markets, despite strong external demand from the advanced economies. The need to introduce structural reforms to boost growth was more apparent than ever for many emerging economies where output is already nearing full capacity. The IMF expects emerging and developing markets to grow at a consistent pace from 2014 onwards, with a supporting increase of 41% in their contributions to world output in 2018.

Global GDP Growth

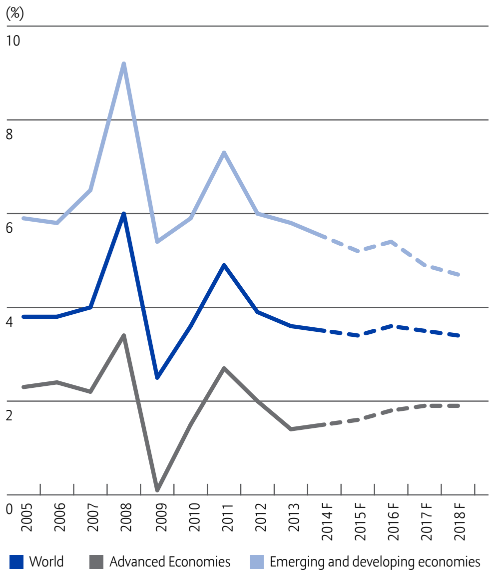


Source: International Monetary Fund, World Bank

Inflationary pressure has been curtailed, with world inflation reduced to 3.0% due to the slower rebounding process of the advanced economies and a drop in domestic consumption by the emerging economies. Inflation in advanced economies dropped to 1.4%, from 2.0% the previous year, and is expected to marginally grow to 1.5% in 2014. Emerging economies reported an inflation rate of 5.8%, as against 6.0% last year, with only a marginal increase due to weak domestic demand.

Economic Overview *(Contd.)*

Global Inflation



Source: International Monetary Fund, World Bank

In 2014, the world economy will remain challenged by a series of uncertainties posed by low inflation rates in advanced economies, the tapering of the US quantitative easing policies and their spillover effects on the emerging world, and weakening domestic demand in major emerging economies and their policy response to combat cyclical downturns.

The growth forecasts for 2014 and beyond have been revised downwards by the IMF, with a 3.6% increase in global output expected against a previously predicted 4.1% in January 2013. However, 2014 is predicted to fare better than the preceding year, with advanced economies spearheading the growth with outputs increasing by 2.2% YoY and the emerging and developing markets growing by 4.9% YoY.

Source: International Monetary Fund, World Bank

SRI LANKAN ECONOMY

The Sri Lankan economy rebounded strongly with an economic growth of 7.3% in 2013 in comparison with 6.3% in 2012, amidst subdued global economic activity. The recovery in growth stemmed predominantly from the industrial sector which accounted for approximately 31% of GDP. During the year, the Central Bank of Sri Lanka (CBSL) undertook a relaxation of the monetary policy which included a 100bps reduction in policy rates as well as a 200bps reduction in the Statutory Reserve Requirement (SRR), in order to stimulate domestic credit growth which followed a declining trend throughout the year. In early 2014, the CBSL further lowered the lending rate by 50bps thereby narrowing the policy rate corridor to 150bps.

Export earnings in 2013 showed a growth of 6.3% over 2012 after having contracted 4.5% YoY in the first half of 2013 reflecting a recovery in the global economy, while import expenditure declined 6.2% resulting in a 19.2% contraction of the trade deficit in 2013. Worker remittances amounted to $ 6,762.7 million in 2013, growing 13% YoY supporting a balance of payment surplus. Gross official reserves and total international reserves stood at $ 7.2 billion and $ 8.6 billion at the end of 2013, reflecting 4.5 and 5.7 months of imports, respectively.

Inflation decreased to 4.7% in 2013 compared to 9.2% in 2012, stemming predominantly from weakened domestic demand despite a relaxation of the monetary policy. The non-food category saw a deceleration in prices which mitigated the increase in prices in food and non-alcoholic beverages.

The fiscal deficit was contained at 5.9% of GDP in 2013 compared to 6.5% in 2012, in line with Central Bank targets. Government revenue rose 8.2% (provisional) in 2013 with taxation-based revenue accounting for 88% of the revenue,

Economic Overview *(Contd.)*

while government expenditure saw a growth of 7.3% (provisional). As per the provisional data available, the debt to GDP ratio has declined to 78% in 2013, against 79.1% in 2012.

GDP Growth

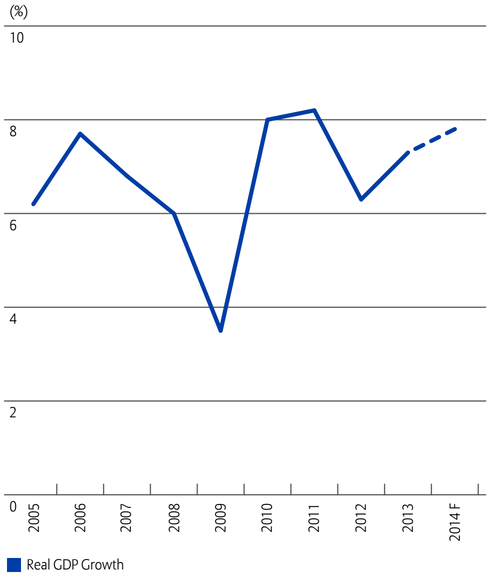
The country recorded an impressive economic growth of 8.2% in the fourth quarter of 2013 over the fourth quarter of 2012. This was markedly higher than the 6.0%, 6.8% and 7.8% achieved in the first, second and third quarters of 2013 respectively, despite a continued slowdown in global economic activity and weakening domestic demand. The CBSL revised down its growth target for 2013 to 7.2% from 7.5%, while the IMF upgraded its forecast to 6.5% from 6.25%.

The services sector which accounted for 58% of GDP grew by 6.5% mainly due to a 27% and 7.1% growth in the hotels and restaurant sector (2.6% of sector GDP) and wholesale and retail trade (39% of sector GDP) subsegments respectively. The transport and communication subsector which accounted for 25% of sector GDP grew by 6.7% YoY. The banking, insurance and real estate subsector grew by 4.6% YoY in the fourth quarter of 2013 compared to 6.2% one year ago.

The Industrial sector, which grew by 10.7% during the fourth quarter of 2013, was driven mainly by a 12.5% growth in the construction sub sector which accounted for 28% of the sector's GDP, whilst the manufacturing sub sector which dominates the industrial segment accounting for 54% of the sector's GDP, grew by 11.9% YoY. In March 2013, the second international airport was also declared open in the city of Hambantota, which is estimated to have cost $ 209 million. The GOSL opened the second expressway from Colombo to Katunayake in November 2013, constructed at a cost of $ 292 million.

The agriculture, forestry and fishing segment which accounted for 9% of GDP, grew by 10.4% in the fourth quarter of 2013 on the back of strong growth in production volumes observed in tea, rubber and paddy segments owing to favourable weather conditions.

Sri Lanka GDP Growth



Source: Central Bank of Sri Lanka

The outlook for 2014 remains healthy for Sri Lanka despite muted yet improving global economic conditions. The Central Bank of Sri Lanka expects an economic growth of 7.8% for 2014 while the IMF and Asian Development Bank (ADB) forecast 6.5% and 7.2% respectively.

Inflation Rate

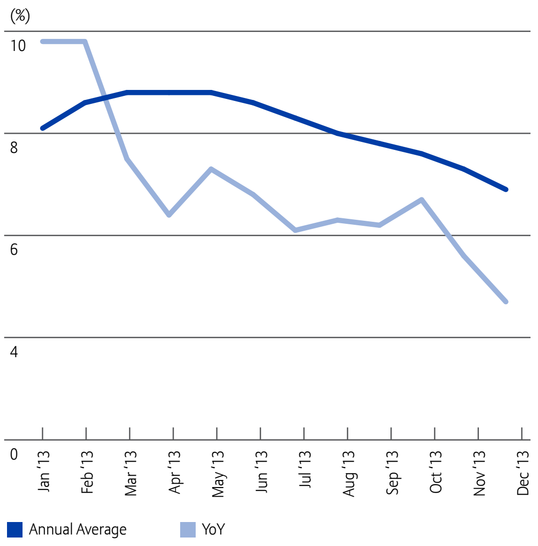
Colombo Consumer Price Index (CCPI) which ended the year at 6.9% on an average annual basis, trended lower during the year having begun the year at 8.1% . High interest rates that prevailed during the first half of 2013 restricted demand-driven inflation, while the policy rate reductions initiated during the second half of 2013 are yet to show signs of an improvement in domestic demand. Much of the

Economic Overview *(Contd.)*

increase in inflation is attributable to supply- related factors stemming from lower agricultural produce due to adverse weather conditions.

Inflation is expected to be contained at single digit levels in 2014 in the absence of any unexpected changes in factors influencing inflation.

Sri Lanka Inflation



Source: Central Bank of Sri Lanka

Fiscal Deficit

The fiscal deficit reached 5.9% of GDP by the end of 2013. Current expenditure (based on provisional data) grew by 6.6% YoY and is generally identified as being the highest possible quality of budget deficit reduction. Capital and lending excluding repayments during the same period increased by 9.1% to Rs. 464 million. However, with a healthier economic growth expected in 2014, tandem growth in tax based revenues is expected.

Foreign holdings of government debt declined to 12.7% in December 2013 from a high of 13.9% in February 2013, following the announcement by the US Federal Reserve to trim its fiscal stimulus. The Central Bank targets a fiscal deficit of 5.2% for 2014.

External Sector

Trade deficit narrowed by 19.2% to $ 7,613 million in 2013 on the back of a 6.3% increase in export income, while import expenditure contracted 6.2%.

The current account deficit was further narrowed through higher inflows to the services account and an increase in private transfers. Workers' remittances grew by 13% to $ 6,762 million in 2013. Foreign direct investments (FDI) increased by 42% YoY to $ 870 million during the first nine months of 2013. The government has set a target of $ 2.5 billion in FDIs for 2014.

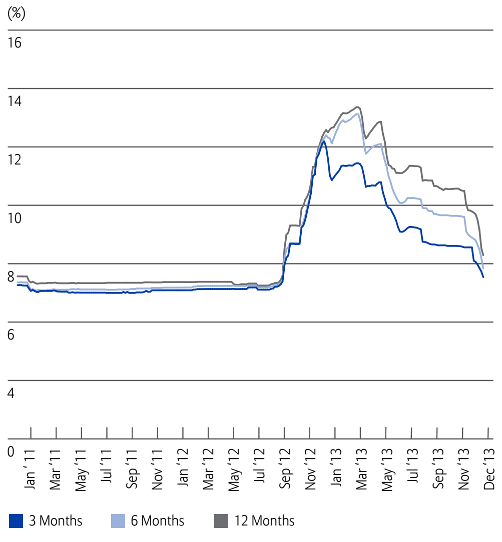
Earnings from tourism grew sharply by 35% YoY to $ 1,402 million upto December 2013 on the back of a 27% growth in tourists to the country: tourist arrivals in 2013 reached 1,274,593 compared to 1,005,605 in 2012.

Interest Rates

The high interest rates that prevailed during the latter part of 2012 through stringent policy measures adopted by the CBSL, led to a decline in credit growth in 2013. Having kept inflation intact, the CBSL undertook a series of monetary policy expansionary measures which included a 50bps cut in policy rates in May 2013 followed by a 200bps reduction in the statutory reserve requirement in July 2013 and a further 50bps cut in policy rates in October 2013. This was in order to provide the necessary impetus for an acceleration in economic growth. The current policy rates have been the lowest since 1999. Consequently, the benchmark one year treasury bill rate declined by approximately 340bps to 8.29% by December 2013, from the end of 2012.

Private sector credit growth, which followed a declining trend from March 2012, moderated to single digit growth rates from 19.25% in December 2012 to 7.5% in December 2013, despite the loosening of the monetary policy since May 2013. The Average Weighted Prime Lending Rate (AWPLR) quoted by the commercial banks reduced to 10.13% in December 2013 compared to 14.40% in end-2012, while the Average Weighted Deposit Rate (AWDR) reduced to 9.37% in December 2013 as against 10.10% in 2012, reflecting the reduction in policy rates. However, with the lowering of lending rates across the banking sector, credit growth is expected to pick up towards mid - 2014.

Treasury Bill Yields



Source: Central Bank of Sri Lanka

The Central Bank, on behalf of the Government of Sri Lanka, continued to tap international markets for funds through the issue of Sri Lanka Development Bonds (SLDBs) amounting to $ 50 million in a three year tenor and $ 25 million in a five year tenor in June 2013. The offers were oversubscribed by 1.8 times and 6.6 times respectively. Further, in April 2013, the Bank of Ceylon (BOC) sold a $ 500 million bond at 5.3% and orders amounting to $ 2 billion were received from 140 investors. In September 2013, the National Savings Bank (NSB) also raised $ 750 million at the rate of 8.875%.

Treasury Bond Yields

Source: Central Bank of Sri Lanka

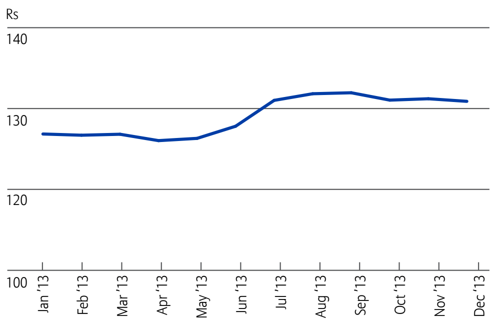
Exchange Rate

The Sri Lanka Rupee remained rather stable during the first half of 2013, depreciating only 0.16% against the greenback. However, the currency depreciated by 2.4% against the US dollar during the second half of 2013 to Rs 130.89 in December 2013, primarily due to the foreign selling of government securities in the early part of the second half of 2013. The flow of foreign funds through the issue of debt along with a decline in the import bill has helped to minimise Central Bank intervention to stabilise the

Economic Overview *(Contd.)*

currency. The Rupee depreciated by approximately 5% and 7% during the year against the Sterling Pound and the Euro respectively.

USD/Rs.

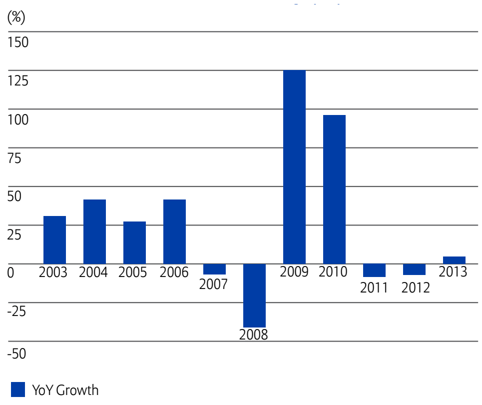


Source: Central Bank of Sri Lanka

Colombo Stock Market

Performance on the Colombo bourse showed signs of recovery with the benchmark index recording a 4.18% YoY gain in 2013, having dipped by 7% in 2012. Despite this, net foreign participation topped Rs. 22.7 billion during the year. By the end of 2013, market capitalisation amounted to Rs. 2,459 billion.

Colombo Stock Exchange (CSE)



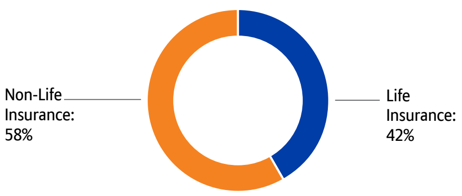
Source: Colombo Stock Exchange

Insurance Industry Performance

The insurance industry in 2013 saw a growth in premiums, total assets and profitability, albeit at a slower pace. For 2013, the industry's total Gross Written Premium (GWP) grew by 8.4% to reach Rs. 94.5 billion from Rs. 87.1 billion in 2012. By the end of the year, there were 21 insurance companies operating in the country, of which twelve companies engaged in both Life and Non-Life insurance business, six companies operated solely in the Non-Life insurance business and three companies offered only Life insurance services.

Sri Lanka's insurance penetration, which is measured using the Gross Written Premium as a percentage of Gross Domestic Product, was relatively low at 1.1% in 2013, offering significant potential for growth when compared to its other Asian peers. The projected rise in disposable income warranted by the government's policies for development and an increasing awareness of the benefits of insurance, is expected to further drive industry growth in the medium term.

Industry Composition



Source: Insurance Association of Sri Lanka

Economic Overview *(Contd.)*

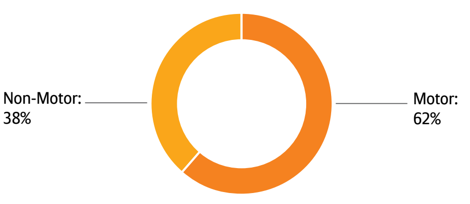
INDUSTRY SPOTLIGHT

Non Life Insurance

Non Life insurance, which continued to dominate industry GWP, recorded an increase of 7% in GWP to Rs. 53.2 billion in 2013. The motor segment, accounting for approximately 62% of Non Life GWP, grew by 5% YoY owing to a sharp reduction in new motor vehicle registrations consequent to the depreciation in the currency and an upward revision in import tariffs on vehicles. Excluding motor, other classes of insurance recorded a growth of 11%. The property class achieved the highest growth rate in the non-motor segment, recording an increase of 16% YoY.

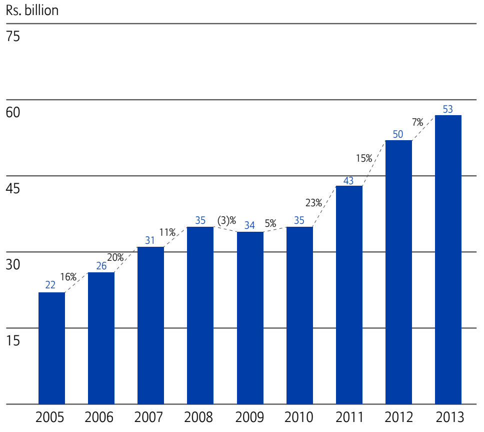
Allianz Insurance Lanka performed significantly better than the industry in 2013 with GWP growing at 38% YoY compared to an industry growth of 7%, the key driver of this growth being the motor class which grew at 186% compared to an industry growth of only 5%. The Company managed to achieve this notable growth while maintaining its profitability and recorded a combined ratio of 87% in an industry which attained a combined ratio of 102%.

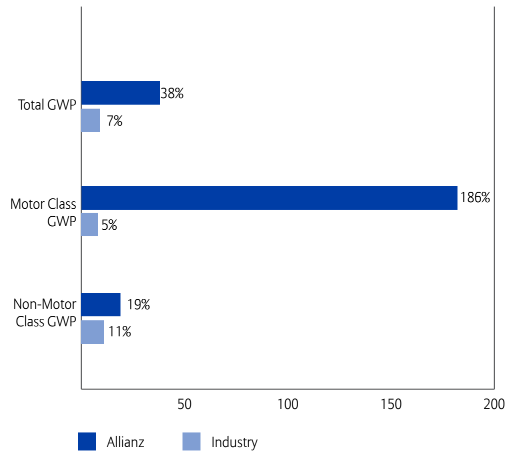
Non-Life Insurance Composition



Source: Insurance Association of Sri Lanka

Non Life Insurance Industry Premium





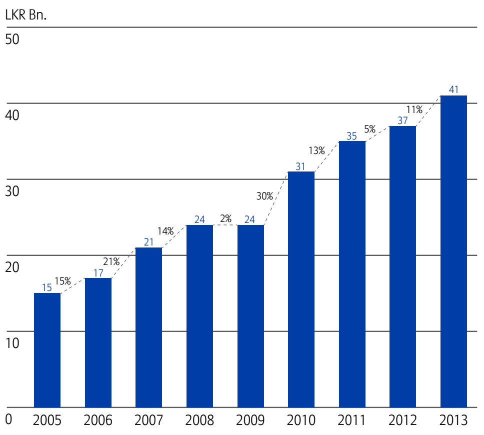
Life Insurance

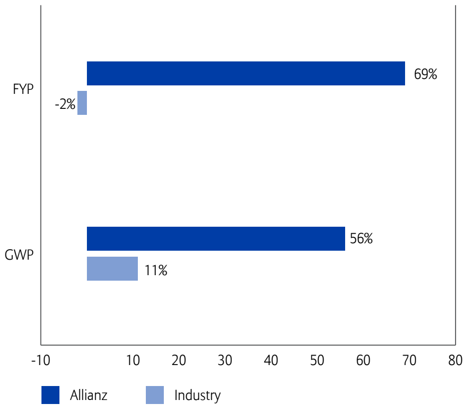
The Life insurance segment saw a growth of 10.2% in GWP during 2013, to Rs. 41.0 billion, driven by improving economic conditions and a consequent rise in disposable income. The majority of this growth came from renewal GWP which increased 10.0% YoY, while first year premium (FYP) dropped by 2.0% to Rs 9.4 billion. However, the low penetration of Life insurance in the country, with a GWP to GDP ratio of only 0.5% in 2013, augurs significant upward potential for the segment.

Economic Overview *(Contd.)*

Allianz Life Insurance Lanka's performance in 2013 far exceeded that of the industry, driven by a FYP growth of 69% compared to the industry which declined by 2%.

Life Insurance Industry Premium





Regulatory Developments

The Insurance Board of Sri Lanka published a revised Risk Based Capital framework in October 2013, following four quarters of voluntary road test submissions, evaluation of the road test results and feedback from the industry. A parallel run will commence from the first quarter of 2014 to December 2015, whereby all insurers are required to submit results on a quarterly basis using both rules.

As per the Regulation of Insurance Industry (Amendment) Act No. 3 of 2011, the minimum capital requirement for insurance companies would be increased by February 2015 with the objective of promoting their financial stability. Accordingly, all insurance companies registered on or before 30 June 2011 are required to increase their minimum paid up share capital to Rs. 500 million for each class of insurance business. Allianz Life Insurance Lanka Ltd., meets this requirement already.

In addition, composite insurance companies are required to separate Non Life and Life insurance businesses into two separate legal entities by February 2015. Allianz Insurance Lanka is already in compliance with this requirement.

Source: Insurance Board of Sri Lanka, Insurance Association of Sri Lanka, Central Bank of Sri Lanka

Risk Management

The Allianz risk management approach is designed to add value by focusing both on risk and returns.

Allianz Insurance Lanka Ltd. and Allianz Life Insurance Lanka Ltd. have been exceeding the regulatory solvency requirement as of 31 December 2013.

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 is therefore an integral part of the management and control system, ensuring 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 the consistent consideration of risk-return implications.

The key elements of the risk management framework are:

- Promotion of a strong risk management culture supported by a robust risk governance structure.
- Consistent application of an integrated risk capital framework across the Company to protect the capital base and to support effective capital management.
- Integration of risk considerations and capital needs into management and decision-making processes through the attribution of risk and the allocation of capital to the various segments.

The Company's risk appetite is defined by a clear risk strategy and limit structure. Close risk monitoring and reporting allows the Company to detect potential deviations from the predetermined risk tolerance level at an early stage.

The four primary components of the risk management framework include:

Risk underwriting and identification: A sound risk underwriting and identification framework forms the foundation for adequate risk - taking and management decisions such as individual transaction approval, new product approval, and strategic or tactical asset allocation. The framework includes risk assessments, risk standards, valuation methods and clear minimum standards for underwriting.

Risk reporting and monitoring: A comprehensive qualitative and quantitative risk reporting and monitoring framework provides transparency and risk indicators on the overall risk profile to senior management, and enables them to determine whether they fall within delegated limits and authorities.

Risk strategy and risk appetite: The risk strategy clearly defines the Company's risk appetite. It ensures that rewards are appropriate for the risks taken and that the delegated authorities are in line with the Company's overall risk - bearing capacity. The risk-return profile is improved through integration of risk considerations and capital needs into decision-making processes. This also keeps risk strategy and business objectives consistent with each other and allows the Company to pursue opportunities within the risk tolerance.

Communication and transparency: A transparent and robust risk disclosure provides a basis for communicating this strategy to our internal and external stakeholders, ensuring a sustainable positive impact on valuation and financing.

Risk Management *(Contd.)*

Risk Management Committee (RiCo)

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 RiCo include:

- Promoting the Allianz risk culture and developing risk management talent for the Company.
- Pre-approving the Company's risk management policy, risk strategy/appetite and carrying out reviews to ensure alignment with local regulatory and Allianz Group requirements.
- Monitoring the approved risk tolerance and exposures to individual risks.
- Determining management actions for non-compliance of risk owners to limits or to the risk policy.
- Requesting, following-up and assessing contingency and action plans in the case of (imminent) limit breaches.
- Reviewing the risk management function's effectiveness and development in the context of regulatory and Allianz Group requirements.

During 2013, the RiCo held three meetings, with the main item on the agenda being an update by the Chief Risk Officer (CRO) on the Company's top risks and the status of mitigation plans. In addition, any identified new risks faced by the Company as a result of new product launches and changes in the economic or regulatory environment such as the implementation of the proposed Risk Based Capital (RBC) framework, were also addressed.

Top Risks

Top risks to which the Company is exposed to have been identified and actions taken to monitor, control and mitigate them. A brief description is provided below:

Interest rate risk is the risk of interest rate volatility adversely affecting the value of the investment portfolio. In an increasing interest rate environment, there will be a drop in the market value of government securities and corporate debt which will adversely impact the solvency margin. The Company has devised and implemented a strategy to re-align its investment portfolio in order to reduce the sensitivity of the solvency margin to interest rate volatility.

Credit risk in the Company's context, primarily includes counter-party default risk. This is the risk of failure of financial institutions with which the Company has placed deposits to meet obligations. In addition to strict limits on single counter-party exposure, the Company follows a prudent credit policy which limits its investments to high-grade corporate credit in line with the Allianz Group policy and above the regulatory minimum criteria. The Company's investment approach is also guided by Allianz Investment Management, Singapore, as per Allianz Group policies on investment.

Credit risk to external reinsurers appears when insurance risk exposure is transferred by the Company to external reinsurance companies to mitigate insurance risk. Potential losses can arise either due to the non-recoverability of reinsurance receivables already present, or default on benefits that are under reinsurance treaties in force. The Company's exposure to reinsurance risk is minimal as the majority of reinsurance is placed with Allianz Re and reinsurers with strong credit ratings approved by the Group.

Foreign exchange risk is the risk of exchange rate movements that negatively affect profitability. The Company is mainly exposed to movements in the USD-LKR since a portion of premium income as well as part of reinsurance payments are in USD. This risk is managed by way of a direct hedge whereby USD inflows are matched with outflows and the excess converted at an exchange rate deemed favourable at the time.

Liquidity risk is the risk of the Company not being able to meet short-term or future payment obligations, and that in the event of a liquidity crisis, refinancing is only possible at higher interest rates or by liquidating assets at a discount.

Risk Management *(Contd.)*

The risk of this materialising is very low as receipts and payments are monitored on a monthly basis with cashflow projections. In addition, adequate buffers are maintained to ensure the availability of funds to meet unforeseen obligations.

Operational risk remains a top priority to Allianz Insurance Lanka Ltd., and Allianz Life Insurance Lanka Ltd. Operational risks represent losses resulting from inadequate or failed internal processes, personnel and systems, or from external events such as the interruption of business operations due to electricity breakdowns or natural catastrophes, damage caused by employee fraud, or losses caused by court cases. Setting up a disaster recovery site and launching the Company-wide loss data capture process were two key actions carried out on operational risk management. Identification, assessment and the quantification of operational risks through the risk and control self- assessment exercise was a key focus during the year.

Reputational risk is the risk of direct loss or loss in future business caused by a decline in the reputation of the Company among its stakeholders (shareholders, customers, staff, business partners or the general public). For example, every action, existing or new transaction or product can lead to losses in the value of the Company's reputation – either directly or indirectly – and can also result in losses in other risk categories. The policy on the minimum standard for reputational risk and issues management has been finalised, and was effective from 1 March 2013. A reputation management committee was set up to identify and review local sensitive areas, establish tolerance levels, and prevent potential reputational issues.

Annual Highlights

2013 began with the finalisation and implementation of the local minimum standard for reputational risk and issues management. The Company formed a reputation management committee whose primary responsibility is to identify and address any reputational issues, review new local sensitive areas and monitor mitigation actions undertaken on existing cases.

The risk and control self- assessment exercise was carried out for the first time at Allianz Insurance Lanka Ltd., and Allianz Life Insurance Lanka Ltd. The CRO identified potential operational risk scenarios with the help of the loss data capture system and through meetings with all divisional heads to understand controls in place for key processes and the potential impact of control failures. Mitigation plans and target dates for implementation were set thereafter.

The launch of the unit-linked product brought on its own unique challenges to the risk division as minimising mis-selling risk and ensuring compliance by the third-party fund manager became priorities. The first quarterly audit was conducted in the third quarter of 2013 by the compliance function and key findings were shared with the respective departments along with suggestions for improvement.

The Company participated in the voluntary RBC test run which came to an end this year and attended the RBC seminars and sessions organised by the Insurance Board of Sri Lanka as well as external industry groups, to enhance the team's knowledge of the proposed RBC framework. Allianz Life Insurance Lanka Ltd., has engaged the Group's Actuarial Support Centre to assist with the implementation of the RBC framework and to be ready with the parallel run starting from the first quarter of 2014.

Risk Management *(Contd.)*

RISK MANAGEMENT - HIGHLIGHTS FOR 2013

1Q13	Implementation of the minimum standard for Reputational Risk and Issues Management policy Formation of the Reputational Risk Management Committee Risk and Control Self Assessment Exercise
2Q13	Unit-linked single premium product launch: training on risk assessment form and investment environment. Investment process – assessment and improvement in control environment
3Q13	Annual review and update of risk strategy and appetite Evaluation of third-party fund management process for unit-linked products Compliance audit of unit-linked welcome call process
4Q13	Engagement of Group Actuarial Support Centre to assist in meeting the RBC parallel-run in 2014 Allianz Asia Pacific Risk Management award

Priorities for 2014

The Company's primary objectives for the year ahead are:

- To continue to promote the risk management culture within the organisation
- To be as successful as in 2013 in meeting risk management and reporting requirements set out by the Allianz Group risk function
- To comfortably meet regulatory solvency targets and RBC parallel-run submissions
- To set up an asset-liability management working group to actively monitor duration gaps and review investment strategy as per the proposed RBC framework
- To further strengthen internal control systems with a greater focus on model accuracy
- To widen and strengthen the company-wide operational loss data capturing and reporting process

Compliance for Effectiveness and Efficiency

Group Governance

The sustained success of the Allianz Group is based on the responsible behavior of all Group employees, who embody trust, respect and integrity. By means of its compliance in all aspects, Allianz supports and follows internationally and nationally recognised guidelines and standards for rules-compliant and value-based corporate governance. Allianz manages the risk of infringements against statutory provisions and requirements (compliance risk) through its support of, and adherence to, these international and national principles whilst integrating sustainability and social responsibility into its corporate conduct (Allianz Compliance Spotlight 2012).

The Allianz Compliance Mission

"To safeguard Allianz's reputation as a trusted financial services provider and promote, in partnership with Management and business, a culture of integrity and compliance by;

Advising on business conduct that is lawful, ethical, and in the interest of our customers, shareholders, business partners and colleagues

Preventing and detecting violations of laws and regulations through identifying and managing compliance risk

Advocating the Allianz compliance position with regulators

Allianz believes that a good compliance programme is key to protecting the Company from harm, and has a positive impact on reputation. It also helps its merchandise, as more and more customers and business partners screen their service providers and partners on integrity areas. Also, as Allianz is experiencing strong growth in many emerging markets, it is essential that the rule of law prevails in these markets and in all other markets in which Allianz operates. Combating corruption strengthens the rule of law.

Emulating Group standards

In accordance with the clear strategy and vision laid out by the Group, Allianz Lanka follows global standards and implements multiple steps to ensure that the Company is fully compliant with Group standards whilst meeting and complying with all local regulatory and other required compliances.

Compliance Culture at Allianz Lanka

Allianz Lanka is a critical driver of disciplined success and assesses its compliance efforts for efficiency and effectiveness. The compliance culture in the Sri Lankan market is yet to evolve into a general standard and there is a clear need to pay more attention to this key governance factor in order to have the desired response from industry players.

Dedication, attention to training and the participation of senior management when communicating the compliance culture within the Company, was on par with Group expectations during the year under review. To be among the top partners in compliance, Allianz Lanka focused on the following elements:

- Customer service - by delivering excellence in products, operations, processes and behavior
- Employee development - by encouraging a culture that respects, values and benefits from different backgrounds
- By building mutual trust, fairness and integrity, and encouraging clear and open communication

Whilst complying with Group guidelines in all required areas, more focus and attention was paid to the following areas during the year:

Anti-corruption and Anti-fraud policies

"Integrity is the only path towards becoming the most trusted financial services provider" – Allianz Anti-Corruption Programme

During the past year, more attention was focused on monitoring and improving internal controls for preventing and detecting fraud and corruption. An anti-fraud committee was incorporated, consisting of an anti-fraud

Compliance for Effectiveness and Efficiency *(Contd.)*

coordinator, claims fraud officers and underwriting fraud officers. Training and awareness sessions were conducted with selected employees, including the senior management of Allianz Lanka and all new recruits, on the tools used to prevent and detect fraud. E-mails and flyers were shared weekly among all staff on the controls in place and how they should use the red flag indicators provided by the Group to measure employee and customer behavior. Posters were displayed at every Allianz event including, but not limited to, its head office and branches.

The Allianz Complaint Management System (CMS) was upgraded and the second phase introduced. All employees were made aware of the importance of using the system to enhance and upgrade Allianz Lanka's service standards. They were encouraged to use the CMS to report 'anything they see and believe that should not happen'. The management is keen to instil transparency and to ensure that whistle-blowing employees who voice their concerns in good faith do not face retribution in any form.

Anti-money laundering

Allianz Lanka has gone beyond local regulatory requirements to keep in line with Group guidelines on anti-money laundering. A local anti-money laundering policy was introduced with the aim of protecting the Company and its employees from involvement in money laundering deals or in financing terrorist organisations. Key areas of the policy were brought to the attention of employees through awareness sessions among and within departments.

Vendor screening and red flag alerts

The Company has set up specific requirements that must be met prior to engaging new business partners, of which vendor integrity screening (VIS) is one. VIS is an important component of the Allianz global anti-corruption programme and reflects the Company's strict prohibition on any offer, acceptance, payment or authorisation of bribes or any other form of corruption.

The Compliance Officer performs risk assessments on vendors based on information received from them and on an assessment of the risk factors. If any red flags are brought to the attention of the procurement committee, compliance will provide support in evaluating the situation and deciding on mitigating steps.

Sales compliance

- Reviewing and comparing the Sales Agents' Code of Conduct with the Group Sales Agents' Code of Conduct and analysing identified gaps
- Introducing call scripts to certain Life products to determine whether the product sold meets the policyholder's needs and policy conditions are understood.
- Setting up and implementing red flags/warning indicators in the sales force selection process to mitigate the risk of corruption
- Training and awareness sessions conducted among regional managers
- Assessing risks on sales and distribution, identifying detection and prevention measures

Compliance in 2014

In 2014, compliance at Allianz Lanka will be seen as an advisory function that does not stand in the way of business, but merely assists and advises in advance to prevent problems that could hinder business from occurring. It will be considered a friendly department that is always willing to assist. In view of this, compliance at Allianz Lanka will focus on:

- Documenting the duties, responsibilities and work flow of the Compliance Department by way of a procedure manual
- Taking action to implement the Allianz Group "Data Privacy Policy", "Anti-Trust Project" and "Foreign Account Holders Tax Compliance Act project"
- Monitoring all local regulatory changes
- Ensuring the continuity of compliance awareness, training, audits and spot checks.
- Conducting workshops on compliance risk assessments
- Extending sales compliance and ensuring implementation of the Allianz Asia Pacific (AZAP) Mis-selling control framework

It's all about sustainable growth!

In conversation with Heinz Dolberg

We continuously strive to improve. Learning and adapting to our customers' needs is a part of the Allianz DNA and it is from this that we gained our strength in over a century of existence.

As former Director of the Asia, Middle East, North Africa Division of Allianz SE, Heinz Dolberg has had decades of experience in, and an in-depth knowledge of, the markets of the developing world. He has been the guiding light of Allianz Lanka since inception, and continues to be a strong influence in the Company's rise to success.

Q. Allianz has achieved significant growth in Sri Lanka. What is the essence of your success?

A. Allianz invested in Sri Lanka with a long-term strategic perspective. We were able to learn quickly about Sri Lankan market conditions and consumer dynamics. We are satisfied with what Allianz has achieved these past eight years but there is more room for growth. The important aspect of this journey is that the Sri Lankan consumers have placed their trust in Allianz and its products and services.

You ask me about the essence of our success. In a nutshell, it is because Allianz believes in its people, its strategy and its framework. We don't think there can be a short cut to success. It is the positive word-of-mouth spread by our customers that has got us to where we are now. What leads to good word-of-mouth? It is the Allianz people. The quality of their service makes customers talk about us.

Allianz Sri Lanka has surpassed our expectations. Starting a Greenfield operation in today's dynamic world is a tough decision. In the current situation, the insurance industry in Asia requires a good five to seven years to set up and be profitable in Non Life business and at least five years in Life business.

It's all about sustainable growth! *(Contd.)*

Allianz Lanka achieved profits in the Non Life sector in the second year of operations and we are on our way to making profits in Life business too. This is remarkable, given the competition in the market and the challenging economic times we live in. I give credit to the Allianz management and staff in Sri Lanka for this achievement. But for us this is just the start of the journey.

Q. What does the future hold for Allianz in Sri Lanka?

A. I wish I could predict the future. But what we can conclude from the past is that we have achieved a firm business in a very interesting and dynamic market, and that we have gained the trust of our customers.

When compared with the other markets in which we operate in Asia, the Sri Lankan market is a relatively small playing field, but market size is not the only criteria that matters. Being a market leader in a specific market is good, but more important is to build up a sustainable business with the financial strength to meet the high standards set by our customers, shareholders, staff and other partners.

In my opinion, Sri Lanka could have a still higher growth trajectory, and this interests Allianz. We understand that Sri Lanka is in transition, economically and socially. The end of a 30- year civil war and the dawn of peace has witnessed healthy GDP growth of over 6% annually. This opens new vistas for all Sri Lankans, our customers and investors alike, and Allianz is pleased to share in this prosperity.

Q. Allianz is operating in a crowded marketplace in Sri Lanka. How do you view your competition?

A. It is a fair assumption that the market is crowded, with over 20 insurance companies in a country of 20.8 million people. But for Allianz, competition is not about the quantity but the quality of our competitors. Allianz has a rich history and culture of over 120 years and is known for competing on a level playing field.

We welcome healthy competition because it provides more opportunities and options for customers. In every market we operate, we know that the customer thinks carefully before making a decision. It is our people on the ground who must convince the customer to place their trust in us. But at the same time, we are always open to critical feedback.

We respect competition, but we will always try to outperform!

Q. Allianz established leadership position in the global insurance industry last year - 2012. What are the key measurements of your lead?

A. We take pride in our leadership status but never take it for granted. It is getting increasingly difficult to stay in the lead but we are confident that we have maintained this *status quo,* thanks to our over 78 million customers, partners and the 144,000 staff in over 70 countries who live and breathe what Allianz stands for.

Several indicators confirm our leadership. In 2012, Allianz brand equity was valued at over $ 6 billion by global branding consultancy Interbrand. Allianz also achieved € 106 billion in revenues which translates into € 9.5 billion operating profits. More importantly, we have consciously kept our economic solvency ratio and regulatory solvency ratio at 202% and 190% respectively, proof of our ability to meet long-term obligations.

Our market leadership helps us define the standards for the global insurance industry and also to compete in the market vigorously yet ethically. We challenge our leadership day by day and look within us to improve our strengths. Authenticity is a word we use often. It helps our staff grow together and supports our customers to manage their daily risks in life. Over the past century of our existence we have learnt that people need a trusted partner in adversity. We will always be there for them.

CEO's Review

The year has been a memorable one for Allianz Lanka, with Life and Non Life companies achieving the highest growth rate in the Sri Lankan insurance industry. The Non Life company's gross written premium grew by 38% and the Life company's gross written premium grew by 56%, as against an industry growth of 9% and 10% respectively.

2013 was a year of growth and expansion for Allianz Lanka. The Company changed its business model with special focus on developing its retail business. For this, the sales

operations in the Company were segregated by recruiting a senior position to accelerate our growth in the Non Life company. The **Non Life Insurance company had a strong hold on the corporate business segment** and we realised that if we are to grow further we also need to capture the retail market. Hence, the Company shifted gear from our large portfolio of corporate business towards personal line retail business, a strategy which has paid rich dividends. Business composition changed, with the motor: non motor business mix shifting to 24%:76% (12%: 88% in 2012).

To support our growth, we expanded our reach to customers by opening 18 new branches during the year - the highest ever in a single year - mainly in the Sabaragamuwa, Uva and Western provinces. I am happy to note that the changes we made proved successful and helped support our strategy.

Despite heavy investment on recruitment and expansion, the Company was successful in achieving operating profits of Rs. 249 million. Notwithstanding the highly competitive soft market, **the Company continued to make underwriting profits of Rs. 91 million and maintained its combined operating ratio (COR) at 87% in the year under review.**

Heavy expansion and consequent infrastructure development costs reduced the return on equity from 29% to 26% in 2013 , but despite these heavy expenses we continued to maintain a high solvency margin, by as much, as 2.3 times above the required minimum this year. The

CEO's Review *(Contd.)*

investment income for the year grew from Rs. 114 million in 2012 to Rs. 131 million, representing a 15% growth, while growth in the investment portfolio was limited to 3% on the back of expansion and associated costs, and a dividend payout of Rs. 111 million to shareholders. Financial stability was confirmed with a comfortable 12% growth in the net assets base, to Rs. 876 million from Rs. 780 million.

The gross written premium in the **Life Company grew to Rs. 829 million** from Rs 532 million in 2012, a growth of 56% YoY, while the **first year premium grew by 69% - the highest in the industry.** The Life investment portfolio grew sharply by 74% in 2013 to Rs. 909 million, while investment income during the period rose by approximately 52% , which confirms the efficacy of our investment strategy in the midst of a challenging investment environment. **The successful investment strategy enabled us to declare a dividend of 8% to our policyholders.** This year we were successful in further reducing the net loss by 34%, and maintained the solvency margin at 5.4 times higher than the regulatory minimum. As it takes a much longer time to turnaround the Life company to profitability, I am gratified that our Company is well on track to achieve this goal.

Our main Life product portfolio was based on the Universal Life platform. This year we added the unit linked platform to our product portfolio. This product allows policyholders to align their investments with their risk appetite while being entitled to a Life cover.. The product was well accepted by customers and contributed 8% to our gross written premium in 2013.

Our staff strength was augmented by a sizable 399 to meet the requirements of the business expansion. We have continued to invest considerably on training and developing our staff. They have a clear-cut career path carved out to meet their professional aspirations. The Company has also invested in a separate training unit to further focus on the training requirements of staff. Training was carried out by in-house as well as outside resources on identified training areas. As a multinational corporate, our staff has the privilege of receiving foreign training and foreign exposure. Many were sent on foreign training which has helped them to bring international expertise to the local environment. Webinars on a variety of topics conducted by the Allianz Group are just one of the many means introduced during the year to provide our staff with up-to-the-minute international knowledge on a variety of current subjects.

We also continue to rigorously monitor the risks that the Company is exposed to, and have taken long and short term actions to counter them. We go beyond the regulatory requirements set out by the Allianz Group's Code of Compliance.

Although we do not expend very much on advertising the brand in the local market, word of mouth continues to be our main marketing tool, one that has effectively kept us ahead of competition. This places a heavy onus on us to deliver on our promises and I am pleased and proud to say that we have fulfilled the trust our stakeholders have placed in us. The positive experience our customers have with us during their moment of truth has given them the confidence to continue to insure with us and to recommend us to others.

I strongly believe we should serve the people with whom we do business. With this aim we have initiated several corporate social responsibility projects in different areas according to need. The 'My finance coach' launched in many parts of the country, which taught school children between the ages of 12 and 17 years to manage their money, has been well received in schools not only by the children themselves but by teachers and parents as well.

CEO's Review *(Contd.)*

We brought the Allianz global partnership of the Paralympics to Sri Lankan shores through collaboration with the National Federation of Sports for the Disabled (NFSD) in Sri Lanka this year. This is a partnership that warms the Allianz heart and brings out the values of diversity and inclusiveness we stand for.

Sponsoring teenage football enthusiasts by providing them with a once- in- a- lifetime opportunity to attend international football camps and follow training by the world-renowned Bayern Munich coaching team in Germany, is another initiative that gives us considerable satisfaction, both as a company as a whole, as well as individually. These many initiatives have given us the privilege of increasing the quality of life of those marginalised by society. We will continue to pursue them as our annual programmes. We will also continue to identify and introduce several other such programmes to develop the young, who are the future of our communities and country.

For the future, Allianz Lanka will focus on achieving sustainable growth stemming from organic growth through our network expansion, as achieved in 2013. We will continue to consolidate our strengths and pursue new opportunities to grow the Company in this dynamic market. With this in mind, we intend to rebrand our existing Non Life retail product portfolio with the launch of some new products in Non Life as well as in the Life segments. We aim to increase our partnership with financial institutions and to further strengthen relationships. Processes that need improving to increase efficiency in order to achieve growth targets will be revisited. We will continue to invest in IT infrastructure development. We believe that the ease of doing business with Allianz is key to our progress and we will further invest in this area. Digitalization will play a key role in reaching out to our customers and bringing them convenience and efficiency improvements.

The regulator is taking a keen interest in regulating the industry, and companies are monitored more closely for the greater good of the industry. Many changes have been introduced, which Allianz Lanka is well positioned to meet. Chief among these changes is the proposed segregation of business into Life and Non Life entities that will come into effect in 2015. The change of governance from rule- based to risk- based, which dictates that companies must have adequate capital to cover the risks they underwrite, is another significant change that the industry as a whole will face. In this situation the required capital will be based on a combination of risk charges – market, credit, operational and insurance liability risk. Our Non Life company is fully prepared for the implementation of the risk-based capital model which is mandatory from 2016, while for the Life company, processes are currently being finalised for full implementation.

As we conclude an outstanding year, I wish to express my deep appreciation to all our stakeholders who have partnered with us over the years and whose presence and support has been integral to our well-being. I thank my Board of Directors whose direction, support and guidance are invaluable to me. To our valued customers and other business partners who are the cornerstone of our success, I convey my sincere thanks and appreciation.

Lastly, but not by any means the least, to my staff and field sales team I say a heartfelt 'thank you'. You are a true inspiration. I look to you to continue to stand by me as together we take the Company forward to meet many more challenges and opportunities that the future years will bring.

Surekha Alles
Chief Executive Officer

Allianz Insurance Lanka Ltd.
Allianz Life Insurance Lanka Ltd.

28th February 2014

Moments in Time with Allianz

The year was a memorable one for Allianz Lanka as the events held during the year put into action the Company's vision for growth and expansion. Commitment to customers was reinforced with new initiatives introduced to bring Allianz world class products and services within easy reach of a wider and more varied clientele in many more areas of the country. The Company also reinforced its commitment to the community it serves by inviting to Sri Lankan shores, some of the most successful corporate social responsibility programmes practiced by Allianz offices overseas. Staff excellence was yet another key area that continued to be applauded and rewarded at many events held throughout the year. Staff camaraderie, too, continued to be fostered as a vehicle for promoting team spirit, loyalty and motivation, and many events were organised to encourage the participation of staff and their families.

Expansion of the distribution network

In 2013, Allianz strengthened its presence in several provinces around the country by adding 18 fully-fledged branches equipped with all the products of, and facilities for, Life and Non Life business. The branches are serviced by an experienced team of sales and front office staff trained to internationally benchmarked Allianz standards of customer service and underwriting.

Aluthgama branch opening

This expansion held the record for the highest number of branches opened during a single year, and was part of the Company's business strategy to establish a strong presence in the country's retail markets.

Bandarawela branch opening

Branches were opened in Balangoda, Ratnapura, Eheliyagoda, Embilipitiya, Kalawana and Thanamalwila in the Sabaragamuwa province, in Kalutara, Ja Ela, Mathugama, Wellawatte, Piliyandala, Kiribathgoda as well as a city office in Vauxhall Street, Colombo, in the Western province. Branches were also opened in Dambulla and Matale in the Central province, Aluthgama in Southern province Bandarawela in Uva province, as well as in Wennappuwa in the North Western and Thirunelveli in the Northern provinces.

Partnership with HNB MOMO provides more cashless payment options to customers

Allianz joined Hatton National Bank Ltd., (HNB) to bring the HNB MOMO mobile POS application to further enhance cashless payment options offered to customers.

Allianz customers are now provided with several ways in which to pay their insurance premiums through digital assets and via supermarkets and banks. Convenience of payment was a key consideration in these initiatives,

Moments in Time with Allianz *(Contd.)*

Allianz Lanka also joined the HNB e-Banking platform as a payee partner, which enables HNB customers to pay for their policies by directly debiting their accounts through web-based and mobile banking facilities worldwide.

Allainz Lanka - HNB Partnership

Joe Gross visits Sri Lanka

A highlight of the year was the visit of Joseph Gross, Group Head of Market Management, from Allianz SE, Germany, in September through to October 2013. Mr. Gross embarked on a busy schedule of activities that shared his expertise and experiences in the field of international marketing with a select, informed and appreciative audience.

At the 17th Insurance Congress of Developing Countries organised by the Insurance Association of Sri Lanka, Joe Gross addressed an audience of insurance professionals on 'Enhancing insurance penetration in emerging economies.' He was also keynote speaker at the technical sessions on "Technological innovations – Drive the business and achieve service excellence." held from 30 September to 2 October 2013.

Mr. Gross spoke on the "Role of Digitalization in Branding" to an audience of marketers, brokers, entrepreneurs and CEOs at a breakfast meeting held at Galadari Hotel, Colombo. Digital marketing communication is of special interest to Allianz as the Company strives to keep a breast of the fast-paced digital environment of today.

Mr. Gross also shared his experiences in customer service and marketing with the Colombo head office and the Negombo branch.

Joe Gross addresses a corporate audience on the "Roll of Digitalisation in Branding"

Joe Gross meets the staff at the Negombo Branch

Top 10 Awards Ceremony

A staff of over 350 witnessed the recognition and rewards accorded Allianz Lanka's Top 10 sales performers at the Top 10 Awards Ceremony held in December 2013. The strategic

Moments in Time with Allianz *(Contd.)*

plan for sales and distribution in the following year was also discussed at the event.

Some of the winners at the 'Top 10' awards

Stellar performance rewarded at Allianz Awards 2013

At a star-studded evening in June 2013, the best and brightest of Allianz Lanka were awarded trophies, cash rewards and overseas holidays for their brilliant performance during 2012.

Consultant Asia Pacific Region, Allianz SE, Heinz Dollberg graced the occasion as Chief Guest, joined by Guest of Honour Allianz Lanka CEO Surekha Alles. The Company's senior management, Life and Non Life sales staff, spouses of winners and staff were also present.

About 68 winners demonstrating the highest standards of best-practice and innovation, vied for the much - coveted 'Champion of Champions award for 2012,' which was triumphantly borne off by Janith Fernando of the Ja Ela office amid much fanfare. Other top awards of the evening were the 'Allianz Best Salesperson 2012' award which went to Nalin Prasanna from the Colombo office; the 'Allianz Best Region Award 2012' awarded to the Kandy region; the 'Allianz Best Agency office Award 2012' carried off by Pradeep Kumarathunga from the Ja Ela region; the 'Allianz Best Non-Life Sales 2012' won by Rajiv Fernando from the Bancasurrance unit.

Janith Fernando holds up the Champion of Champions trophy 2012

Moments in Time with Allianz *(Contd.)*

The winner of the Director's Award 2012 with the other contenders

Nadeesha Madumanthi from the Polonnaruwa branch was the proud recipient of the coveted Directors Award 2012 presented to Allianz Lanka's best employee, for her performance that exceeded the duties and responsibilities of her job. Gold and silver awards based on achieving different levels of annualised new business premium (ANBP) were also made for performances *par excellence* in Life insurance sales.

STAFF EVENTS

Christmas Celebration at Allianz

Nearly 200 staff participated in the Christmas party and carol competition this year. Enthusiastic Allianz singers and musicians entered into the Christmas carols and competition with gusto. The team comprising staff from the Human Resources, Administration, Market Management and Information Technology departments were declared the winners in a hard-won fight that demonstrated the high standards of all the contenders. The corporate sales team was runner-up.

Nirmala Ranjan, a member of the winning team said, "It is nice to be part of the winning team. We saw teamwork at play and enjoyed ourselves. We were confident from the start that we would win, as we practiced hard."
The fellowship that followed reinforced team spirit, and one and all agreed that they had a great time.

A Christmas decoration competition was also held. The creative and innovative decorations of the first floor won 1st prize, the fourth floor was runner-up.

Winners of the Christmas carol competition

The winning Christmas decoration

An enjoyable two days at Cinnamon Bey hotel

This year's annual trip was to Cinnamon Bey Hotel, Bentota. About 300 Allianz Lanka staff and their families spent two days of fun at this star class facility. The different age groups participated in a variety of games throughout the day, which culminated in a dance held on the final night. It was an enjoyable weekend.

Moments in Time with Allianz *(Contd.)*

Annual staff outing to Bentota

Allianz Lanka supports Paralympics in Sri Lanka

Allianz Lanka announced its partnership with the National Federation of Sports for the Disabled (National Paralympic Committee), Sri Lanka, in October 2013. Joseph Gross, during his visit to Sri Lanka, confirmed the partnership at a gathering that included thirty national para athletes. He affirmed that the Allianz commitment to the paralympic movement in Sri Lanka extends from the Allianz partnership with the International paralympic committee, and shared his personal experiences of supporting the paralympic movement.

Allianz Lanka will provide monetary and non-monetary support to the paralympic movement in Sri Lanka through the partnership. The local partnership places Sri Lanka as the 13th country from among the 70 countries in which Allianz has its global network that actively supports the paralympic partnership at a local level.

Allianz provided support to enable the paralympic contingent to participate at the World Paralympic Athletic Games 2013 in Lyon, France.

National Paralympic Team

Joe Gross presents the MOU to Brigadier Rajitha Ampemohotti, President of National Paralympics Committee

Allianz Junior Football Camp 2013

Allianz provided a once- in a life time opportunity for four young Sri Lankan footballers to participate in the Allianz Junior Football camps held in Germany and Thailand

Moments in Time with Allianz *(Contd.)*

in 2013. The lucky teenagers selected from among 400 applicants were Isuru Weerasinghe from Badulla Central College and Roshen Subash from Holy Cross College, Kalutara, who were chosen to attend the coaching camp held in Munich, Germany. They attended football coaching provided by the FC Bayern Munich coaching staff, intercultural events that promoted interaction among the cultures, were given an inside tour of the massive Allianz Arena and were also privileged to watch a Bundesliga match in the Allianz Arena alongside 71,000 spectators. Sightseeing in Munich completed the memorable tour. Roshen Subash summed up the tour, “It was unbelievable and truly an experience of a lifetime. I leant new techniques from FC Bayern Munich coaches and am playing for the Sri Lanka U-16 team. This experience will surely help me realise my dream of playing in the Sri Lanka national team one day.”

Presenting the four finalists of the Junior Football Camps at the ‘Allianz Awards’ ceremony


Isuru and Roshen meet Dante, the Brazilian star of FC Bayern Munich

Junior footballers at the Allianz Arena

Abdul Afrar from Jamaliya Central College, Trincomalee, and Ranju Silva from De Mazenod College, Kandana attended the coaching camp in Thailand.

Allianz Lanka’s presence at the German Embassy, Colombo, celebrations

The German Embassy celebrated 60 years of diplomatic relations between Germany and Sri Lanka in October 2013. Allianz was one of the cooperation partners for the celebration events which included a vintage car show and the German Festival.

Allianz at the German Street Festival in Colombo

Moments in Time with Allianz *(Contd.)*

'My finance coach'

This non-profit initiative was organised by partner and supporter companies Allianz, Deutsche Kreditbank, Grey, Haniel, KPMG, McKinsey, and Volkswagen Financial Services. The programme strives to improve the financial literacy of young people, teenagers in particular. In a world that is becoming increasingly interlinked to many areas of business, such an initiative is invaluable for understanding how business and finance work.

'My finance coach' training at Mahamaya College, Kandy

'My finance coach' training at Jamaliya Central College, Trincomalee

This international programme was launched in Sri Lanka in November 2013. Nearly 300 students between 13 and 19 years were taught how to manage their money. To date, the programme has been held for 50 students at Mahamaya College, Kandy, and at Jamaliya Central College in Trincomalee, and for 200 students at St. Thomas' College, Guruthalawa. The children enjoyed the programme and scored excellent ratings in the evaluation forms. Ismail from Jamaliya Central College said "It was a great programme. I learnt a lot." The programme's success also prompted the Principal of Mahamaya College to request for more programmes to be conducted in the school.

The year came to a close with Allianz Lanka being adjudged recipient of the Asia Pacific Risk Management award for 2013, for its commitment in promoting the risk culture across the organisation and achieving a marked improvement in risk management during the year.

Allianz Asia Pacific CRO, Sigurd Volk presents the Allianz Asia Pacific Risk Management Award to Allianz Lanka CRO, Mifnaz Jawahar

Sustainability Report

Allianz is a corporate that takes a holistic and responsible approach to business. The efficacy of this approach has been externally endorsed by a number of external ratings: inclusion in the "Dow Jones Sustainability Index" (DJSI) since 2000; inclusion in the "FTSE4Good" Sustainability Index since 2002; recipient of the Industry Leader and Gold Class Sustainability Award 2014 from RobecoSAM (in recognition of excellent sustainability performance confirmed by the 2013 ratings of the Dow Jones Sustainability Index).

As a fully-owned subsidiary of the international financial services provider, Allianz Lanka, too, considers sustainability to be an integral part of its business and value system, and has, this year, brought to Sri Lankan shores several key corporate social initiatives that were introduced in the continents services by its august parent.

'My finance coach' increases the financial literacy of Sri Lanka's future

In a world that is rapidly becoming interlinked in many areas of business, Allianz realised that understanding and practicing the basics of finance is the foundation for making educated decisions that impact the future. Obtaining this knowledge at an early age is one of the most effective means of retention.

'My finance coach' was designed to meet this need. The programme increases the financial literacy of young people in the communities Allianz does business. Allianz partners with Deutsche Kreditbank, Grey, Haniel, KPMG, McKinsey, and Volkswagen Financial Services in the programme which has, to date, been introduced in Germany, Britain, Brazil, Argentina, France Poland, Malaysia and Indonesia where it has now become a fully- fledged and flourishing movement. The programme's broad cross- curricular approach is easily adapted to local needs and is practiced through class visits, teacher training, and extracurricular activities.

Allianz Lanka plans to extend the programme to schools throughout the island in 2014, in its aim to boost the intellectual development of the country's young human capital.

Allianz Lanka partners Paralympic sports

Allianz Lanka announced its partnership with the National Federation of Sports for the Disabled, Sri Lanka, in October 2013. The local partnership places Sri Lanka in 13th position among the 70 countries in which the Company has its global network, that actively support the Paralympic partnership at a local level.

Allianz has partnered with the International Paralympic Committee (IPC) and the German National Committee (Deutscher Behindertensportverband, DBS) since 2006. The partnership supported the paralympic athletes to prepare for the Paralympic Games and promoted the goals and ideals of the Paralympic Movement. Then in 2011, Allianz stepped up its commitment and became the first "International Partner" of the IPC and a "National Supporter" of ten National Paralympic Committees (NPCs) at a national level. Allianz has extended and expanded its contract with the IPC until 2016. Allianz also provided support for

Sustainability Report *(Contd.)*

the Paralympic contingent to participate at the World Paralympic Athletic Games 2013 in Lyon, France.

This partnership enables Allianz to gain insights into the achievements, goals, and spirit of the Paralympic Movement. 'The Paralympic athletes' passion for what they do, their ambitions to achieve their goals and their ability to believe in themselves, mirror the Allianz work ethic. It was this that prompted our partnership...' explained Joe Gross, the Allianz Group Head of Market Management who was in Sri Lanka to affirm the local partnership.

A strong link exists between Allianz and the Paralympics because the paraliympic areas of health, rehabilitation and reintegration after a casualty are also areas in which Allianz provides support to its customers around the world. As an insurer, the Company understands that disability is an issue that concerns all people and could affect anybody, anytime, everywhere: "The paralympic athletes are a great source of inspiration for us," said Allianz Lanka's Chief Executive Officer, Surekha Alles, "their achievements in the face of personal adversity and perceived limitations, their commitment, determination and team spirit are an example to live by for all those of us who are more privileged."

The Paralympic slogan, "Motivation to move on. Strength to move up" serves as a guiding principle for all Allianz activities related not only to the Paralympics partnership but to other areas of business as well.

Allianz Lanka sponsors junior footballers to Germany and Thailand

Allianz Lanka provided a once- in- a- life time opportunity for four young Sri Lankan footballers to attend the Allianz Junior Football camps held in August in Germany and in June in Thailand in 2013. They were selected from among 400 applicants to represent Sri Lanka. The young footballers are Isuru Weerasinghe from Badulla Central College and Roshen Subash from Holy Cross College, Kalutara who attended the Football Camp in Munich, Germany, and Abdul Afrar from Jamaliya Central College, Trincomalee, and Ranju Silva from De Mazenod College, Kandana, who were selected for the coaching camp in Thailand.

The fifth annual Junior Football Camp in Munich welcomed 75 skilled young footballers from 25 countries. Allianz's long-standing partnership with FC Bayern Munich enabled the promising young footballers to attend the six day Football Camp to experience for themselves the fascinating world of professional football with FC Bayern Munich and the daily routines of their football heroes at the Bayern training ground in Säbener Straße. Participants followed football training with the official coaches of FC Bayern's youth teams at the club's training grounds and were taught several football drills to help improve their technique and skills. Intercultural events were also held to promote cultural harmony. Witnessing the 3-1 victory of FC Bayern vs. Borussia Mönchengladbach in the opening match of the new Bundesliga season at the Allianz Arena alongside 71,000 spectators, and a 'meet and greet' session with FC Bayern star players were the highlights of a memorable tour.

Isuru Weerasinghe from Sri Lanka

The conclusion of the training camp did not signal the end of the experience. International exchanges are continued on the “Football for life” homepage (www.football-for-life.com), All photos, videos and reports of the participants’ experiences are made available on this website and to the associated Facebook community (https://www.facebook.com/AllianzFootballforlife).

Over 267 young people aged between 14 and 16 have attended Allianz Junior Football Camps since 2009, which has created a legacy of international contacts and friendships worldwide.

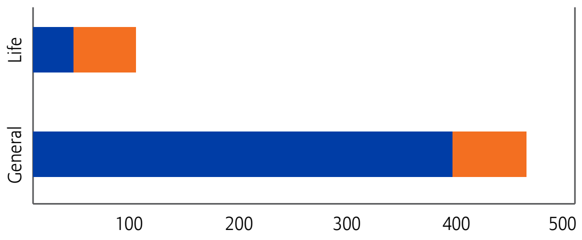
Human Capital

The overall objective of the human resources department is to facilitate the Company's business strategies by creating a performance- oriented culture which inspires and motivates staff to perform at optimum standards. In keeping with its vision, the Company also seeks to be the preferred employer for staff in the insurance industry at all times, and this drives human resources planning activities.

Staff Movements

With the opening of 18 new branches which total a network of 44 branches, several new staff joined the Allianz team this year. As at 31 December 2013 there was a total of 568 employees in both the Non Life and Life companies, of which 464 were male and 104 were female.

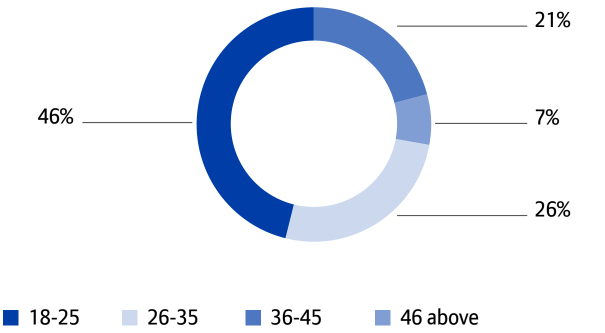
The cadre of the Life company was strengthened by 23 new employees and the cadre of the Non Life company by 376 employees.



	General	Life
Sales	337	13
Non Sales	39	10

The attrition rates for the year stood at 39% for sales staff and 23% for others.

In order to reduce the attrition rate for sales staff, actions were taken to improve the employee selection processes. The Allianz regional office in Singapore conducted a one day programme for senior management on smart interviewing skills techniques. The career progression scheme at different levels, which focuses on performance, has been shared with sales staff. Succession planning for senior roles and crucial positions will be a priority in 2014.



The Allianz human resources policy provides for the recruitment of candidates who are the most appropriate for open positions, using impartial, objective and internationally accepted selection measurements and evaluation methods. Recruitment and selection occurs both at entry level as well as for mid-career positions. The Company seeks to employ academically qualified and conceptually sound people possessing the right attitude for a committed long- term career and strictly abides by with the principles of equal opportunity in selection.

Human Capital *(Contd.)*

Diversity

The Company focuses on ensuring diversity and strives to have a healthy gender balance in its workforce. It has also launched a women's leadership programme spearheaded by the Allianz regional office in Singapore whereby career women in middle-management from the region are provided with leadership training. This programme is spread over 18 months.

During 2013, we nominated a member of our senior management team to participate in this programme. The programme provides for a senior mentor from the region who will guide and coach the nominated manager.

Succession Planning

Another focal area for human resources is to strengthen the talent pipeline in order to ensure smooth succession planning, particularly in critical roles. The programme provides for stretched assignments, training and exposure in any of the Allianz regional offices for those with identified potential. These succession plans are monitored by the Allianz regional office in Singapore.

Employee Engagement

The Company places great importance on employee engagement. With this in view, the human resources department pursues initiatives, one of which is the staff suggestions scheme. The scheme provides all staff with the opportunity to make suggestions to improve work- related aspects.

The Company has also launched the Directors Award to recognise staff who excel in their performance beyond the call of duty. The award is open to all staff below senior management and its significant feature is that any staff member can nominate a fellow employee with reasons justifying the nomination.

As in previous years, the Directors Award was presented at the Annual Sales Convention. It was won by Nadeeshani Bathalawatte – Operation Support Assistant, Polonnaruwa Branch. A cash prize as well as a fully-paid tour to Bangkok, Thailand, was awarded to her. In view of the significant contributions made by a few other staff, the committee also recognised the following: Lakshitha Fernando of Reinsurance Division as first runner-up, Asanka Perera of the Motor Division as second runner-up, Senani Karunanayake of Compliance Division as third runner-up and Nirmala Ranjan of the HR Division as fourth runner-up.

Employee Engagement Survey

The annual employee engagement survey plays a vital role in monitoring the pulse of staff. In 2013, 200 staff members participated in the global Allianz employee engagement survey, and its outcome has provided invaluable feedback to address perceived shortcomings. There are 16 areas covered in the survey, including communication, leadership effectiveness, manager effectiveness, learning and development, job roles, performance and compensation, diversity and customer focus. More subject areas were added this year to include work-life balance.

In 2013, the response rate of Allianz Lanka was 84% and areas that scored over 90% included manager effectiveness, customer focus, job satisfaction and team spirit.

The survey highlighted areas that need to be addressed in 2014 which included better sharing of the survey results among all levels of staff and more focused training and support for effective job performance.

Goals and Performance

The Allianz annual performance review captures the achievements of staff based on pre-set performance targets that are a combination of the Company's goals. Performance shortfalls are addressed through prompt corrective and preventive interventions to ensure that an effective and efficient performance management system is facilitated.

Human Capital *(Contd.)*

Allianz had over 70 different performance management systems in the past. Plans for the next year include implementation of a consistent standard throughout the Group to facilitate a single regional level of performance measurement.

The new performance management system will not only focus on the quantitative aspects (on what has to be done) but will also take into consideration the behavioral aspects (on how work gets done). The new plans have already been introduced to the management and the new system will be applied in 2014. The necessary training on the system will be provided to the rest of the staff next year, which will ensure that the new system will be applied throughout the Company by 2015.

A workshop was held for all senior managers on the new performance appraisal guidelines and format. In order to assist the managers to design objectives, a Job Objectives Library with specimen objectives of different divisions was created and provided.

Training and Development

The Company believes that a well trained human asset is a distinct competitive advantage for sustainable business performance. Hence, it is committed to employee training and development that will inspire staff with its own dynamic and innovative perspective whilst providing them with a satisfying and lucrative career within the insurance service sector. Ensuring job satisfaction, assisting career development and providing life-long learning are the fundamental pillars on which the Company has built its training and development strategy.

The Company is of the firm belief that developing its employees and providing the right training, development and education at the right time benefits the employer in terms of increased productivity, knowledge, loyalty and contribution.

All employees attended at least one training programme during the year, which is a total of 1160 training hours.

No of Training hours	1,160
No of Employees	568

Believing that 'a satisfied customer is a walking advertisement for business,' Allianz Lanka has given priority to conducting training in customer service for staff, including sales staff, to fine-tune their customer care skills.

With the large- scale recruitment of sales staff in 2013, more product knowledge training was provided to underwriting staff. Several staff were also given the opportunity of foreign training during the year. The staff who followed foreign training in 2013 numbered 26 and a total of 53 man days were expended on this training. Foreign training on risk management and underwriting was given to executive staff in Germany, Singapore and India which provided them with the required knowledge and skills to serve expanding requirements. A special training programme on competency-based interviewing techniques was conducted for all senior managers whose functions include interviewing prospective employees. The programme was conducted by resource persons from the Allianz Singapore regional office.

Other skills development workshops were conducted in-house for sales and non-sales staff to improve their skills in leadership and attitude.

Training programmes	No of Programmes
In-house training	9
Inductions	12
External training	9
Overseas training	26

Content

Allianz Insurance Lanka Ltd.
Financial Information

Allianz

Directors' Report

The Board of Directors of Alliance Insurance Lanka Limited has pleasure in presenting their Annual Report on the affairs of the Company together with the Audited Financial Statements and the Auditor's Report for the financial year ended 31 December 2013.

The Audited Financial Statements were approved by the Board of Directors on 28 February 2014.

Principal Activities

The Company underwrites Non 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

A review of business operations which includes details of the Company's development and performance is set out in the Financial Overview on Pages 9 to 15. The future developments of the Company are presented in the CEO's Review on pages 38 to 40. 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 maintaining an effective corporate governance structure and process and best practices. The systems and procedures are in place to ensure that corporate governance is adequately and practically dealt with. The Company complied with all applicable laws and regulations in conducting its business.

The management reports regularly and comprehensively to the Board of Directors on business development, the financial position and earnings, budgeting and the achievement of objectives, compliance issues, and strategy and existing risk exposure.

Compliance with Laws and Regulations

The Company has not engaged in any activities that contravene existing 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 valued-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. To achieve this, the Company has the following policies in place.

- 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 web-based anti-corruption and anti-fraud training known as the 'Blue Box.' A certificate on preventing corruption and fraud is awarded on successful completion.

Compliance will examine any suspected infringement of 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. The continuous review of risks that are faced by the company is done by the Risk Management Committee (RiCo) which 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 great 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 30 to 33.

Financial Statements

The Company's Financial Statements duly signed by the Directors are provided on pages 62 to 102 and the Auditors' Report on the Financial Statements is provided on page 61 of the Annual Report.

Earnings Summary

For the year ended 31 December	2013 Rs. '000	2012 Rs. '000
Gross Written Premium (GWP)		
Accident	751,060	444,132
Fire	769,686	868,110
Marine	79,918	33,120
Motor	503,927	176,101
Total GWP	2,104,591	1,521,463
Net earned premium	684,309	435,561
Underwriting profit	90,931	183,401
Profit before taxation	249,228	310,899
Taxation	(55,567)	(81,397)
Profit after taxation	193,661	229,502
Profit brought forward from the previous year	504,706	430,243
Dividend paid	(111,250)	(125,000)
Profit available for appropriation	616,707	534,706

Underwriting Results

The gross written premium grew significantly by 38 %, to Rs. 2,104 million, from Rs. 1,521 million last year.

The underwriting profit decreased to Rs. 91 million, from 183 million last year, due to an increase of operational costs as a result of the expansion of the branch network.

Financial Results

The Company recorded a net profit of Rs. 193 million (2012: Rs. 229 million).

Investments

The details of investments held by the Company are disclosed in Note 6 to the Financial Statements. The strategic assets allocation is derived in accordance with its associated risks and returns. The investments are closely monitored and reviewed by the Finance and Investment Committee (FiCo).

Asset Allocation by Class

As at 31 December	2013 Rs. '000	%	2012 Rs. '000	%
Sri Lanka				
Government securities	803,410	71	973,248	89
Fixed deposits	272,114	24	77,926	7
Corporate debentures	34,055	3	21,150	2
Unit trusts	20,000	2	26,227	2
Total	1,129,579	100	1,098,551	100

Property and Equipment

Details of property and equipment are given in Note 5 to the Financial Statements.

Solvency

The Statement of Solvency for Non Life Insurance has been prepared in accordance with the Solvency Margin (Non

Directors' Report *(Contd.)*

Life Insurance) Rules 2004 amended by the Extraordinary Gazette no. 1697/27 of 18 March 2011 and is disclosed below. The Company is well capitalised and is comfortably meeting its internal and regulatory solvency targets as of 31 December 2013.

	2013	2012
For the year ended 31 December	Rs. '000	Rs. '000
Value of admissible assets	1,975,504	1,539,171
Total liability including technical reserves	1,395,429	933,826
Net admissible assets	580,075	605,345
Required solvency margin	249,549	105,137
Excess over required solvency margin	2.32	5.76

Dividends

During the year, the Board of Directors declared and paid a dividend of Rs. 4.45 per share, totaling Rs. 111.25 million, to the shareholders.

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

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. 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 which 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 continue 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, 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 2013 was Rs. 250 million (2012: Rs. 250 million). There were no changes in the stated capital during the year.

The total equity of the Company as at 31 December 2013 amounted to Rs. 876 million (2012: Rs. 780 million). The movement of equity is shown in the Statement of Changes in Equity on page 64.

Directors

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

- Heinz Dollberg
- Surekha Alles
- Rangam Bir (appointed in July, 2013)

Directors' Report *(Contd.)*

Directors' Remuneration and Other Benefits

The CEO/Director's remuneration is decided by the Board taking into consideration 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 24).

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 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 has conducted the necessary reviews of the Company's financial position and corporate plans for the ensuing years and is satisfied it has adequate resources to continue its operations in the foreseeable future. Accordingly, the Financial Statements are prepared based on the going concern concept.

Related Party Disclosure

The Directors have disclosed transactions with related parties in terms of the Sri Lanka Accounting Standard LKAS 24- Related Party Disclosure in Note 23 Page 91 in the Financial Statements.

Event after Reporting Date

Details of events after the reporting dates are provided in Note 27 Page 91.

Capital Commitments

Details of the capital commitment for the year under review have been disclosed in Note 25 Page 91.

Contingencies

After due consultation with the Lawyers of the Company, the Directors are of the opinion that litigation currently pending against the Company would not have a material impact on the reported financial results of the Company. All pending litigation for claims have been evaluated and adequate provisions have been made in these Financial Statements, where necessary.

Auditors

The Financial Statements for the year ended 31 December 2013 have been audited by Messrs. KPMG Sri Lanka (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.

The Auditors do not have any relationship or interest in the Company other than those disclosed above.

A sum of Rs. 0.846 million (2012: Rs. 0.73 million) was paid to the Auditor as audit fees during the year under review

On behalf of the Board.

....	....
Heinz Dollberg	Surekha Alles
Director	Director

Secretaries to the Company
EM & EN Agents and Secretaries (Pvt) Limited
28 February 2014

28 February 2014

To the shareholders of Allianz Insurance Lanka Ltd

Allianz Insurance Lanka Ltd 31st December 2013 Net IBNR and LAT Certification

We hereby certify that the IBNR provision of Rs.24,658,314 is adequate in relation to the Claim Liability of Allianz Insurance Lanka Ltd as at 31st December 2013, net of reinsurance on a Central Estimate basis. This IBNR provision, together with the Case Reserve held by the Company, is expected to be adequate to meet the future liabilities in respect of the Company's reported claim obligations as at 31st December 2013, in many but not all scenarios of future experience.

At the end of each reporting period, companies are required to carry out a Liability Adequacy Test (LAT) as laid out in SLFRS 4. The LAT is performed to assess the adequacy of the carrying amount of the Unearned Premium Reserve (UPR). We hereby certify that the UPR provision of Rs.865,937,097 set by the Company, net of reinsurance, is adequate in relation to the unexpired risks of Allianz Insurance Lanka Ltd as at 31st December 2013, in many but not all scenarios of future experience. As such, there is no premium deficiency to be recognised by the Company.

Our results have been determined in accordance with internationally accepted actuarial principles.

We have relied upon information and data provided by the management of the Company and we have not independently verified the data supplied, beyond applying checks to satisfy ourselves as to the reasonability of the data.

Matthew Maguire (FIAA)
Fellow of the Institute of
Actuaries of Australia

Yuen Leng Chin (FIA)
Fellow of the Institute and
Faculty of Actuaries

For and on behalf of NMG Consulting
Dated 28 February 2014

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Independent Auditors' Report

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(Chartered Accountants)
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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 ("the Company"), which comprise the statement of financial position as at December 31, 2013, the statements of comprehensive income, changes in equity and cash flow for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory notes set out on pages 62 to 102 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, 2013 and the financial statements give a true and fair view of the financial position of the Company as at December 31, 2013, and of its financial performance and its cash flow for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

These financial statements also comply with the requirements of Section 151(2) of the Companies Act No. 07 of 2007. Pursuant to Section 47(2) of the Regulation of Insurance Industry Act No.43 of 2000, we also report, so far as appears from our examination, proper accounting records have been maintained as required by the relevant rules made by the Insurance Board of Sri Lanka.

KPMG

Chartered Accountants
Colombo , Sri Lanka
28th February 2014

Allianz Insurance Lanka Ltd.

Statement of Financial Position

As at 31 December	Notes	2013 Rs. '000	2012 Rs. '000
Assets			
Intangible assets	4	46,884	24,870
Property plant and equipment	5	63,563	34,999
Financial investments	6	1,129,579	1,098,551
Reinsurance receivable on outstanding claims		120,569	43,548
Reinsurance receivable on settled claims		342,595	217,500
Premium receivable	7	897,033	451,657
Other assets	8	60,187	35,070
Deferred tax assets	21b	8,906	7,616
Cash and cash equivalents	9	57,899	56,250
Total Assets		**2,727,215**	**1,970,061**
Equity and Liabilities			
Equity			
Stated capital	10	250,000	250,000
Fair value reserves		8,803	(4,421)
Revenue reserves	11	616,707	534,706
		875,510	**780,285**
Liabilities			
Insurance liabilities	12	1,130,653	529,878
Employee benefits	13	8,169	5,890
Reinsurance creditors		451,751	469,908
Other liabilities	14	198,155	168,117
Bank overdraft		62,976	15,983
Total Liabilities		**1,851,705**	**1,189,776**
Total Equity and Liabilities		**2,727,215**	**1,970,061**

The above Statement of Financial Position is to be read in conjunction with the Notes to the Financial Statements on pages 5 to 27

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.

Heinz Dollberg
Director

Surekha Alles
Director

28th February 2014

Statement of Comprehensive Income

For the year ended 31 December	Notes	2013 Rs. '000	2012 Rs. '000
Gross written premium	15(a)	2,104,591	1,521,463
Premiums ceded to reinsurers		(717,163)	(876,244)
Compulsory cession to NITF		(139,684)	(119,534)
Net Written Premium	**15(b)**	**1,247,744**	**525,685**
Net change in reserve for unearned premium		(563,435)	(90,124)
Net Earned Premium		**684,309**	**435,561**
Other Revenue			
Investment income	16	131,113	113,823
Realized gains/(losses)		13,026	13,614
Other operating revenue		14,158	61
		158,297	**127,498**
Net Income		**842,606**	**563,059**
Gross benefits and claims paid		(533,928)	(322,545)
Claims ceded to reinsurers		231,384	169,786
Gross change in contract liabilities		(92,968)	222
Change in contract liabilities ceded to reinsurers		77,673	(11,300)
Net benefits and claims	**17**	**(317,839)**	**(163,837)**
Underwriting and net acquisition costs	18	121,337	163,639
Other operating and administrative expenses	19	(394,809)	(250,902)
Finance costs		(2,067)	(1,060)
Other expenses		**(275,539)**	**(88,323)**
Profit before tax	20	249,228	310,899
Income tax expense	21	(55,567)	(81,397)
Profit for the year		**193,661**	**229,502**
Earnings per share	**22**	**7.75**	**9.18**
Other Comprehensive Income			
Profit for the year		193,661	229,502
Actuarial gains/(losses) on defined benefit plan	13	(570)	(54)
Tax on other comprehensive income	21(b)	160	15
Fair value gains/(losses) on available for sale of investments		13,224	4,079
		12,814	**4,040**
Total Comprehensive Income for the Year		**206,475**	**233,542**

The above Statement of Comprehensive Income is to be read in conjunction with the Notes to the Financial Statements on pages 5 to 27.

Statement of Changes in Equity

For the year ended 31 December

	Stated Capital Rs.'000	Revenue Reserves Rs.'000	Fair value Reserves Rs.'000	Total Rs.'000
Balance as at 1 January 2012	**250,000**	**430,243**	**(8,500)**	**671,743**
Net profit for the year		229,502		229,502
Fair value adjustment for AFS investments			4,079	4,079
Actuarial gains/(losses) on retirement benefits		(39)		(39)
Total comprehensive income		**229,463**	**4,079**	**233,542**
Dividend paid		(125,000)		(125,000)
Balance as at 31 December 2012	**250,000**	**534,706**	**(4,421)**	**780,285**
Net profit for the year		193,661		193,661
Fair value adjustment for AFS investments			13,224	13,224
Actuarial gains/(losses) on retirement benefits		(410)		(410)
Total comprehensive income		**193,251**	**13,224**	**206,475**
Dividend paid		(111,250)		(111,250)
Balance as at 31 December 2013	**250,000**	**616,707**	**8,803**	**875,509**

The above Statement of Changes in Equity is to be read in conjunction with the Accounting Policies and Notes to the Financial Statements on pages 5 to 27.

Statement of Cash Flows

For the year ended 31 December

	2013 Rs. '000	2012 Rs. '000
Cash Flow From Operating Activities		
Premium received from customers	1,659,214	1,450,207
Reinsurance premium paid	(598,982)	(784,405)
Claims paid	(534,964)	(313,158)
Reinsurance receipts in respects of claims	93,602	231,404
Cash paid to and behalf of employees	(143,637)	(82,054)
Operating cash payments	(334,394)	(223,248)
Cash inflow/(outflow) from operating activities (Note A)	**140,839**	**278,746**
Employees benefit Paid	(210)	-
Tax Paid	(97,016)	(56,934)
Net cash flow from operating activities	**43,613**	**221,812**
Cash Flow From Investing Activities		
Purchase of investments	(8,638,293)	(7,063,696)
Proceeds on sale of investment	8,639,112	6,952,066
Purchase of intangible assets	(41,039)	(24,608)
Purchase of property and equipment	(49,981)	(34,087)
Interest income received	112,494	117,835
Proceeds on sale of property and equipment	-	-
Net cash flow from investing activities	**22,293**	**(52,490)**
Net Cash Flow Before Financing Activites	**65,906**	**169,322**
Cash Flow From Financing Activities		
Dividend paid	(111,250)	(125,000)
Net cash flow from financing activities	**(111,250)**	**(125,000)**
Net Increase / (decrease) in Cash and Cash Equivalents (Note B)	**(45,344)**	**44,322**

Cash Flow Statement *(Contd.)*

For the year ended 31 December

	2013 Rs. '000	2012 Rs. '000
A. Reconciliation of Operating Profit with Cash Flow from Operating Activities		
Profit before taxation	249,228	310,899
Depreciation charge	21,417	18,109
Provision for employee benefits	1,919	1,724
Amortization of intangible assets	19,025	9,860
Interest and other income	(131,114)	(113,823)
Increase in debtors	(672,609)	6,487
Increase in unearned premiums and deferred acquisition costs	508,843	104,247
Increase / (decrease) in claims provisions	91,932	(43,022)
Increase / (decrease) in creditors and accruals	52,198	(15,735)
Cash inflow / (outflow) from operating activities	**140,839**	**278,746**
Employee benefit Paid	(210)	-
Tax paid	(97,016)	(56,934)
Net Cash inflow /(Outflow) From Operating Activities	**43,613**	**221,812**
B. Net Increase / (Decrease) in Cash and Cash Equivalents		
Cash in hand and at bank	57,899	56,250
Bank overdraft	(62,976)	(15,983)
Net cash and cash equivalents closing balance	(5,077)	40,267
Net cash and cash equivalents opening balance	40,267	(4,055)
Net Increase / (Decrease) in Cash and Cash Equivalents	**(45,344)**	**44,322**

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 are 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 Non Life insurance business in January 2005.

1.2. Principal Activity

The Company is engaged in the business of underwriting Non Life Insurance.

2. BASIS OF PREPARATION

2.1. Basis of Measurement

The Financial Statements of the Company which comprise the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows and Notes thereto have been prepared in accordance with the Sri Lanka Accounting Standards (SLFRSs) laid down by the Institute of Chartered Accountants of Sri Lanka, and comply with the requirements of Companies Act No.7 of 2007.

2.2. Date of Authorisation of Issue

The Financial Statements of Allianz Insurance Lanka Ltd., for the year ended 31 December 2013 were authorised for issue in accordance with a resolution of the Board of Directors on 28 February 2014.

2.3. Functional and Presentation Currency

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

2.4. Use of Estimates and Judgements

The preparation of Financial Statements in conformity with SLFRS 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 critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements are included in the following notes.

Critical Accounting Estimate/Judgment	**Disclosure Note**	**Reference Page**
Unearned premium	12a	85
Deferred acquisition cost	12b	86
Provision for gross outstanding claims	12c	86
Provision for IBNR/IBNER	12d	86
Employee benefits	13	87
Deferred taxation	21b	90

Notes to the Financial Statements *(Contd.)*

2.4.1. Insurance Contract Liabilities- Non Life Insurance

Non Life Insurance contracts and estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported at the reporting date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty. The main assumption underlying estimating the amounts of outstanding claims is the past claims development experience.

2.5. Materiality and Aggregation

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

2.6. Foreign Currency Transactions

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

Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated to the functional currency at the exchange rate at that date. Non- monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on re-translation are recognised in the Statement of Comprehensive Income.

3. SIGNIFICANT ACCOUNTING POLICIES

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

3.1. Assets and Liabilities and Basis of their Valuation

3.1.1. Intangible Assets

Software

(a) Basis of Recognition

An Intangible Asset is recognised if it is probable that future economic benefits that are attributable to the asset will flow to the Company and the cost of the asset can be measured reliably.

Software acquired by the Company is stated at cost less accumulated amortisation and accumulated impairment losses.

(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 Comprehensive Income as incurred.

(c) Amortisation

Amortisation is recognised in the Statement of Comprehensive Income on a straight line basis over the estimated useful life of the software from the date that it is available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software is three years.

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted as appropriate.

Notes to the Financial Statements *(Contd.)*

(d) De-recognition

An intangible asset is de-recognised on disposal or when no future economic benefits are expected from it. The gain or loss arising from de-recognition of such intangible assets is included in the Statement of Comprehensive Income when the item is derecognised.

3.1.2. Property Plant and Equipment

(a) Basis of Recognition

Property, plant and equipment are tangible items that are held for servicing, or for administrative purposes, and are expected to be used during more than one year.

Property, Plant and Equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the asset can be measured reliably.

(b) Measurement

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and cost incurred subsequently to add to or replace a part of it. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring them at the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as a part of computer equipment.

(c) Gains and losses on disposal

Gains and losses on disposal of an item of property, plant 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 the Statement of Comprehensive Income.

(d) Subsequent Costs

The cost of replacing a part of an item of plant 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 day-to-day servicing of Property, Plant and Equipment is charged to the Statement of Comprehensive Income as incurred.

(e) Depreciation

Depreciation is calculated over the depreciable amount which is the cost of an asset or other amount substituted for cost less its residual value.

Depreciation is recognised in profit and loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Depreciation of an asset begins when it is available for use and ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised.

The depreciation method, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate. The estimated useful lives for the current and comparative periods are as follows:

	2013	**2012**
Office equipment	3 Years	3 Years
Computer equipment	3 Years	3 Years
Furniture and fittings	5 Years	5 Years
Motor vehicles	5 Years	5 Years

(f) De-recognition

The carrying amount of an item of property, plant and equipment is de-recognized on disposal or when no future economic benefits are expected from it. The gain or loss arising on de-recognition of an item of Property, Plant and Equipment are included in the Statement of Comprehensive Income when the item is de-recognised.

3.1.3. Leased Assets – Lessee

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement at the inception date.

3.1.4. Operating Leases

Leases that do not transfer to the Company substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the Statement of Comprehensive Income on a straight line basis over the lease term.

3.1.5. Financial Instruments

3.1.5.1. Non-derivative financial assets

(a) Initial recognition and subsequent measurement

The Company initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when and only when the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Company has the following non-derivative financial assets:

Loans and Receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method less any impairment losses.

Loans and receivable comprise trade and other receivables including related party receivables.

Available-for-sale Financial Assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the above categories of financial assets. Available for sale financial assets are recognised initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, they are measured at fair value and changes therein other than impairment losses and foreign currency differences on available-for-sale debt instruments are recognised in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

Available-for-sale financial assets comprise equity securities and debt securities.

3.1.5.2. Non-derivative Financial Liabilities

The Company initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expires.

Financial assets and liabilities are offset and the net amount presented in the Statement of Financial Position when and only when the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Company has the following non-derivative financial liabilities: bank overdrafts, and trade and other payables. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

3.1.5.3. Impairment

(a). Non derivative Financial Assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security.

The Company considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through Statement of comprehensive income.

(b) Non-financial Assets

The carrying amounts of the Company's non-financial assets other than deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continued use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in comprehensive income. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

In respect of assets other than good will, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.2. Deferred Acquisition Cost

The costs of acquiring new businesses including commissions which vary with and directly relate to production of new businesses are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred. Subsequent to initial recognition, DAC for Non Life insurance is amortised over the period on the basis UPR is amortised

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period and are treated as a change in an accounting estimate.

DAC are derecognised when the related contracts are either expired or cancelled.

3.3. Reinsurance

The Company cedes insurance risk in the normal course of business to recognised reinsurers through formal reinsurance arrangements.

Reinsurance assets represent 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.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recorded in the Income Statement.

Premiums and claims are presented on a gross basis for ceded reinsurance.

Reinsurance assets are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Reinsurance Commissions

Commissions receivable on outward reinsurance contracts are deferred and amortised over the period in which the related written premiums are earned.

3.4. Premiums Receivable

Premiums receivable are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable with the impairment loss recorded in the Income Statement.

Notes to the Financial Statements *(Contd.)*

3.5. Other Receivables

Other receivables and dues from Related Parties are recognised at cost.

3.6. 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 Statement of Cash Flows.

3.7. Liabilities and Provisions

3.7.1 Insurance Contract Liabilities

3.7.1.1 Non Life Insurance Contract Liabilities

Non life insurance contract liabilities are recognised when contracts are entered into and premiums are charged. These liabilities known as the Policy Liability provisions include the premium and claim liabilities. The premium liabilities relate to policies for which the premium has been received but the exposure has not fully expired, while the claim liabilities relate to claims that have been incurred but not yet settled.

The provision for unearned premiums represents premiums received for risks that have not yet expired. Generally the reserve is released over the term of the contract and is recognised as premium income. At each reporting date the Company reviews its unexpired risk and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. If these calculations show that the carrying amount of the unearned premiums (less related deferred acquisition costs) is inadequate, the deficiency is recognised in the Income Statement by setting up a provision for liability adequacy.

The claim liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the Balance Sheet date, whether reported or not, with a reduction for the expected value of salvage and other recoveries.

Delays can be experienced in the notification and settlement of claims, therefore the ultimate cost of these cannot be known with certainty at the Balance Sheet date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

3.7.1.2 Liability Adequacy Test

At each reporting date the Company reviews its unexpired risk and a liability adequacy test is performed as laid out under SLFRS 4 to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to relevant Non Life insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums (less related deferred acquisition costs) is inadequate, the deficiency is recognised in the Income Statement by setting up a provision for liability adequacy.

3.7.2 Employee Benefit Obligation

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 LKAS 19 - Employee Benefits.

The assumptions based on which the results of the actuarial valuation was determined, are included in note 13 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 five years of continued service with the Company.

The provision is not externally funded.

The Company recognises all actuarial gains and losses arising from defined benefit plans in other comprehensive income and expenses related to defined benefit plans in personnel expenses in profit or loss.

3.7.3 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 the Provident Fund Act no. 15 of 1958 as amended and the Trust Fund under the Trust Fund Act no. 46 of 1980 covering all employees, are recognised as an employee benefit expense in profit and loss when they are due.

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

3.7.4 Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

3.8. Revenue Recognition

3.8.1. Gross Written Premiums

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

3.8.2. Reinsurance Premiums

Reinsurance premium expense is recognised in the same accounting period as the gross written premium to which it relates or in accordance with the pattern of reinsurance services received.

3.8.3. Unearned Premium Reserve

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.

3.8.4. Investment Income

Interest income is recognised in the income statement as it accrues and is calculated by using the effective interest rate method. Fees and commissions that are an integral part of the effective yield of the financial asset or liability are recognised as an adjustment to the effective interest rate of the instrument.

3.8.5. Realised Gains and Losses

Realised gains and losses recorded in the Statement of Income on Investments include gains and losses on financial assets. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortized cost and are recorded on occurrence of the sale transaction.

3.8.6. Other Income

Other income is recognised on an accrual basis.

3.9. Benefits, Claims and Expenses Recognition

3.9.1. Gross benefits and claims

Gross benefits and claims for General insurance include all claims occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Claims expenses and liabilities 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 claims (IBNR), Incurred But Not Enough Reserved(IBNER) and the anticipated direct and indirect costs of settling those claims. Claims outstanding are assessed by review of individual claim files and estimating changes in the ultimate cost of settling claims. The provision in respect of IBNR, IBNER is actuarially valued on an annual basis to ensure a more realistic estimation of the future liability based on past experience and trends.

While the directors consider that the provision for claims is fairly stated on the basis of information currently available, the ultimate liability will vary as a result of subsequent information and events. This may result in adjustment to the amounts provided. Such amounts are reflected in the financial statements for that period. The methods used and the estimates made are reviewed regularly.

3.9.2. Reinsurance Claims

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

3.10. Expenditure Recognition

(a) Expenses are recognised in the Statement of Income on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant 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.

3.11. Taxation

3.11.1. Current Taxes

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date and any adjustments to tax payable in respect of previous years.

3.11.2. 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 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.

3.12. Stated Capital

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

3.13. 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.

3.14. Cash Flow Statement

The Cash Flow Statement has been prepared using the direct method. Interest received, interest paid and dividend received are classified as operating cash flows while dividends paid is classified as financing cash flow.

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

3.15. Commitments and Contingencies

Contingencies are possible assets or obligations that arise from a past event and would be concerned only with the occurrence or non-occurrence of uncertain future event, which are beyond the Company's control. Contingent liabilities are disclosed in Note 26 to the Financial Statements. Commitments are disclosed in note 25 to the Financial Statements.

3.16. Events Occurring after the Reporting Date

All material post Balance Sheet events have been considered and where appropriate, adjustments or disclosures have been made in Note 27 to the Financial Statements.

3.17. Proposed Dividends

Dividend proposed / declared by the Board of Directors after the reporting date is not recognised as a liability and is disclosed as a note to the Financial Statements.

3.18. Comparative Information

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

3.19. Financial Risk Management

Overview

The Company has exposure to the following risks from its use of financial instruments

- Credit risk
- Liquidity risk
- Market risk
- Operational risk.

This note presents information about the Company's exposure to each of the above risks, the company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these Financial Statements.

Risk Management Framework

The management has the overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit Risk

Credit risk is counter-party default risk, and includes the risk of failure of financial institutions with which the Company has placed deposits/investments to meet obligations and the failure of reinsurers to meet claims when they fall due. It also includes the risk of default by policyholders on premium receivable, and failure of employees to meet loans provided by the Company.

In addition to strict limits on single counter-party exposure, the Company follows a prudent credit policy which limits its investments to high-grade corporate credit in line with the Allianz Group policy, and above the regulatory minimum criteria. Single counter-party exposure is monitored on a monthly basis by the CRO, and any deviations require special approval. The Company's investment approach is also guided and monitored by Allianz Insurance Management Singapore as per Allianz Group policies on investment.

Credit risk to external reinsurers appears when insurance risk exposures are transferred by the Company to external reinsurance companies to mitigate insurance risk. Potential losses can arise either due to non-recoverability of reinsurance receivables already present or default on benefits that are under reinsurance treaties in force. The Company's exposure to reinsurance risk is minimal as the majority of reinsurance is placed with Allianz Re, and with reinsurers with strong credit ratings approved by the Group.

Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments. The table below summarises the maturity profile of the financial assets of the Company based on their market value. The Company maintains a portfolio of highly marketable securities that can be easily liquidated in the event of an unforseen interruption of cash flow. Some of the specific actions by the Company to mitigate the liquidity risk are shown below;

- Cash outflows identified in advance are matched through short term deposits.

- The Company maintains a foreign currency deposit which can be liquidated in the event of unexpected cash outflows.

Notes to the Financial Statements *(Contd.)*

Market Risk

Market risk refers to the risk of possible adverse movements in the values of assets due to changes in market factors including interest rates, foreign exchange rates and equity prices. The current uncertainties in the local and international markets and investment climate have increased the degree of impact of market risk to the Company.

Market risk is an aggregation of,
a. Interest rate risk
b. Currency risk

(a) Interest Rate Risk

Interest rate risk is the risk of interest rate volatility adversely affecting the market value of the investment portfolio. In an increasing interest rate environment, there will be a drop in the value of treasury bills and bonds when they are marked-to-market. The Company monitors its interest rate risk on a monthly basis by analysing the movement in the interest rate sensitive asset duration, the allocation to interest-rate sensitive assets, and the sensitivity of interest rate movements on the solvency margin. The report is reviewed by the local CRO and the Allianz Asia Pacific Risk Team.

(b) Currency Risk

The risk of fluctuation of fair values or future cash flows of a financial instrument due to a change in exchange rates is referred to as currency risk.

The Company's principal transactions are carried out in Sri Lankan Rupees and hence, its exposure to foreign exchange risk arises primarily with respect to the US Dollar and Euro denominated assets maintained in order to honour liabilities of foreign currency denominated insurance policies sold in the ordinary course of business. However, no material liabilities were recorded on foreign currency denominated policies as at the reporting date.

(c) Operational Risk

This is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior.

Operational failures could result in dire consequences such as producing misleading financial information, loss of return, financial penalties from regulators or damage to the reputation of the Company. Operational risks arise from all operations of the Company.

While it is acknowledged that the Company cannot eliminate all operational risks, it is in a position to manage such risks by initiating a rigorous control framework and by monitoring and responding to potential risks.

The Company's Risk Management Team assesses all foreseeable risk involved in its operation and they develop and implement action plans to control those identified operational risk. These action plans recommended by the team are to manage the operational risk in the following areas:

- requirements for having appropriate segregation of duties including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- Risk mitigation including insurance where this is cost effective.

3.20. New Accounting Standards Issued But Not Effective as at the Reporting Date.

The Institute of Chartered Accountants of Sri Lanka has issued the following new Sri Lanka Accounting Standards which will become applicable for financial periods beginning on or after 1 January 2014/ 2015.

Accordingly, these Standards have not been applied in preparing these Financial Statements.

3.20.1. Sri Lanka Accounting Standard - SLFRS 13, "Fair Value Measurement"

The objective of this standard is to define the fair value, set out a framework for measuring fair value and finally, to identify the disclosure requirements in respect of fair value in a single SLFRS.

This SLFRS shall be applied prospectively as of the beginning of the annual period in which it is initially applied. The disclosure requirements of this SLFRS need not be applied in comparative information provided for periods before initial application of this SLFRS.

The Company has started the process of evaluating the potential effect of this. Although many of the SLFRS 13 disclosure requirements regarding financial assets and financial liabilities are already required, the adoption of SLFRS 13 will require the Company to provide additional disclosures. Given the nature of the Company's operations, this standard is not expected to have a pervasive impact on the Company's Financial Statements.

Notes to the Financial Statements *(Contd.)*

This SLFRS will become effective from 1 January 2014.

3.20.2. Sri Lanka Accounting Standard – SLFRS 9 "Financial Instruments"

The objective of this SLFRS is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.

An entity shall apply this SLFRS to all items within the scope of LKAS 39 Financial Instruments: Recognition and Measurement.

The mandatory effective date of IFRS 9 is deferred until at least 2017 by IASB. Therefore, having considered the decisions taken internationally, the Institute of Chartered Accountants of Sri Lanka has also decided to defer the mandatory effective date of SLFRS 9 which is in line with IFRS 9.

The extent of the impact of the above standard to the Financial Statements has not been determined as at 31 December 2013. None of these is expected to have a significant effect on the Financial Statements of the Company.

Notes to the Financial Statements *(Contd.)*

4 Intangible Assets

	2013 Rs.'000	2012 Rs.'000
Acquisition cost		
Balance as at 1 January	57,643	33,035
Additions	41,039	24,608
Balance as at 31 December	**98,682**	**57,643**
Amortisation		
Balance as at 1 January	32,773	22,913
Amortisation charge for the year	19,025	9,860
Balance as at 31 December	**51,798**	**32,773**
Carrying Amount as at 31 December	**46,884**	**24,870**

Intangible assets represent the cost of acquisition (Rs.31.5 million) of an Insurance Management System from Data Quest S.A.L and a HR system (Rs.1.5 million). The assets have been amortised during the period as per the LKAS 37- Intangible Assets

5 Property, Plant and Equipment

	Office equipment Rs.'000	Furniture & fittings Rs.'000	Computer equipment Rs.'000	Motor vehicles Rs.'000	Total Rs.'000
Cost					
Balance as at 1 January 2013	10,643	19,900	58,844	10,250	99,637
Additions during the year	13,211	19,990	6,983	9,797	49,981
Disposals	-	-	-	-	-
Balance as at 31 December 2013	**23,854**	**39,890**	**65,827**	**20,047**	**149,618**
Depreciation					
Balance as at 1 January 2013	7,027	10,669	37,898	9,044	64,638
Depreciation charge for the year	3,731	5,338	10,971	1,377	21,417
Balance as at 31 December 2013	**10,758**	**16,007**	**48,869**	**10,421**	**86,055**
Carrying Amount					
Balance as at 31 December 2013	13,096	23,883	16,958	9,626	63,563
Balance as at 31 December 2012	3,616	9,231	20,946	1,206	34,999

Notes to the Financial Statements *(Contd.)*

6 Financial Investments

	2013		2012	
	Rs.'000 Cost of Investment	Rs.'000 Carrying Value	Rs.'000 Cost of Investment	Rs.'000 Carrying Value
Available for sale financial assets (6a)	784,094	823,410	962,624	999,475
Loans and receivables (6b)	268,000	306,169	89,205	99,076
	1,052,094	**1,129,579**	**1,051,829**	**1,098,551**
6a. Available for Sale Financial Assets				
Sri Lanka government securities	764,094	803,410	937,624	973,248
Unit trust	20,000	20,000	25,000	26,227
	784,094	**823,410**	**962,624**	**999,475**
6b. Loans and Receivable				
Fixed deposit	235,000	272,114	69,205	77,926
Corporate debentures	33,000	34,055	20,000	21,150
	268,000	**306,169**	**89,205**	**99,076**

7 Premium Receivable

	2013 Rs.'000	2012 Rs.'000
Premium receivable	924,833	480,657
Provision for bad debts	(27,800)	(29,000)
Premium receivable net of provision	**897,033**	**451,657**

8 Other Assets

	2013 Rs.'000	2012 Rs.'000
Other debtors and receivables	54,788	28,943
Staff Loan and Advance	138	264
Prepaid Cost on Staff Loan	-	55
Amounts due from Allianz Life Insurance Lanka Ltd.	5,261	5,808
	60,187	**35,070**

Notes to the Financial Statements *(Contd.)*

9 Cash and Cash Equivalents

	2013 Rs.'000	2012 Rs.'000
Cash in hand	4,608	17,162
Cash at bank	53,291	39,088
	57,899	**56,250**

10 Stated Capital

	2013 Rs.'000	2012 Rs.'000
Balance as at 1 January	250,000	250,000
Issued during the year	-	-
25,000,000 fully paid ordinary shares	**250,000**	**250,000**

11 Revenue Reserves

	2013 Rs.'000	2012 Rs.'000
Balance as at 1 January	534,706	430,243
Profit for the year	193,661	229,502
Actuarial gains/(losses) on retirement benefits	(410)	(39)
Dividend paid	(111,250)	(125,000)
Balance as at 31st December	**616,707**	**534,706**

12 Insurance Provision - Non Life

	2013 Rs.'000	2012 Rs.'000
Reserve for net unearned premium (12a)	865,937	302,502
Reserve for net deferred acquisition cost (12b)	50,901	105,493
Reserve for gross outstanding claims (12c)	180,862	100,743
Reserve for IBNR (12d)	32,953	21,140
	1,130,653	**529,878**

12a Reserve for Net Unearned Premium

	2013 Rs.'000	2012 Rs.'000
Balance as at 1 January	302,502	212,378
Transfers during the year	563,435	90,124
Balance as at 31 December	**865,937**	**302,502**

Notes to the Financial Statements *(Contd.)*

12b Reserve for Net Deferred Acquisition Cost

	2013 Rs.'000	2012 Rs.'000
Balance as at 1 January	105,493	91,370
Transfers during the year	(54,592)	14,123
Balance as at 31 December	**50,901**	**105,493**

12c Reserve for Gross Claims Outstanding

	2013 Rs.'000	2012 Rs.'000
Balance as at 1 January	100,743	91,578
Transfers during the year	707,015	331,488
Claims approved during the year	(626,896)	(322,323)
Balance as at 31 December	180,862	100,743

12d Reserve for IBNR

	2013 Rs.'000	2012 Rs.'000
Balance as at 1 January	21,140	73,327
Transfers during the year	11,813	(52,187)
Balance as at 31 December	32,953	21,140

12e Reconciliation between Insurance Provision and Technical Reserve

	2013 Rs.'000	2012 Rs.'000
Non Life insurance provision	1,130,653	529,878
Reinsurance receivables on claims outstanding	(120,569)	(43,548)
Technical Reserve	1,010,084	486,330

The Non-Life insurance technical reserve of Rs. 1,010 million as at 31 December 2013 includes the provision of IBNR claims of Rs. 33 million that has been certified by independent consultants actuaries NMG Consulting Singapore. According to the actuaries certificate dated 28 February 2014 the IBNR reserve as at 31 December 2013 is Rs. 33 million.

Notes to the Financial Statements *(Contd.)*

13 Employee Benefits

	2013 Rs.'000	2012 Rs.'000
Balance as at 1 January	5,890	4,112
Current service cost	1,472	1,313
Interest cost	447	411
Actuarial gains/(losses) on defined benefit plan	570	54
Payments during the year	(210)	-
Balance as at 31 December	**8,169**	**5,890**

As at 31 December 2013, 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 .

Movement in the Present Value of the Defined Benefit Obligations

	2013 Rs.'000	2012 Rs.'000
Opening net liability	5,890	4,112
Expense recognised in P&L	1,919	1,724
Expense/(Income) Recognised in the statement of OCI	570	54
Benefit paid	(210)	
Closing Net Liability	8,169	5,890

Actuarial Assumptions

Principal Actuarial Assumptions as at the reporting date expressed as weighted averages were

	2013	2012
Discount rate per annum	10%	11%
Future salary Increment rate per annum	12%	12%
Normal retirement age	55 years	55 & 60 years
Attrition rate	For 0 Yrs to 4 Yrs 25% and 5 Yrs and above 2%	For 0 Yrs to 4 Yrs 25% and 5 Yrs and above 2%
Mortality table	Indian Assured lives Mortality (2006-2008) ultimate	LIC (1994-96) Ultimate

Notes to the Financial Statements *(Contd.)*

14 Other Liabilities

	2013 Rs.'000	2012 Rs.'000
Agency commission payable	101,012	33,034
Government levies	58,224	35,552
Tax payable	16,785	56,053
Other creditors and accrued expenses	22,134	43,478
	198,155	168,117

15 Gross Premiums on Insurance Contracts

	2013 Rs. '000	2012 Rs. '000
15a Gross written premium		
Accident	751,060	444,132
Fire	769,686	868,110
Marine	79,918	33,120
Motor	503,927	176,101
	2,104,591	1,521,463
Premium ceded to reinsurers	(717,163)	(876,244)
Compulsory Cession to NITF	(139,684)	(119,534)
15b Net Written Premium	1,247,744	525,685

16 Interest Income from AFS Investments

Interest income	**131,113**	**113,823**

17 Net Insurance Claims and Benefits

Gross Benefits and claims paid	2013 Rs. '000	2012 Rs. '000
Accident	171,216	165,934
Fire	269,795	19,008
Marine	34,492	11,374
Motor	151,395	73,820
	626,898	270,136
Reinsurance recoveries	(309,059)	(106,299)
	317,839	**163,837**

Notes to the Financial Statements *(Contd.)*

18 Underwriting and Net Acquisition Cost

	2013 Rs. '000	2012 Rs. '000
Net policy acquisition cost	66,744	177,763
Increase/(decrease) in deferred acqusition expenses	54,593	(14,124)
	121,337	**163,639**

19 Operating and Administration Expenses

	2013 Rs. '000	2012 Rs. '000
Staff expenses (19a)	241,366	117,508
Administration and establishment expenses	68,161	70,610
Selling expenses	39,667	32,810
Depreciation	21,417	18,109
Amortisation	19,025	9,860
Nations building tax	5,173	2,005
	394,809	250,902

19a Staff Expenses

	2013 Rs. '000	2012 Rs. '000
Wages and salaries	100,074	42,196
EPF and ETF (19b)	13,868	6,389
Provision for employee benefits (13)	1,919	1,724
Staff welfare	4,168	4,632
Training expenses	1,637	2,700
Other costs	119,700	59,867
	241,366	117,508

19b Contributions Made to the Provident and Trust Funds

	2013 Rs. '000	2012 Rs. '000
Provident fund	11,094	5,068
Trust fund	2,774	1,321
	13,868	6,389

19c Number of Employees

	2013	2012
As at the end of the financial year	476	214

Notes to the Financial Statements *(Contd.)*

20 Profit Before Taxation

	2013 Rs. '000	2012 Rs. '000
Profit before tax for the year is stated after charging the following expenses		
Depreciation	21,417	18,109
Legal fees	135	146

21 Tax Expenses

	2013 Rs. '000	2012 Rs. '000
Current Tax Expense		
Current period (21a)	56,698	83,938
Social responsibility levy	-	-
Deemed dividend tax provision/(reversal)	-	-
Deferred tax expense		
Reversal and origination of temporary differences (21b)	(1,131)	(2,541)
Income tax expense from continuing operations	55,567	81,397
Total income tax expense	55,567	81,397

21a Current Income Tax Expense

	2013 Rs. '000	2012 Rs. '000
Accounting profit	249,228	310,899
Aggregate disallowed items	42,582	47,447
Aggregate allowable expenses	(41,978)	(23,903)
Aggregate exempt income	(47,340)	(34,666)
Taxable profit	202,492	299,777
Statutory tax rate	28%	28%
Current income tax expense	56,698	83,938

21b Recognised Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2013 Rs.'000	2012 Rs.'000	2013 Rs.'000	2012 Rs.'000	2013 Rs.'000	2012 Rs.'000
Property, plant and equipment		1,388	(1,165)	-	(1,165)	1,388
Employee benefits	2,287	1,649	-	-	2,287	1,649
Provisions	7,784	4,579	-	-	7,784	4,579
Net tax (assets) / liabilities	10,071	7,616	(1,165)	-	8,906	7,616
Reversal and (origination) of temporary differences					(1,290)	(2,556)

Analysis of Deferred Tax Assets

	2013 Temporary difference Rs. '000	2013 Tax Rs. '000	2012 Temporary difference Rs. '000	2012 Tax Rs. '000
Property, plant and equipment	(4,159)	(1,165)	4,956	1,388
Employee benefits	8,169	2,287	5,890	1,649
Bad debt provision	27,800	7,784	16,354	4,579
	31,810	8,906	27,200	7,616

Movement in Deferred Tax Balance During the Year

	Balance 1-Jan 2012	Recognised in profit or loss	Recognised in OCI	Balance 31-Dec 2012	Recognised in profit or loss	Recognised in OCI	Balance 31-Dec 2013
Property, plant and equipment	358	1,030	-	1,388	(2,553)	-	(1,165)
Employee benefits	1,151	483	15	1,649	479	160	2,287
Bad debt provision	3,551	1,028	-	4,579	3,205	-	7,784
	5,060	2,541	15	7,616	1,131	160	8,906

22 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.

	2013 Rs.'000	2012 Rs.'000
Profit attributable to ordinary shareholders	193,661	229,502
Weighted average no.of ordinary shares	25,000	25,000
Earnings per share (Rs.)	7.75	9.18

23 Transactions with Group Companies

Company	Relationship	Nature of Transaction	2013 Rs.'000	2012 Rs.'000
Allianz SE	Group company	Reinsurance arrangement	19,644	70,686
		Dividend paid	111,250	125,000
Allianz Life Insurance Lanka Ltd	Group company	Reimbursable expenses (net)	5,246	2,023

24 Transactions with Key Management Personnel

Key management personnel include the Board of Directors. There were no remuneration or fees paid and no transactions with key management personnel for the year ended 31 December 2013.

25 Capital Commitments

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

26 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.

27 Events Occuring After the Reporting Date

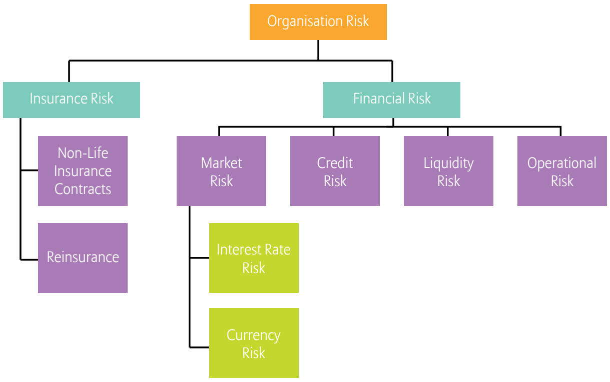
There were no material events occurring after the reporting date which require adjustments or disclosure in the Financial Statements.

Notes to the Financial Statements *(Contd.)*

28. Risk Management

Introduction and Overview

As an insurer, the Company is exposed to multiple risks and the following chart shows all those risks.



This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing such risks, and the manner in which the Company manages its capital.

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.

Risk Management Framework

The key elements of the risk management framework are:

- Promotion of a strong risk management culture supported by a robust risk governance structure.
- Consistent application of an integrated risk capital framework across the Company to protect the capital base and to support effective capital management.
- Integration of risk considerations and capital needs into management and decision-making processes through the attribution of risk and the allocation of capital to the various segments.

The Company's risk appetite is defined by a clear risk strategy and limit structure. Close risk monitoring and reporting allows the Company to detect potential deviations from the predetermined risk tolerance level at an early stage.

The four primary components of the Risk Management Framework include:

Risk Underwriting and Identification: A sound risk underwriting and identification framework forms the foundation for adequate risk taking and management decisions such as individual transaction approval, new product approval, and strategic or tactical asset allocation. The framework includes risk assessments, risk standards, valuation methods and clear minimum standards for underwriting.

Risk Reporting and Monitoring: A comprehensive qualitative and quantitative risk reporting and monitoring framework provides transparency and risk indicators to senior management on the overall risk profile and whether it falls within delegated limits and authorities.

Risk Strategy and Risk Appetite: The risk strategy clearly defines the Company's risk appetite. It ensures that rewards are appropriate for the risks taken and that the delegated authorities are in line with the Company's overall risk bearing capacity. The risk-return profile is improved through the integration of risk considerations and capital needs into decision-making processes. This also keeps risk strategy and business objectives consistent with each other and allows the Company to take opportunities within the risk tolerance.

Communication and Transparency: A transparent and robust risk disclosure provides a basis for communicating this strategy to our internal and external stakeholders, ensuring a sustainable positive impact on valuation and financing.

The primary objective of the Company's risk and financial management framework is to protect the Company's shareholders from events that could hinder the sustainable achievement of financial objectives, including failure to exploit opportunities. The management has the overall responsibility for the establishment and oversight of the Company's risk management framework and thus their approval is necessary for the risk management strategy and risk policies pertaining to all activities of the Company.

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

- Promoting the Allianz risk culture and developing risk management talent for the Company.
- Pre-approving the Company's risk management policy, risk strategy/appetite and carrying out reviews to ensure alignment with local regulatory and Allianz Group requirements.
- Monitoring the approved risk tolerance and exposures to individual risks.
- Determining management actions for non-compliance of risk owners to limits or the risk policy.
- Requesting following-up and assessing contingency and action plans in case of (imminent) limit breaches. Reviewing the risk management function's effectiveness and development in the context of regulatory and Allianz Group requirements.
- Reporting to the Allianz Asia Pacific Risk Management team on a quarterly basis and escalating material issues to the Board of Directors.

During 2013, the RiCo held three meetings with the main item on the agenda being an update by the Chief Risk Officer (CRO) on the Company's top risks and the status of the mitigation plans. In addition, any identified new risks faced by the Company as a result of new product launches and changes in the economic or regulatory environment such as the implementation of the proposed Risk Based Capital (RBC) framework were also addressed.

a. Capital Management Objectives, policies and approach

The Company has established the following capital management objectives, policies and approaches to manage the risks that affect its capital position:

- Meet regulatory solvency requirements and the internal threshold set by Allianz Asia Pacific, thereby providing a degree of security to policyholders.
- Efficient allocation of capital to support business development by ensuring that returns on capital employed meet the requirements of shareholders and policyholders.
- Financial flexibility by maintaining a strong liquidity position.

Notes to the Financial Statements *(Contd.)*

- Alignment of asset and liability profiles by minimising asset-liability duration mismatches.
- Maintain financial strength to support business growth and to satisfy the requirements of the policyholders, regulators and other stakeholders.

The operations of the Company are subject to regulatory requirements. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. solvency margin, approved assets requirements of IBSL) to minimise the risk of default and insolvency on the part of the Company to meet unforeseen liabilities as they arise.

The Company has been in compliance with all these regulatory requirements throughout the financial year to the best of our knowledge.

The Company maintains its capital well above the minimum regulatory requirements of the IBSL. (The Company has a stated capital of Rs. 250 million whereas the current minimum capital requirement is only Rs. 100 million.

b. Approach to capital management

The Company seeks to optimise the structure and sources of capital to ensure that it consistently maximises returns to shareholders.

The Company's approach to managing capital involves managing assets, liabilities and risks in a coordinated way, assessing shortfalls between reported and required capital levels on a regular basis and taking appropriate actions to influence the capital position of the Company in the light of changes in economic conditions and risk characteristics.

The primary source of capital used by the Company is equity shareholders' funds. The capital requirements are routinely forecasted on a periodic basis by the management. The solvency margins are calculated on a monthly basis and shared with the management.

There were no changes in the capital structure in the Company during the year.

c. Regulatory framework

The insurance regulator of the country, the Insurance Board of Sri Lanka (IBSL) is primarily interested in protecting the rights of policyholders and monitors the Company closely to ensure that it is satisfactorily managing affairs for the benefit of policyholders. At the same time, they are also interested in ensuring that the Company maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks, natural disasters, etc.

Thus, the operations of the Company are subject to the regulatory requirements of the IBSL as well as various other regulators such as the Central Bank of Sri Lanka (CBSL), the Department of Inland Revenue etc. The Company is also regulated by the Companies Act No. 07 of 2007.

The Regulation of Insurance Industry (Amendment) Act No. 3 of 2011 requires insurance companies carrying on the business of both long term insurance business and General insurance business to segregate themselves into two separate companies by 2015. The Company has already adhered to the upcoming major regulatory requirement by IBSL.

In addition IBSL has decided to implement a Risk Based Capital (RBC) framework in Sri Lanka to monitor insurance companies in the country, replacing the existing solvency regime. The deadline given by the IBSL for implementation of RBC is January 2016. It is believed that the Company has made considerable progress towards RBC implementation over the last two years and the compulsory parallel run will be commenced from 2014 onwards. Moreover, it is strongly believed that the Company can implement RBC requirements without any significant concerns, by the due date.

28.1. Insurance Risk

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof may differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long–term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

The risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines as well as the use of reinsurance arrangements.

The Company considers insurance risk to be a combination of the following components of risks:

- Product design risk;
- Underwriting and expense overrun risk;
- Claims risk

a. Product design risk;

The Company principally issues the following types of Non Life Insurance contracts.

- Motor
- Fire
- Marine
- Miscellaneous
- Workmen Compensation

The significant risks arising under the Non Life Insurance portfolio emanates from changes in the climate leading to natural disasters, behavioral trends of people due to changing life styles, and the steady escalation of costs in respect of spares in the auto industry. A long tail claim which takes time to finally settle is also exposed to the risk of inflation.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is improved by careful selection and implementation of underwriting strategies which are designed to ensure that risks are diversified in terms of the type of risk and level of insured benefits.

Furthermore, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are put in place to reduce the risk exposure of the Company. The Company further enforces a policy of actively managing and promptly pursuing claims in order to reduce its exposure to unpredictable future developments that can negatively impact the business.

The Company has also limited its exposure by imposing maximum claim amounts on certain contracts as well as using reinsurance arrangements in order to limit exposure to catastrophic events (e.g., hurricanes, earthquakes, flood damage, etc).

The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes. The Company uses its own risk management framework to assess catastrophe exposure. However, there is always a risk that the assumptions and techniques used in these assessments could fail or that claims arising from an un-assessed event is greater than those arising from an assessed event.

Some of the specific actions by the Company to mitigate Non Life Insurance Risks are shown below.

b. Underwriting and expense overrun Risk

The Company's underwriting process is governed by the Internal Underwriting Procedure Manual/ Allianz Standard of Underwriting. Some of the actions undertaken to mitigate underwriting risks are detailed below:

- Investments are made on the training and development of underwriting and claims management staff including those attached to the distribution network.
- Strict controls are maintained on the issue of temporary cover notes and also limiting them to a 60 day validity period.
- The application of the Four-Eye principle on underwriting processes.
- Pre-underwriting inspections are made on new business over a predetermined threshold to evaluate risk prior to acceptance.
- Post-underwriting reviews are conducted to ensure that set guidelines have been observed.
- Adequate reinsurance arrangements are in place and reviews are undertaken to ensure the adequacy of these covers.
- Financial authority limits are in place, clearly prescribing the limits in respect of each underwriter based on the sum assured.

c. Claims risk

Some of the actions undertaken to mitigate claims risks are detailed below:

- Claims are governed by the internal Claims Manual.
- Motor and medical claims intimation are carried out through a 24 hour fully-fledged call centre.
- Assessments are carried out by in-house as well as independent assessors/loss adjustors working throughout the island on a 24 hour basis.
- Claims are assessed immediately and reserved accordingly.
- The service of a qualified independent actuary is obtained annually to assess the adequacy of reserves made in relation to Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) claims.
- Financial authority limits are set, providing a maximum limit to the CEO, Assistant General Manager - Technical and Chief Finance Officer. Financial authority limits are reviewed annually and a quarterly audit is conducted to ensure compliance.

The table below sets out the concentration of Non Life insurance contract liabilities by the type of contracts. This includes unearned premium, insurance contracts - deferred acquisition, claims outstanding and IBNR / IBNER Reserves.

Refer notes 12c and 12d to the Financial Statements, which show the gross claim liability and the reinsurance component.

The following table summarises the outstanding claims position as at 31 December,

	31 December 2013			31 December 2012		
Non Life Insurance Claims Reserve.	Gross claims	Reinsurance	Net	Gross claims	Reinsurance	Net
Claims outstanding	180,862	(120,569)	60,293	100,743	(43,548)	57,195
IBNR/ IBNER Reserve	358,807	(325,854)	32,953	110,310	(89,170)	21,140
Total	**539,669**	**446,423**	**93,246**	**211,053**	**(132,718)**	**78,335**

Key assumptions for the valuation of liabilities

i) Loss development factors – are based on weighted averages except where:

- The weighted average is contrary to a trend in recent years
- Payments in particular years are clearly out of line in relation to those of other years

ii) Claim settlement rates – 'speed of settlement' is derived by dividing the cumulative claims paid to date for each accident year by the corresponding projected ultimate loss.

iii) Weightings – having used a variety of valuation methodologies, different weights have been applied to each method across accident years, as appropriate.

iv) Ultimate loss ratios – the final ultimate loss ratios for various accident years have been computed by applying credibility weightings to the results from various methodologies

v) Expense rate - case reserves and IBNR claim reserves include an allowance for claim handling expenses

vi) Discounting – a risk free interest rate curve is applied for discounting liability cash flows.

vii) Net to gross – Comparison has been made for Net-to-Gross ratios for earned premium, claim paid, claim reported and claim outstanding

viii) Risk margin – based on the Stochastic Ladder approach, computed risk merging to achieve a 75% confidence level on the claim liability based on the observed relationship between an accident year's ultimate loss ration with trended ultimate loss ratios to achieve a 75% confidence level on the Unexpired Risk Reserve.

ix) Large claims – where it is considered appropriate, implicit allowance was made for large claims by selecting appropriately adjusted link ratios.

x) Reinsurance and recoveries – There is no significant change in the reinsurance arrangements for the latest financial year.

28.1.2 Reinsurance Risk

The Company purchases reinsurance as part of its risks mitigation programme. Reinsurance ceded is placed on both a proportional and non–proportional basis. A proportional reinsurance arrangement includes both Quota Share and Facultative Treaty programmes which is taken out to reduce the overall exposure of the Company to certain classes of business. Non–proportional reinsurance programmes, which are primarily excess–of–loss reinsurance arrangements, are designed to mitigate the Company's net exposure to large single and catastrophic losses. Retention limits on the excess–of–loss reinsurance programmes vary by product line.

Premium ceded to the reinsurers is in accordance with the terms on the programmes already agreed based on the risks written by the insurance companies. Recoveries from reinsurers on claims are based on the cession made in respect of each risk and is estimated in a manner consistent with the outstanding claims provisions made for the loss. Although we mitigate our exposures through prudent reinsurance arrangements, the obligation to meet claims emanating from policyholders rests with the Company. Default of reinsurers does not negate this obligation and in that respect the Company carries a credit risk up to the extent ceded to each reinsurer.

The Company uses Allianz SE and NITF as its reinsurance provider.

The following table shows the credit ratings of the reinsurance companies with whom the Company has arrangements.

Reinsurer	Rating	Rating Agency
Allianz Se Reinsurance Branch Asia Pacific	AA	Standard & Poor
National Insurance Trust Fund	No Rating	Sri Lanka Government owned Company

28.3. Financial Risk

28.3.1. Market Risk

Market risk refers to the risk of possible adverse movements in the values of assets due to changes in market factors including interest rates, foreign exchange rates and equity prices. As the Company does not hold any equity securities in its portfolio it does not have any exposure on equity price risk.

a. Interest Rate Risk

Interest rate risk is the risk of interest rate volatility adversely affecting the market value of the investment portfolio. In an increasing interest rate environment, there will be a drop in the value of treasury bills and bonds when they are marked-to-market. The Company monitors its interest rate risk on a monthly basis by analysing the movement in the interest rate-sensitive asset duration, the allocation to interest-rate sensitive assets, and the sensitivity of interest rate movements on the solvency margin. The report is reviewed by the local CRO and the Allianz Asia Pacific Risk Team.

The Company is not exposed to any material interest rate risks on financial assets and liabilities.

b. Currency Risk

The risk of fluctuation of fair values or future cash flows of a financial instrument due to a change in exchange rates is referred to as currency risk.

The Company's principal transactions are carried out in Sri Lankan Rupees and hence, its exposure to foreign exchange risk arises primarily with respect to the US Dollar and Euro denominated assets maintained in order to honour liabilities of foreign currency denominated insurance policies which are sold in the ordinary course of business. However, no material liabilities were recorded on foreign currency denominated policies as at the reporting date.

Notes to the Financial Statements *(Contd.)*

The table below summarises the Company's total exposure and sensitivity to currency risk.

	31 December 2013		31 December 2012	
	Amount in Foreign Currency '000	**Rs. Amount '000**	**Amount in Foreign Currency '000**	**Rs. Amount '000**
USD assets	1,771	228,975	2,374	297,994
EURO assets	201	35,484	222	36,476
SGD assets	23	2,324	42	4,269
MVR assets	784	6,673	76	629
Total Foreign currency denominated assets	**2,779**	**273,456**	**2714**	**339,368**
Impact on PBT				
5% strengthening of rupee*		259,783		322,399
5% weakening of rupee *		(287,129)		(356,336)
+/- % impact of PBT		(10.97%)		(10.92%)

28.3.2. Credit Risk

Credit risk is counter-party default risk and includes the risk of failure of financial institutions with which the Company has placed deposits/investments to meet obligations, and the failure of reinsurers to meet claims when they fall due. It also includes the risk of default by policyholders on premium receivable, and the failure of employees to meet loans provided by the company.

In addition to strict limits on single counter-party exposure, the Company follows a prudent credit policy which limits its investments to high grade corporate credit in line with the Allianz Group policy, and above the regulatory minimum criteria. Single counter-party exposure is monitored on a monthly basis by the CRO, and any deviations require special approval. The Company's investment approach is also guided and monitored by Allianz Insurance Management Singapore as per Allianz Group policies on investment.

Credit risk to external reinsurers appears when insurance risk exposures are transferred by the Company to external reinsurance companies to mitigate insurance risk. Potential losses can arise either due to non-recoverability of reinsurance receivables already present or to the default on benefits that are under reinsurance treaties in force. The Company's exposure to reinsurance risk is minimal, as the majority of reinsurance is placed with Allianz Re, and with reinsurers with strong credit ratings approved by the Group.

Credit Risk Exposure on Assets.

31 December 2013

Financial Instruments	Government Guaranteed Rs'000	AAA Rs'000	AA+ Rs'000	AA- Rs'000	TOTAL Rs'000
Available for Sale					
Government Securities	803,410	-	-	-	803,410
Unit Trust	20,000	-	-	-	20,000
Loans and Receivables					
Debentures	-	-	19,360	14,695	34,055
Fixed Deposit	-	113,716	62,838	95,560	272,114
Total	**823,410**	**113,716**	**82,198**	**110,255**	**1,129,579**

31 December 2012

Financial Instruments	Government Guaranteed Rs'000	AAA Rs'000	AA+ Rs'000	AA- Rs'000	TOTAL Rs'000
Available for Sale					
Government Securities	973,248	-	-	-	973,248
Unit Trust	26,227	-	-	-	26,227
Loans and Receivables					
Debentures	-	-	21,150	-	21,150
Fixed Deposit	-	43,694	34,232	-	77,926
Total	**999,475**	**43,694**	**55,382**	**-**	**1,098,551**

The table below provides information regarding the credit risk exposure on other financial assets of the

Company as at 31 December by classifying assets according to their due period.

31 December 2013	< 180 days Rs.000	180 to 365 days Rs.000	365 < days Rs.000	Total Rs.000
Reinsurance receivable				
- Non Life	291,240	49,177	2,177	342,594
Premium receivables				
- Non Life	882,490	9,442	5,101	897,033
Total	**1,173,730**	**58,619**	**7,278**	**1,239,627**
% Distribution	94.68%	4.72%	.60%	

31 December 2013	< 180 days Rs.000	180 to 365 days Rs.000	365 < days Rs.000	Total Rs.000
Reinsurance receivable				
- Non Life	201,885	11,579	4,036	217,500
Premium receivables				
- Non Life	441,021	4,849	5,787	451,657
Total	**642,906**	**16,428**	**9,823**	**669,157**
% Distribution	96.08%	2.45%	1.47%	

28.3.3. Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated liabilities due to lack of funds or having to meet these obligations at excessive cost.

The table below summarises the maturity profile of the financial assets of the Company based on their market value. The Company maintains a portfolio of highly marketable securities that can be easily liquidated in the event of an unforeseen interruption of cash flow. Some of the specific actions by the Company to mitigate the liquidity risk are shown below;

- Assets are categorised into different tiers based on liquidity, and a minimum allocation to each tier has been specified in the Company's Investment Policy Statement.
- Cash outflows identified in advance are matched through short term deposits.
- The Company maintains a foreign currency deposit which can be liquidated in the event of unexpected cash outflows.

Maturity Analysis of Financial Assets and Liabilities 2013

	Less than 1 year Rs'000	1-3 years Rs'000	More than 3 years Rs'000	No Maturity	Carrying Value Rs'000
Available for Sale	**540,601**	**262,809**	**-**	**20,000**	**823,410**
Treasury bonds	464,838	262,809	-	-	727,647
Treasury bills	20,209	-	-	-	20,209
REPO	55,554	-	-	-	55,554
Unit Trust	-	-	-	20,000	20,000
Loans and Receivables	**272,114**	**19,360**	**14,695**	**-**	**306,169**
Debentures	-	19,360	14,695	-	34,055
Fixed deposits	272,114	-	-	-	272,114
Total	812,715	282,169	14,695	20,000	1,129,579
Liabilities	**632,614**	**-**	**-**	**-**	**632,614**
Claims outstanding	180,862	-	-	-	180,862
Reinsurance creditors	451,752	-	-	-	451,752
Total	**632,614**	**-**	**-**	**-**	**632,614**

Maturity Analysis of Financial Assets and Liabilities 2012

	Less than 1 year Rs'000	1-3 years Rs'000	More than 3 years Rs'000	No Maturity	Carrying Value Rs'000
Available for Sale	**291,429**	**681,819**	**-**	**26,227**	**999,475**
Treasury bonds	127,325	681,819	-	-	809,144
Treasury bills	113,701	-	-	-	113,701
REPO	50,403	-	-	-	50,403
Unit Trust	-	-	-	26,227	26,227
Loans and Receivables	**54,931**	**44,145**	**-**	**-**	**99,076**
Debentures	-	21,150	-	-	21,150
Fixed deposits	54,931	22,995	-	-	77,926
Total	**346,360**	**725,964**	**-**	**26,227**	**1,098,551**
Liabilities	**570,651**	**-**	**-**	**-**	**570,651**
Claims Outstanding	100,743	-	-	-	100,743
Reinsurance creditors	469,908	-	-	-	469,908
Total	**570,651**	**-**	**-**	**-**	**570,651**

28.3.4 Operational Risk

This is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior.

Operational failures could result in dire consequences such as producing misleading financial information, loss of return, financial penalties from regulators or damage to the reputation of the Company. Operational risks arise from all operations of the Company.

While it is acknowledged that the Company cannot eliminate all operational risks, it is in a position to manage such risks by initiating a rigorous control framework and by monitoring and responding to potential risks.

The Company's Risk Management Team assesses all foreseeable risk involved in its operations and develops and implements action plans to control those identified operational risk. These action plans recommended by the team are to manage the operational risk in the following areas:

- requirements for having appropriate segregation of duties including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- Risk mitigation including insurance, where this is cost effective.

Compliance with recommended action plans are supported by periodic reviews undertaken by the Senior Manager Risk & Control and the Compliance Officer. The results of internal reviews are discussed frequently and necessary action is taken.

Moreover, business risks such as changes in the environment, technology and the industry are monitored through the Company's strategic planning and budgeting processes.

28.4. Financial Assets and Liabilities

28.4.1 Fair Value Hierarchy for Assets Carried at Fair Value.

The different levels have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table represents an analysis of financial Investments recorded at fair value by level of the fair value hierarchy:

As at 31 December 2013	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Fair Value Rs. '000
Available for Sale				
- Treasury Bonds	727,647	-	-	727,647
- Treasury Bills	20,209	-	-	20,209
- Unit Trust	20,000	-	55,554	20,000
- REPO	-	-	55,554	55,554
Total	**767,856**	**-**	**55,554**	**823,410**

As at 31 December 2012	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Fair Value Rs. '000
Available for Sale				
- Treasury Bonds	809,144	-	-	809,144
- Treasury Biils	113,701	-	-	113,701
- Unit Trust	26,227	-	-	26,227
- REPO	-	-	50,403	50,403
Total	**949,072**	**-**	**50,403**	**999,475**

28.4.2 Assets not carried at Fair Value

As at 31 December 2013	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Fair Value Rs. '000	Total carrying value Rs. '000
Loans and Receivables					
Fixed Deposit	-	-	272,114	272,114	272,114
Corporate Debentures	-	-	34,055	34,055	34,055
Premium Receivable	-	-	897,033	897,033	897,033
Reinsurance Receivable	-	-	463,164	463,164	463,164
Total			**1,666,366**	**1,666,366**	**1,666,366**
Liabilities					
Reinsurance Payable	-	-	451,751	451,751	451,751
Total	**-**	**-**	**451,751**	**451,751**	**451,751**

As at 31 December 2012	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Fair Value Rs. '000	Total carrying value Rs. '000
Loans and Receivables					
Fixed Deposit	-	-	77,926	77,926	77,926
Corporate Debentures	-	-	21,150	21,150	21,150
Premium Receivable	-	-	451,657	451,657	451,657
Reinsurance Receivable	-	-	261,048	261,048	261,048
Total			**811,781**	**811,781**	**811,781**
Liabilities					
Reinsurance Payable	-	-	469,908	469,908	469,908
Total	**-**	**-**	**469,908**	**469,908**	**469,908**

The Company does not anticipate the fair value of the above to be significantly different to their carrying values and considers the impact as not material for the disclosure.

Content

Allianz Life Insurance Lanka Ltd.
Financial Information

Allianz

Directors' Report

Directors' Report

The Board of Directors of Allianz Life Insurance Lanka Limited have 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 2013.

Principal Activity

The principal activity of the Company is Life Insurance which remained unchanged during the year under review. The Company has not engaged in any activities which contravene the laws and regulations of the country.

The income of the Company is derived from underwriting and investment income.

Vision, Mission and Corporate Contact

The Company's vision and mission are provided on page 2 of this report. In achieving its vision and mission all directors and employees conduct their activities with the highest level of ethical standards and integrity as set out in the Code of Conduct.

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 16 to 19. The future developments of the Company are presented in the CEO's Review on pages 38 to 40. These reports together with the Audited Financial Statements reflect the state of affairs of the Company.

Financial Statements

The Financial Statements of the Company have been prepared in accordance with Sri Lanka Accounting Standards (SLFRS and LKAS) as issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and in compliance with the requirements of the Companies Act, No. 7 of 2007 The Financial Statements of the Company for the year ended 31 December 2013, duly signed by two Directors and the Chief Financial Officer of the Company, are given on pages 110 to 145 and form an integral part of this report.

Significant Accounting Policies

The significant accounting policies adopted in the preparation of these Financial Statements are presented in note 3 to the Financial Statements. There have been no changes in the accounting policies adopted by the Company during the year under review.

Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation and presentation of the Financial Statements of the Company in a manner that reflects a true and fair view of its state of affairs.

Auditors' Report

The Financial Statements for the year ended 31 December 2013 have been audited by Messrs. KPMG, Chartered Accountants, and their report on the Financial Statements which forms an integral part of the Report of the Board of Directors is given on page 109 of this report.

Going Concern

The Board has conducted the necessary reviews and inquiries to assess the Company's ability to apply the assumption of going concern in the preparation of these Financial Statements. These included a review of the Company's budget and corporate plan for the ensuing years, future prospects and risks, capital expenditure requirements and cash flows. Following these reviews, the Board is satisfied that the Company possesses adequate resources to continue its operations into the foreseeable future and hence endorses the continuous adoption of the assumption of a going concern.

Directors' Report *(Contd.)*

Corporate Governance

The Board of Directors is committed to maintaining 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. Employees are governed by the Code of Conduct; the Company supports and follows the guidelines and standards for rules-compliant and value-based corporate leadership.

The Company Compliance Management System aims to ensure compliance with internationally recognised laws, rules and regulations to promote a culture of integrity and safeguard the Company's reputation.

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

It is compulsory for all employees to participate annually in anti-corruption and fraud training known as the "Blue Box" which will be on a web- based application. A certificate of completion preventing corruption and fraud is awarded on successful completion.

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

System of Internal Control and Risk Management

The Board of Directors has put in place an effective and comprehensive system of internal controls that cover financial, operational and compliance controls and have obtained reasonable assurance of their effectiveness.

As a provider of financial services, the Company considers risk management to be one of its core competencies. It is therefore an integrated part of 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 the Company to detect deviations from the Company's risk tolerance at an early stage. One of the significant developments in the area of risk management is 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 page 127.

Turnover

The total turnover of the Company is identified as gross written premium and was Rs. 829 million for 2013 and Rs. 532 million for 2012.

The detailed analysis of the gross written premium of the Company is disclosed in Note 14 Page 134 of the Financial Statements.

Investments

The details of investments held by the Company are disclosed in Note 4 to the Financial Statements.

Directors' Report *(Contd.)*

Plant and Equipment

Details of plant and equipment are given in Note 5 to the Financial Statements.

Taxation

The tax provision of the Company is disclosed in Note 20 to the Financial Statements.

Solvency

The Statement of Solvency for Life Insurance has been prepared in accordance with the Solvency Margin (Long term Insurance) Rules 2002 amended by the Extraordinary GazetFte 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	2012 Amount (Rs. '000's)	2013 Amount (Rs. '000's)
Value of Admissible Assets	539,799	926,529
Total liability including policy liability	453,244	749,330
Net admissible assets	86,555	177,199
RSM (Required Solvency Margin)	18,545	33,106
Excess over RSM	68,010	140,093

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 us. The Company places great emphasis on fostering leadership, talent and continuous personal development. Only by unlocking our employees' potential and enhancing our services can the Company achieve our primary goal of being a reliable partner to our customers.

The Company encourages equal opportunity and 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.

The Company acknowledges top performance and rewards 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. The Company believes it can create real competitive advantage by building and maintaining a high performance culture within.

Stated Capital and Shareholders funds

In compliance with the 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 2013 was Rs. 592.6 million (2012: Rs. 492.5 million). The stated capital of the Company increased by Rs. 100.1 million during the year.

Directors

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

- Heinz Dollberg
- Surekha Alles
- Rangam Bir (appointed in September 2013)

Appointment and Retirement of Directors

No new appointments were made to the Board of Directors and no Directors retired during the year under review.

Directors' Report *(Contd.)*

Directors' Remuneration and Other Benefits

The CEO/Director's remuneration is decided by the Board taking into consideration 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 the Notes to the Financial Statements (Note 23).

Related Party Disclosure

The Directors have disclosed transactions with related parties in terms of the Sri Lanka Accounting Standard LKAS 24-Related Party Disclosure in Note 22 Page 136 in the Financial Statements.

Events after the Reporting Date

Details of events after the reporting dates are provided in Note 26 Page 136.

Capital Commitments

Details of the capital commitment for the year under review have been disclosed in Note 24 Page 136.

Contingencies

After due consultation with the Lawyers of the Company, the Directors are of the opinion that litigation currently pending against the Company would not have a material impact on the reported financial results of the Company. All pending litigations for claims have been evaluated and adequate provisions have been made in these Financial Statements, where necessary.

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 and has not engaged in any activity that is harmful or hazardous to the environment.

Auditors

The Company's Auditors during the period under review were Messrs. KPMG (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.

The Auditors do not have any relationship or interest in the Company, other than those disclosed above.

A sum of Rs. 0.5 million (2012: Rs. 0.7 million) was paid to the Auditors as audit fees during the year under review.

This Annual Report is signed for and on behalf of the Board

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Heinz Dollberg
Director

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Surekha Alles
Director

Secretaries to the Company
EM & EN Agents and Secretaries (Pvt) Limited
28th February 2014
Allianz Life Insurance Lanka Ltd.

Actuary's Report - Life

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 2013. Liability valuation has been determined in accordance with internationally accepted actuarial principles.

I hereby certify that, in my opinion,

1. The assumptions for the liability valuation are in accordance with the guidelines and norms, if any, issue by the Insurance Board of Sri Lanka and the guidance notes issued by the Institute of Actuaries.

2. Appropriate value of liabilities has been provided, for all liabilities in respect of the Long Term Insurance Fund, taking into account all current and contingent liabilities as at that date.

3. The company has credited appropriate investment income to the Policyholder.

4. The Long Term Insurance Fund as included in the audited accounts exceed the required actuarial reserves as at 31 December 2013 by Rs.215 million.

5. The company is capable of meeting all liabilities to policy holders, as well as meeting the statutory solvency margin with a considerable buffer.

Catalin Jumanca
Fellow of the Institute of Actuaries
28th February 2014

Independent Auditors' Report

KPMG
(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 ("the Company"), which comprise the statement of financial position as at December 31, 2013, the statements of comprehensive income, changes in equity and cash flow for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory notes set out on pages 110 to 145 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, 2013 and the financial statements give a true and fair view of the financial position of the Company as at December 31, 2013, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

These financial statements also comply with the requirements of Section 151(2) of the Companies Act No. 07 of 2007. However, it should be noted that the Company's net assets are less than half of the stated capital which results in a serious loss of capital situation in terms of Section 220 of the same Act.

Pursuant to Section 47(2) of the Regulation of Insurance Industry Act No.43 of 2000, we also report, so far as appears from our examination, proper accounting records have been maintained as required by the relevant rules made by the Insurance Board of Sri Lanka.

KPMG

Chartered Accountants
Colombo , Sri Lanka
28th February 2014

Allianz Life Insurance Lanka Ltd.

Statement of Financial Position

As at 31 December	Note	2013 Rs. '000	2012 Rs. '000
Assets			
Investments	04	908,592	523,259
Property, plant & equipment	05	25,637	25,635
Intangible assets	06	1,653	3,128
Unit linked investment	4.1	44,587	-
Reinsurance receivable		15,988	13,389
Other assets	07	59,335	37,722
Cash and cash equivalents	08	21,216	23,039
Total Assets		**1,077,008**	**626,172**
Equity and Liabilities			
Equity			
Stated capital	12	592,624	492,499
Revenue reserves	13	(358,122)	(318,132)
Other component of equity		27,456	(19,263)
Total Equity		**261,958**	**155,104**
Liabilities			
Insurance provision - Life	09	706,778	370,897
Reinsurance creditors		22,646	18,277
Other liabilities	10	77,237	75,856
Employee benefits	11	3,318	1,602
Bank overdraft		5,071	4,436
Total liabilities		**815,050**	**471,068**
Total Equity and Liabilities		**1,077,008**	**626,172**

The above Statement of Financial Position is to be read in conjunction with the Notes to the Financial Statements on pages 115 to 145

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.

Heinz Dollberg
Director
28th February 2014

Surekha Alles
Director
28th February 2014

Statement of Comprehensive Income

For the year ended 31 December	Note	2013 Rs.000	2012 Rs.000
Gross written premium	14	828,790	532,141
Premium ceded to reinsurers		(44,190)	(34,689)
Net written premium		**784,600**	**497,452**
Other Revenue			
Income from investments	17	78,931	52,753
Net Income		**863,531**	**550,205**
Benefits, Losses and Expenses			
Gross claims and benefits paid		(40,976)	(27,422)
Claims ceded to reinsurers		17,660	11,545
Net benefits and claims	15	**(23,316)**	**(15,877)**
Net Written Premium less Benefits, Losses & Expenses		840,215	534,328
Expenses			
Net acquisition costs	16	(170,131)	(152,276)
Other operating, and administrative expenses	18	(373,730)	(249,964)
Total expenses		**(543,861)**	**(402,240)**
Increase in Life insurance provision	9	(335,881)	(191,674)
Loss before taxation	19	(39,527)	(59,587)
Income tax	20	-	-
Net Loss for the Year		**(39,527)**	**(59,587)**
Loss per share (Rs.)	21	(0.67)	(1.21)
Other Comprehensive Income			
Net loss for the year		(39,527)	(59,587)
Actuarial gains/(losses) on defined benefit plan	11	(463)	390
Net gain/loss on available for sales assets		46,719	(7,179)
Total Comprehensive Income for the Year, Net of Tax		**6,729**	**(66,376)**

The above Statement of Comprehensive Income is to be read in conjunction with the Notes to the Financial Statements on pages 115 to 145.

Statement of Changes in Equity

For the year ended 31 December 2013

	Stated Capital Rs.000	Revenue Reserves Rs.000	Avilable for - Sale Reserves Rs.000	Total Rs.000
Balance as at 1 January 2012	**492,499**	**(258,935)**	**(12,084)**	**221,480**
Net profit/(loss) for the year	-	(59,587)	-	(59,587)
Other comprehensive income		390	(7,179)	(6,789)
Total comprehensive income	**-**	**(59,197)**	**(7,179)**	**(66,376)**
Balance as at 31 December 2012	492,499	(318,132)	(19,263)	155,104
Net profit/(loss) for the year	-	(39,527)	-	(39,527)
Other comprehensive income	-	(463)	46,719	46,256
Total comprehensive income	-	(39,990)	46,719	6,729
New share issue	100,125	-	-	100,125
Balance as at 31 December 2013	**592,624**	**(358,122)**	**27,456**	**261,958**

The above Statement of Changes in Equity is to be read in conjunction with the Accounting Policies and Notes to the Financial Statements on pages 115 to 145

Statement Cash Flows

For the year ended 31 December

	Note	2013 Rs.000	2012 Rs.000
Cash Flows from Operating Activities			
Premium received from customers		828,790	532,141
Reinsurance premium paid		(39,821)	(27,055)
Claims paid		(40,152)	(27,304)
Reinsurance receipts in respects of claims		15,062	8,865
Cash paid to and on behalf of employees		(103,910)	(71,650)
Other operating cash payments		(443,731)	(322,925)
Cash inflow from operating activities (Note A)		**216,238**	**92,072**
Income tax paid		-	-
Net Cash from Operating Activities		**216,238**	**92,072**
Cash Flows from Investing Activities			
Purchase of liquid investments (other than cash equivalents)		(1,158,382)	(700,568)
Proceeds on maturity investment (other than cash equivalents)		790,776	578,995
Interest received		63,334	46,782
Disposal of tangible assets		-	-
Purchase of intangible assets		(188)	(53)
Purchase of tangible assets		(14,363)	(11,773)
Net cash from investing activities		**(318,822)**	**(86,617)**
Net Cash Inflow before Financing Activities		**(102,534)**	**5,453**
Cash flows from financing activities		-	-
Issue of share capital		100,125	-
		100,125	-
Increase / (decrease) in Cash and Cash Equivalents (Note B)		**(2,459)**	**5,453**

Cash Flow Statement - *(Contd.)*

For the year ended 31 December

	Note	2013 Rs.000	2012 Rs.000
A. Reconciliation of Operating Profit with Cash Flows from Operating Activities			
Loss before tax		(39,527)	(59,587)
Depreciation charge		16,024	12,867
Interest income		(78,931)	(52,173)
Increase in other assets		(24,212)	(14,540)
Increase in life insurance provision		335,881	191,675
Increase in creditors		7,003	13,830
Cash Flows from Operating Activities		**216,238**	**92,072**
B. Increase in Cash and Cash Equivalents			
Cash at bank and in hand and cash equivalents	08	21,216	23,039
Bank overdrafts		(5,071)	(4,435)
Net cash and cash equivalents for the current year		16,145	18,604
Net cash and cash equivalents at the beginning of the year		18,604	13,150
Increase / (decrease) in Cash and Cash Equivalents		**(2,459)**	**5,454**

The above Cash Flow Statement is to be read in conjunction with the Accounting Policies and Notes to the Financial Statements on pages 115 to 145.

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 are 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. There were no significant changes in the nature of principal activities in the Company during the financial year under review.

2. BASIS OF PREPARATION

2.1. Basis of Measurement

The Financial Statements of the Company which comprise the Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Notes thereto have been prepared in accordance with the Sri Lanka Accounting Standards (SLFRSs) laid down by the Institute of Chartered Accountants of Sri Lanka, and comply with the requirements of Companies Act No 7 of 2007.

2.2. Date of Authorisation of Issue

The Financial Statements of Allianz Life Insurance Lanka Ltd., for the year ended 31 December 2013 were authorised for issue in accordance with a resolution of the Board of Directors on 28 February 2014.

2.3. Functional and Presentation Currency

The Financial Statements are presented in Sri Lanka Rupees (Rs.), which is the Company's functional currency except as indicated. Financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand, unless otherwise stated.

2.4. Use of Estimates and Judgements

The preparation of Financial Statements in conformity with SLFRSs 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 critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements are included in the following notes.

Critical Accounting Estimate/Judgment	Disclosure Reference	
	Note	Page
Insurance provision - Life	9	132
Employee retirement benefits	11	133
Deferred taxation		135
- Utilisation of losses	20b	

2.4.1. Insurance Contract Liabilities- Life Insurance

The valuation of the long term insurance business as at 31 December 2013 was carried out by the appointed actuary based on the assumptions set out in Note No.9 to the Financial Statements.

2.5. Materiality and Aggregation

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

2.6. Foreign Currency Transactions

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

Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated to the functional currency at the exchange rate at that date. Non- monetary assets and liabilities denominated in foreign currencies that are measured at fair value are re-translated to the functional currency at the exchange rate on the date that the fair value was determined. Foreign currency differences arising on re-translation are recognised in the Statement of Comprehensive Income.

3. SIGNIFICANT ACCOUNTING POLICIES

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

3.1. Insurance Contracts

As permitted by SLFRS 4 “Insurance Contracts”, the Company continues to apply the existing accounting policies for insurance contracts that were applied prior to the adoption of SLFRS.

Product Classification

SLFRS 4 requires contracts written by insurers to be classified as either “insurance contracts” or “investment contracts” depending on the level of insurance risk transferred.

Insurance contracts are those contracts when the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Investment contracts are those contracts that transfer significant financial risk and have no significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Notes to the Financial Statements *(Contd.)*

Once a contract has been classified as an insurance contract it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

All the products sold by the Company are insurance contracts and therefore classified as Insurance contracts under the SLFRS 4 – Insurance Contracts. Thus, the Company does not have any investment contracts within its product portfolio as at the reporting date.

3.2. Assets and Liabilities and the Basis of their Valuation

3.2.1. Intangible Assets

Software

Basis of Recognition

An intangible asset is recognised if it is probable that future economic benefits that are attributable to the asset will flow to the Company and the cost of the asset can be measured reliably.

Software acquired by the Company is stated at cost less accumulated amortisation and accumulated impairment losses.

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 Comprehensive Income as incurred.

Amortisation

Amortisation is recognised in the Statement of Comprehensive Income on a straight line basis over the estimated useful life of the software from the date that it is available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software is three years.

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

De-recognition

An intangible asset is de-recognised on disposal or when no future economic benefits are expected from it. The gain or loss arising from de-recognition of such intangible assets is included in the Statement of Comprehensive Income when the item is de-recognised.

3.2.2. Property Plant and Equipment

Basis of Recognition

Property, plant and equipment are tangible items that are held for servicing or for administrative purposes and are expected to be used during more than one year.

Property, plant and equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the asset can be measured reliably.

Measurement

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure directly attributable to the acquisition of the asset and the cost subsequently incurred to add to or replace a part of it. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring at the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as a part of computer equipment.

Gains and losses on disposal

Gains and losses on disposal of an item of property, plant 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 the Statement of Comprehensive Income.

Subsequent Costs

The cost of replacing a part of an item of plant 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 day-to-day servicing of property, plant and equipment is charged to the Statement of Comprehensive Income as incurred.

Depreciation

Depreciation is charged on property, plant and equipment on the straight line basis to write off the cost over the estimated useful lives as follows,

Office equipment	3 Years
Computer equipment	3 Years
Furniture and Fittings	5 Years
Motor Vehicles	5 Years

De-recognition

The carrying amount of an item of property, plant and equipment is de-recognised on disposal or when no future economic benefits are expected from it. The gain or loss arising from the de-recognition of an item of property, plant and equipment is included in the Statement of Comprehensive Income when the item is de-recognised.

3.2.3. Leased Assets – Lessee

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement at the inception date.

Operating Leases

Leases that do not transfer to the Company substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the Statement of Comprehensive Income on a straight line basis over the lease term.

3.2.4. Financial Instruments

3.2.4.1 Non-derivative financial assets

a). Initial recognition and subsequent measurement

The Company initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company de-recognises a financial asset when the contractual rights to the cash flows from the asset expire or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the Statement of Financial position when and only when the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Company has the following non-derivative financial assets:

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method less any impairment losses.

Loans and receivables comprise trade and other receivables including related party payables.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the above categories of financial assets. Available-for-sale financial assets are recognised initially at fair value plus any directly attributable transaction costs.

Notes to the Financial Statements *(Contd.)*

Subsequent to initial recognition, they are measured at fair value and changes therein other than impairment losses and foreign currency differences on available-for-sale debt instruments are recognised in other comprehensive income and presented in the fair value reserve in equity. When an investment is de-recognised, the gain or loss accumulated in equity is reclassified to profit or loss.

Available-for-sale financial assets comprise equity securities and debt securities.

3.2.4.2 Non-derivative financial liabilities

The Company initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company de-recognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the Statement of Financial Position when and only when the Company has a legal right to offset the amounts, and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Company has the following non-derivative financial liabilities: bank overdrafts, and trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

3.2.4.3 Impairment

a). Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of the asset which can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security.

The Company considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment, the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the Statement of Comprehensive Income.

b). Non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in used, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuous use that is largely independent on the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in comprehensive income. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

In respect of assets other than goodwill, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined net of depreciation or amortisation, if no impairment loss had been recognised.

3.3. Reinsurance

The Company cedes insurance risk in the normal course of business to recognised reinsurers through formal reinsurance arrangements.

Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset, that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recorded in the Statement of Comprehensive Income.

Premiums and claims are presented on a gross basis for ceded reinsurance.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

3.4. Premium Receivable

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the Statement of Comprehensive Income

3.5. Other Receivables

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

3.6. 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 Statement of Cash Flows.

3.7. Liabilities and Provisions

3.7.1 Insurance contract liabilities

3.7.1.1 Life insurance contract liabilities

Life insurance liabilities are recognised when contracts are entered into and premiums are charged.

Long duration contract liabilities included in the insurance fund reserving for in-force and lapsed policies, non-fund (sterling) reserves, interest credit reserves, unearned premium reserves, reserves for guarantees, reserves for premium on deposits and contingency reserves resulting primarily from non-participating Universal Life insurance products.

Short duration contract liabilities are primarily group term insurance products, where reserving was done on an unearned premium reserve basis.

The liabilities are de-recognised when the contract expires, is discharged or cancelled.

3.7.1.2 Liability Adequacy Test

At each reporting date, an assessment is made on whether the recognised life insurance liabilities are adequate by using an existing liability adequacy test as laid out under SLFRS 4. The liability value is adjusted to the extent that it is insufficient to meet future benefits and expenses. In performing the adequacy test, current best estimates of future contractual cash flows including related cash flows such as claims handling and policy administration expenses, policyholder options and guarantees, as well as investment income from assets backing such liabilities, are used. A number of valuation methods are applied including discounted cash flows. To the extent that the test involves discounting of cash flows, the interest rate applied is based on management's prudent expectation of current market interest rates.

Fund value plus non-fund sterling reserves valuation methodology have been used with prudent assumptions considering all expenses. Hence, actuarial valuation has concluded that a liability adequacy test is not required for the Company.

3.7.2 Defined Benefit Plan

3.7.2.1 Defined Benefit Plan-Gratuity

Provision has been made for retirement gratuities from the first year of service for all employees in conformity with the LKAS 19. However, under the Payment of Gratuity Act, No. 12 of 1983, the liability to an employee arises only on completion of five years of continued service.

The liability is not externally funded nor actuarially valued. The gratuity liability is discounted to the present value as required by LKAS 19, Employee Benefits, using actuarial assumptions.

3.7.2.2 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 the Provident Fund Act No. 15 of 1958 as amended and Trust Fund under the Trust Fund Act No. 46 of 1980 covering all employees, are recognised as an employee benefit expense in profit and loss when they are due.

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

3.7.3 Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

3.7.4. Interest bearing loans and borrowings

All borrowings and loans are initially recognised at fair value less directly attributable transaction costs. After initial recognition, they are measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the Statement of Comprehensive Income when the liabilities are de-recognised, as well as through the amortisation process.

3.8. Revenue Recognition

3.8.1. Gross premiums

Gross recurring premiums on Life insurance contracts are recognised as revenue when payable by the policyholder. Any premiums received in advance are not recorded as revenue and are recorded as a liability until the premium is due. Benefits and expenses are provided against such revenue to recognise profits over the estimated life of the policies.

For single premium business, revenue is recognised on the date on which the policy is effective.

3.8.2. Reinsurance premiums

Gross reinsurance premiums on Life and investment contracts are recognised as an expense when the date on which the policy is effective.

Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepted in prior Accounting periods.

3.8.3. Investment Income

Interest income is recognised in the Statement of Comprehensive Income as it accrues, and is calculated by using the effective interest rate method. Fees and commissions that are an integral part of the effective yield of the financial asset or liability are recognised as an adjustment to the effective interest rate of the instrument.

3.8.4. Realised Gains and Losses

Realised gains and losses recorded in the Statement of Comprehensive Income on Investments include gains and losses on financial assets. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost and are recorded on the occurrence of the sale transaction.

3.8.5. Other Income

Other income is recognised on an accrual basis.

3.9. Benefits, claims and expenses recognition

3.9.1. Gross benefits and claims

Gross benefits and claims for Life insurance contracts include the cost of all claims arising during the year including internal and external claims handling costs that are directly related to the processing and settlement of claims as well as changes in the gross valuation of insurance. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due. Interim payments and surrenders are accounted at the time of settlement.

Claims expenses and liabilities for outstanding claims are recognised in respect of direct and inward reinsurance business. Claims outstanding are assessed by review of individual claim files and estimation of changes in the ultimate cost of settling claims.

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 the adjustment to the amounts provided. Such amounts are reflected in the Financial Statement for that period. The methods used and the estimates made are reviewed regularly.

3.9.2. Reinsurance Claims

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

3.10. Expenditure Recognition

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

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

Notes to the Financial Statements *(Contd.)*

3.11. Taxation

3.11.1. Current Taxes

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted at the reporting date and any adjustments to tax payable in respect of previous years.

3.12. 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 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 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.

3.13. Stated Capital

The Company's Stated Capital comprises of ordinary shares which are classified as equity.

3.14. Earnings/Loss Per Share

The Company presents basic earnings/loss 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.

3.15. Cash Flow Statements

The Cash Flow Statement has been prepared using the direct method. Interest received, interest paid and dividend received are classified as operating cash flows while dividends paid is classified as financing cash flow.

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

3.16. Commitments and Contingencies

Contingencies are possible assets or obligations that arise from a past event and would be concerned only with the occurrence or non-occurrence of uncertain future events, which are beyond the Company's control. Contingent liabilities are disclosed in Note 25 to the Financial Statements. Commitments are disclosed in Note 24 to the Financial Statements.

3.17. Events Occurring after the Reporting 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.

3.18. Proposed Dividends

Dividend proposed / declared by the Board of Directors after the reporting date is not recognised as a liability and is disclosed as a note to the Financial Statements.

3.19. Comparative Information

The comparative information is re-classified wherever necessary to conform with the current year's classification in order to provide a better presentation. The details of such re-classifications have been provided in Note 28.

3.20. Financial Risk Management

Overview

The Company has exposure to the following risks from its use of financial instruments

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these Financial Statements.

Risk management framework

The management has the overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit risk

Credit risk is counter-party default risk and includes the risk of failure of financial institutions with which the Company has placed deposits/ investments to meet obligations, and the failure of reinsurers to meet claims when they fall due. It also includes the risk of default by policyholders on premium receivable and the failure of employees to meet loans provided by the Company.

In addition to strict limits on single counter-party exposure, the Company follows a prudent credit policy which limits its investments to high grade corporate credit in line with the Allianz Group policy and above the regulatory minimum criteria. Single counter-party exposure is monitored on a monthly basis by the CRO and any deviations require special approval. The Company's investment approach is also guided and monitored by Allianz Insurance Management, Singapore, as per Allianz Group policies on investment.

Credit risk to external reinsurers appears when insurance risk exposures are transferred by the Company to external reinsurance companies to mitigate insurance risk. Potential losses can arise either due to the non-recoverability of reinsurance receivables already present, or default on benefits that are under reinsurance treaties in force.
The Company's exposure to reinsurance risk is minimal as the majority of reinsurance is placed with Allianz Re and with reinsurers with strong credit ratings approved by the Group.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments. The Company maintains a portfolio of highly marketable securities that can be easily liquidated in the event of an unforeseen interruption of cash flow. Some of the specific actions by the Company to mitigate the liquidity risk are shown below;

- Cash outflows identified in advance are matched through short-term deposits.
- The Company maintains a foreign currency deposit which can be liquidated in the event of unexpected cash outflows.

Market risk

Market risk refers to the risk of possible adverse movements in the values of assets due to changes in market factors including interest rates, foreign exchange rates and equity prices. The current uncertainties in the local and international markets and investment climate have increased the degree of impact of market risk to the Company.

Market risk is an aggregation of,
a. Interest rate risk
b. Currency risk

a. Interest Rate Risk

Interest rate risk is the risk of interest rate volatility adversely affecting the market value of the investment portfolio. In an increasing interest rate environment, there will be a drop in the value of treasury bills and bonds when they are marked-to-market. The Company monitors its interest rate risk on a monthly basis by analysing the movement in the interest rate-sensitive asset duration, the allocation to interest-rate sensitive assets, and the sensitivity of interest rate movements on the solvency margin. The report is reviewed by the local CRO and the Allianz Asia Pacific Risk Team.

b. Currency Risk

The risk of fluctuation of fair values or future cash flows of a financial instrument due to a change in exchange rates is referred to as currency risk.

The Company's principal transactions are carried out in Sri Lankan Rupees and hence, its exposure to foreign exchange risk arises primarily with respect to the US Dollar and Euro denominated assets maintained in order to honour liabilities of foreign currency denominated insurance policies sold in the ordinary course of business. However, no material liabilities were recorded on foreign currency denominated policies as at the reporting date.

Operational risk

This is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior.

Operational failures could result in direct consequences such as producing misleading financial information, loss of return, financial penalties from regulators or damage to the reputation of the Company. Operational risks arise from all operations of the Company.

While it is acknowledged that the Company cannot eliminate all operational risks, it is in a position to manage such risks by initiating a rigorous control framework and by monitoring and responding to potential risks.

The Company's Risk Management Team assesses all foreseeable risk involved in its operation and develop and implement action plan to control those identified operational risk. These action plans recommended by the team are to manage operational risk in the following areas:

- requirements for having appropriate segregation of duties including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation including insurance where this is cost effective.

3.21. New Accounting Standards Issued But Not Effective as at the Reporting Date.

The Institute of Chartered Accountants of Sri Lanka has issued the following new Sri Lanka Accounting Standards which will become applicable for financial periods beginning on or after 1 January 2014/ 2015.

Accordingly, these Standards have not been applied in preparing these Financial Statements.

3.21.1. Sri Lanka Accounting Standard - SLFRS 13, "Fair Value Measurement"

The objective of this standard is to define the fair value, set out a framework for measuring fair value, and finally, to identify the disclosure requirements in respect of fair value in a single SLFRS.

This SLFRS shall be applied prospectively as of the beginning of the annual period in which it is initially applied. The disclosure requirements of this SLFRS need not be applied in comparative information provided for periods before the initial application of this SLFRS.

The Company has started the process of evaluating the potential effect of this. Although many of the SLFRS 13 disclosure requirements regarding financial assets and financial liabilities are already required, the adoption of SLFRS 13 will require the Company to provide additional disclosures. Given the nature of the Company's operations, this standard is not expected to have a pervasive impact on the Company's Financial Statements.

This SLFRS will become effective from 1 January 2014.

3.21.2. Sri Lanka Accounting Standard – SLFRS 9 "Financial Instruments"

The objective of this SLFRS is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of Financial Statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.

An entity shall apply this SLFRS to all items within the scope of LKAS 39 Financial Instruments: Recognition and Measurement.

The mandatory effective date of IFRS 9 is deferred until at least 2017 by IASB. Therefore, having considered the decisions taken internationally, the Institute of Chartered Accountants of Sri Lanka has also decided to defer the mandatory effective date of SLFRS 9 in line with IFRS 9.

The extent of the impact of the above standard to the Financial Statements has not been determined as at 31 December 2013. None of these is expected to have a significant effect on the Financial Statements of the Company.

Notes to the Financial Statements *(Contd.)*

4. Financial Investments

	2013 Face Value Rs. '000	2013 Cost of Investment Rs. '000	2013 Carrying Value Rs. '000	2012 Face Value Rs. '000	2012 Cost of Investment Rs. '000	2012 Carrying Value Rs. '000
Available for sale investment (4a)	752,599	655,811	694,041	593,140	482,909	493,259
Loans and receivables (4b)	203,792	202,890	214,551	30,000	30,000	30,000
	956,390	858,701	908,592	623,140	512,909	523,259

4a Available for Sale Investment

	2013 Face Value Rs. '000	2013 Cost of Investment Rs. '000	2013 Carrying Value Rs. '000	2012 Face Value Rs. '000	2012 Cost of Investment Rs. '000	2012 Carrying Value Rs. '000
Treasury bonds	701,986	605,803	643,160	563,140	472,873	463,697
Treasury bills	30,613	30,008	30,881	30,000	26,518	29,562
Unit trust	20,000	20,000	20,000	-	-	-
	752,599	**655,811**	**694,041**	**593,140**	**499,591**	**493,259**

4b Loans and receivable

	2013 Face Value Rs. '000	2013 Cost of Investment Rs. '000	2013 Carrying Value Rs. '000	2012 Face Value Rs. '000	2012 Cost of Investment Rs. '000	2012 Carrying Value Rs. '000
Term deposits	184,000	184,000	195,054	20,000	20,000	20,000
Debenture (quoted)- Bank of Ceylon - 11.5% p.a	19,792	18,890	19,497	10,000	10,000	10,000
	203,792	**202,890**	**214,551**	**30,000**	**30,000**	**30,000**

	2013 Rs. '000	2012 Rs. '000
4.1 Unit Linked Investment	44,587	-

This is the Investment portion of the Unit Linked product as per SLFRS-4 insurance contracts, which is introduced for the first time by the company.

5 Property, Plant and Equipment

	Computer Equipment Rs.000	Office Equipment Rs.000	Motor Vehicle Rs.000	Furniture & Fittings Rs.000	Total Rs.000
Cost					
Balance as at 1 January 2013	12,770	12,532	5,500	27,427	58,228
Additions	3,300	7,780	-	3,283	14,363
Disposals	-	-	-	-	-
Balance as at 31 December 2013	**16,070**	**20,312**	**5,500**	**30,710**	**72,591**
Depreciation					
Balance as at 1 January 2013	8,357	6,256	3,117	14,863	32,593
Charge for the year	3,067	4,637	1,100	5,557	14,361
Disposals	-	-	-	-	-
Balance as at 31 December 2013	**11,424**	**10,893**	**4,217**	**20,420**	**46,954**
Balance as at 31 December 2013	**4,646**	**9,419**	**1,283**	**10,290**	**25,637**
Balance as at 31 December 2012	**4,413**	**6,275**	**2,383**	**12,564**	**25,635**

Notes to the Financial Statements *(Contd.)*

6 Intangible Assets

	2013 Rs. 000	2012 Rs. 000
Acquisition Cost		
Balance as at 1 January	4,949	4,896
Additions	188	53
Balance as at 31 December	**5,137**	**4,949**
Amortisation		
Balance as at 1 January	1,821	158
Amortisation charge for the year	1,663	1,663
Balance as at 31 December	**3,484**	**1,821**
Carrying Amount as at 31 December	**1,653**	**3,128**

Intangible assets represent the cost of acqusition (Rs. 4.9 million) for actuarial software (prophet professional) from SunGard iWorks Ltd. The assets have been amortised during the period as per the LKAS 37(Intangible Assets).

7 Other Assets

	2013 Rs. 000	2012 Rs. 000
Other debtors and receivables	51,640	37,142
Receivable from policyholders	7,695	580
Balance as at 31 December	59,335	37,722

8 Cash and Cash Equivalents

	2013 Rs.000	2012 Rs.000
Cash at bank	11,476	10,372
Over draft	5,071	-
Cash in hand	4,669	12,667
Balance as at 31 December	**21,216**	**23,039**

9 Insurance Provision Life

The valuation of the long-term insurance business as at 31 December 2013 was made by Ms. Catalin Jumanca, a fellow of the Institute of Actuaries, for and on behalf of Allianz Life Insurance Lanka Ltd. in accordance with the consultant actuary's report, the reserve for the year amounted to Rs. 706,778 million. In the opinion of the actuary, the reserve is adequate to cover the liabilities pertaining to the Life business.

	2013	2012
Actuarial Assumptions		
Mortality table used	A67/70	A67/70
Interest rate	5%	5%
Final crediting rate	8%	8.5%

9.1 Movement in Insurance Provision -Life

	2,013 Rs.000	2,012 Rs.000
Balance as at 1 January	370,897	179,223
Increase in the Life Fund	335,881	191,674
Balance as at 31 December	**706,778**	**370,897**

Notes to the Financial Statements *(Contd.)*

10 Other Liabilities

	2013 Rs. 000	2012 Rs. 000
Commission payable	4,047	21,297
Claims payables	13,121	12,297
Premium in deposit	35,673	21,140
Others creditros and accrued expenses	19,150	15,328
Amount due to Allianz Insurance Lanka Ltd	5,246	5,794
Balance as at 31 December	**77,237**	**75,856**

10.1 Movement of Claims Payable

	2013 Rs. 000	2012 Rs. 000
Balance as at 1 January	12,297	12,179
Claims approved during the year	40,976	27,422
Claims paid during the year	(39,417)	(27,304)
Surrender due to clients	(735)	-
Balance as at 31 December	**13,121**	**12,297**

11 Retirement Benefit Obligation-Gratuity

	2013 Rs. 000	2012 Rs. 000
Defined benefit obligation at 1 January	1,602	1,254
Benefits paid by the plan	-	-
Current service cost	1,158	646
Interest for the year	95	92
Employee benefit (gain)/losses	463	(390)
Defined benefit obligation at 31 December	3,318	1,602

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.

Principal Assumptions as at the Reporting Date	2013	2012
Discount rate at 31 December	8.29%	10%
Future salary increase	10%	12%

Movement in the Present Value of the Defined Benefit Obligations	2013 Rs.000	2012 Rs.000
Opening net liability	1,602	1,254
Expenses recognised in the statement of comprehensive income	1,253	738
Expense/(income) recognised in the Statement of OCI	463	(390)
Benefit paid	-	-
Closing net liability	3,318	1,602

12 Stated Capital

	2013 Rs.	2012 Rs.
Balance as at 1 January	492,499	492,499
Issued during the year (no. of shares 10,012,500)	100,125	-
59,262,350 fully paid ordinary shares	592,624	492,499

Notes to the Financial Statements *(Contd.)*

13 Revenue Reserves

	2013 Rs.000	2012 Rs.000
Balance as at 1 January	(318,132)	(258,935)
Net loss for the year	(39,527)	(59,587)
Actuarial gain/(losses) on retirement benefit	(463)	390
Balance as at 31 December	**(358,122)**	**(318,132)**

14 Gross Written Premium

	2013 Rs.000	2012 Rs.000
Universal Life premium	801,370	513,459
Group Life premium	17,603	6,986
Single premium	9,817	11,696
	828,790	**532,141**

15 Insurance Claims and Benefits (Net)

	2013 Rs.000	2012 Rs.000
Life insurance claims death, disabilities and hospitalisation	40,976	27,422
Reinsurance recoveries	(17,660)	(11,545)
	23,316	**15,877**

16 Underwriting and Net Acquisition Costs

	2013 Rs.000	2012 Rs.000
Policy acquisition cost	167,881	150,136
Other insurance related cost	2,250	2,140
	170,131	**152,276**

17 Income from Investments

	2013 Rs.000	2012 Rs.000
Interest income from AFS assets	78,931	52,753
	78,931	**52,753**

18 Operating and Administration Expenses

	2013 Rs.000	2012 Rs.000
Staff expenses (18a)	103,447	72,039
Administration and establishment expenses	131,615	97,192
Selling expenses	122,644	67,866
Depreciation and Amortisation	16,024	12,867
	373,730	**249,964**

Notes to the Financial Statements *(Contd.)*

18a Staff Expenses

	2013 Rs.000	2012 Rs.000
Staff salaries	55,879	32,692
EPF and ETF (18b)	5,508	4,888
Provision for employee benefits (11)	1,253	738
Staff welfare	3,942	4,647
Training expenses	1,697	2,618
Other costs	35,168	26,456
	103,447	**72,039**

18b Contributions made to the Provident and Trust Funds

	2013	2012
	Rs.'000	Rs.'000
Provident fund	4,406	3,931
Trust fund	1,102	957
	5,508	**4,888**
Number of employees		
As at the end of the financial year	65	63

19 Loss Before Tax

	2013	2012
Loss before tax for the year is stated after charging following expenses	Rs.'000	Rs.'000
Depreciation and Amortisation (5)	16,024	12,867
Auditors' remuneration - Audit	508	698

20 Income Tax Expense

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 2013 is Rs. 1,351,303 (2012: Rs. 970,360).

20a Current Income Tax Expense

	2013 Rs.'000	2012 Rs.'000
Accounting loss	(39,527)	(59,587)
Aggregate disallowed items	68,638	15,343
Aggregate exempt income	(409,591)	(279,776)
Taxable loss	**(380,480)**	**(324,020)**
Tax loss brought forward	(970,751)	(646,731)
statutary tax rate	28%	28%
current income tax expense	Nil	Nil

Previous year's tax loss was restated to Rs. 323,628,983 based on the final tax computation

20b Deferred Tax Assets and Liabilities

Unrecognised Deferred Tax Assets	**Rs.'000**	**Rs.'000**
Deferred tax assets have not been recognised in respect of the following items.		
Tax loss carried forward	1,351,231	970,751
Provision for retirement benefit	3,318	1,602
Net deferred tax asset/(liability)	**1,354,549**	**972,353**
Unrecognised deferred tax assets	**379,274**	**272,259**

Unrecognised Deferred Tax Liabilities

No provision has been made in respect of deffered taxation as the Company has incurred tax losses and the temporary differenes are not expected to be reversed due to the above component and it is not probable that future taxable profit will be available against which the Company can utilise the benefits therefrom. Taxable temporary differences do not arise as the claiming of capital allowances is governed under section 25 of the 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.

20c The Company is entitled to the following notional tax credit in case of a future tax liability

	2013 Rs.'000	2012 Rs.'000
Notional tax credit	20,369	16,149

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.

	2013 Rs.'000	2012 Rs.'000
Net loss for the year (Rs. '000)	(39,527)	(59,587)
Weighted average no. of ordinary shares	59,262	49,250
Loss per share (Rs.)	(0.67)	(1.21)

22 Transactions with Group Companies

Company	Relationship	Nature of Transaction	2013 Rs.'000	2012 Rs.'000
Allianz SE	Group Company	Reinsurance agreement	-	2,658
Allianz Insurance Lanka Ltd	Group of Allianz SE	Reimbursable expenses (net)	5,246	2,023

23 Transactions with Key Management Personnel

Key management personnel includes the Board of Directors. There were no remunerations or fees paid and no transactions with key management personnel for the year ended 31 December 2013.

24 Capital Commitments

There were no capital commitments outstanding as at the reporting date.

25 Contingent Liabilities

There were no contingent liabilities outstanding as at the reporting date.

26 Events after the reporting date

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

27 Litigations and Claims

There were no litigations and claims filed against the Company as at the reporting date.

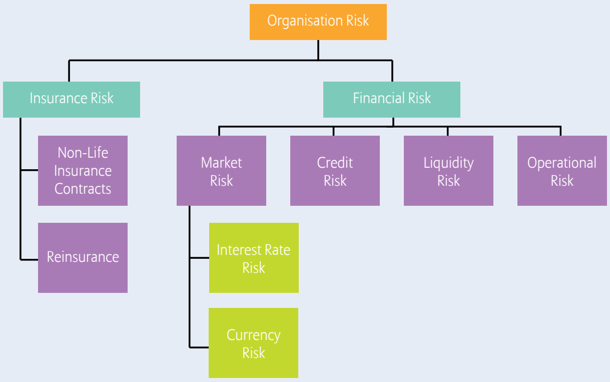
28 Comparative Information

No changes were made to the comparative information, classification and presentation.

29. Risk Management

Introduction and overview

As an insurer, the Company is exposed to multiple risks and the following chart shows all those risks.



This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing such risks, and the manner in which the Company manages its capital.

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 is therefore 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.

Risk management framework

The key elements of the risk management framework are:

- Promotion of a strong risk management culture supported by a robust risk governance structure.
- Consistent application of an integrated risk capital framework across the company to protect the capital base and to support effective capital management.
- Integration of risk considerations and capital needs into management and decision-making processes through the attribution of risk and the allocation of capital to the various segments.

The Company's risk appetite is defined by a clear risk strategy and limit structure. Close risk monitoring and reporting allows the Company to detect potential deviations from the predetermined risk tolerance level at an early stage.

The four primary components of the risk management framework include:

Risk underwriting and identification: A sound risk underwriting and identification framework forms the foundation for adequate risk taking and management decisions such as individual transactions approval, new product approval, and strategic or tactical asset allocation. The framework includes risk assessments, risk standards, valuation methods and clear minimum standards for underwriting.

Risk reporting and monitoring: A comprehensive qualitative and quantitative risk reporting and monitoring framework provides transparency and risk indicators to senior management on the overall risk profile and whether it falls within delegated limits and authorities.

Risk strategy and risk appetite: The risk strategy clearly defines the Company's risk appetite. It ensures that rewards are appropriate for the risks taken and that the delegated authorities are in line with the Company's overall risk-bearing capacity. The risk-return profile is improved through the integration of risk considerations and capital needs into decision-making processes. This also keeps risk strategy and business objectives consistent with each other and allows the Company to take opportunities within the risk tolerance.

Communication and transparency: A transparent and robust risk disclosure provides a basis for communicating this strategy to our internal and external stakeholders, ensuring a sustainable positive impact on valuation and financing.

The primary objective of the Company's risk and financial management framework is to protect the Company's shareholders from events that could hinder the sustainable achievement of financial objectives, including failure to exploit opportunities. The management has the overall responsibility for the establishment and oversight of the Company's risk management framework and thus, their approval is necessary for the risk management strategy and risk policies pertaining to all activities of the Company.

The Company has a risk management team and the members are proposed by the Company's CEO. Its existence is a requirement of the Allianz Group Risk Policy. The main responsibilities of the RiCo include:

- Promoting the Allianz risk culture and developing risk management talent for the Company.
- Pre-approving the Company's risk management policy, risk strategy/appetite and carrying out reviews to ensure alignment with local regulatory and Allianz Group requirements.
- Monitoring the approved risk tolerance and exposures to individual risks.
- Determining management actions for non-compliance of risk owners to limits or to the risk policy.
- Requesting, following-up and assessing contingency and action plans in case of (imminent) limit breaches. Reviewing the risk management function's effectiveness and development in the context of regulatory and Allianz Group requirements.
- Reporting to the Allianz Asia Pacific Risk Management team on a quarterly basis and escalating material issues to the Board of Directors.

During 2013, the RiCo held three meetings with the main item on the agenda being an update by the Chief Risk Officer (CRO) on the Company's top risks and the status of the mitigation plans. In addition, any identified new risks faced by the Company as a result of new product launches and changes in the economic or regulatory environment, such as the implementation of the proposed Risk Based Capital (RBC) framework were also addressed.

a. Capital management objectives, policies and approach

The Company has established the following capital management objectives, policies and approaches to manage the risks that affect its capital position:

- Meeting regulatory solvency requirements and the internal threshold set by Allianz Asia Pacific, thereby providing a degree of security to policyholders.
- Efficient allocation of capital to support business development by ensuring that returns on capital employed meet the requirements of shareholders and policyholders.
- Financial flexibility by maintaining a strong liquidity position.
- Aligning of asset and liability profiles by minimising asset-liability duration mismatches.
- Maintaining financial strength to support business growth to satisfy the requirements of the policyholders, regulators and other stakeholders.

The operations of the Company are subject to regulatory requirements. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions (e.g. solvency margin, approved assets requirements of IBSL) to minimise the risk of default and insolvency on the part of the Company to meet unforeseen liabilities as they arise.

The Company has been in compliance with all these regulatory requirements throughout the financial year, to the best of our knowledge.

The Company maintains its capital well above the minimum regulatory requirements of the IBSL. (The Company has

Notes to the Financial Statements *(Contd.)*

a stated capital of Rs. 592.6 million whereas the current minimum capital requirement is only Rs. 100 million.

b. Approach to capital management

The Company seeks to optimise the structure and sources of capital to ensure that it consistently maximises returns to the shareholders.

The Company's approach to managing capital involves managing assets, liabilities and risks in a coordinated way, assessing shortfalls between reported and required capital levels on a regular basis and taking appropriate actions to influence the capital position of the Company in the light of changes in economic conditions and risk characteristics.

The primary source of capital used by the Company is equity shareholders' funds. The capital requirements are routinely forecasted on a periodic basis by the management. The solvency margins are calculated on a monthly basis and shared with the management.

c. Regulatory framework

The insurance regulator of the Country, the Insurance Board of Sri Lanka (IBSL) is primarily interested in protecting the rights of policyholders, and monitors the Company closely to ensure that it is satisfactorily managing affairs for the benefit of policyholders. At the same time, they are also interested in ensuring that the Company maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks, natural disasters, etc.

Thus, the operations of the Company are subject to the regulatory requirements of the IBSL as well as various other regulators such as the Central Bank of Sri Lanka (CBSL), the Department of Inland Revenue etc. The Company is also regulated by the Companies Act No. 07 of 2007.

The Regulation of Insurance Industry (Amendment) Act No. 3 of 2011 requires insurance companies carrying on the business of both long-term insurance business and General insurance business to segregate themselves into two separate companies by 2015. The Company has already adhered to the upcoming major regulatory requirements by IBSL.

In addition, IBSL has decided to implement a Risk Based Capital (RBC) framework in Sri Lanka to monitor insurance companies in the country, replacing the existing solvency regime. The deadline given by the IBSL for implementation of RBC is January 2016. It is believed that the Company has made considerable progress towards RBC implementation over the last two years and the compulsory parallel run will commence from 2014 onwards. Moreover, it is strongly believed that the Company can implement RBC requirements without any significant concerns by the due date.

29.1 Insurance risk

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, may differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long–term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

The risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines as well as the use of reinsurance arrangements.

29.1.1 Life Insurance contracts

a. Product design risk;

Life Insurance contracts offered by the Company include Universal Life, Unit Linked, MRTA and group plans. Under the Universal Life and Unit linked plans, the Company offers single and regular products. The Universal Life plan and Unit Link plan are products where lump sum benefits are payable on death, maturity or in some cases, permanent total disability. The Universal Life and Unit Linked plans acquire a surrender value upon the completion of three years. The Company also had a single premium product (MRTA) to protect the family from the burden of payment of the loan in the case of the death of the loanee.

The main risks that the Company is exposed to under product design risk are as follows:

Mortality risk	risk of loss arising due to policyholders' death experience defering from the expected
Morbidity risk	risk of loss arising due to policyholders' health experience defering from the expected
Investment return risk	risk of loss arising from actual returns defering from the expected
Expense risk	risk of loss arising from the expense experience defering from the expected
Policyholder decision risk	risk of loss arising due to policyholders' experiences (lapses and surrenders) defering from the expected

These risks do not vary significantly in relation to the location and type of risk insured by the Company.

b. Underwriting and expense Over-run Risk

The Company's underwriting strategy focuses on ensuring risk diversification with regard to the type of risks and level of insured benefits. The following measures are in place to mitigate underwriting risks:

- A Customer Need Analysis is conducted and a Risk Assessment is in place (for the unit-linked product) to ensure that the most appropriate policy is sold.
- Input on terms and conditions and product pricing is obtained from the in-house actuarial team, the appointed actuary, the Allianz Asia Pacific actuarial team, the Chief Risk Officer and the local Compliance Officer to ensure new products are adequately priced.
- The In-house actuarial team provides periodic management information to review Life insurance products to facilitate decision-making.
- Only registered laboratories are used to obtain medical reports.
- Focused product and sales training is provided to Insurance advisors in English, Sinhala and Tamil by the in-house training department.
- Financial authority limits are in place and have been incorporated in the core insurance system.

c. Claims Risk

This risk arises due to the frequency of claims from life insurance contracts exceeding the level incorporated in pricing the products. The following measures are in place to mitigate claims risk.

- The In-house actuarial team carries out the valuation of Life liabilities on an annual basis, which is approved by the appointed Actuary.
- The In-house actuarial team reviews reserving on a monthly basis and provides information and guidance to management.
- Claims are reserved immediately at initiation or on the availability of information of the death or injury of the insured.
- Financial authority limits are set based on the claims limits with the maximum limits provided to the CEO, Senior Manager–Life and Chief Financial Officer. Financial limits are reviewed on an annual basis, and quarterly audits are conducted to ensure compliance.

The valuation of liabilities for the long-term business is predominantly based on fund reserves, sterling reserves, reserves for claims incurred but not reported and unearned premium reserves.

Notes to the Financial Statements *(Contd.)*

- Sterling reserves are the non-fund related liabilities and are calculated based on the A67-70 mortality table.
- The unearned premium reserves are derived based on the monthly risk premiums received before the valuation date in order to provide insurance coverage after the valuation date.
- Reserves for claims incurred but not reported as of the valuation date is calculated based on analysis of the claims payment patterns in the past (speed of settlement).
- Discounting – the discounting rate is derived based on the IBSL guidelines provided under the Regulation Of Insurance Iindustry Act No.43 Of 2000 As Amended By Act No. 27 Of 2007 and Act No. 3 Of 2011 for long-term insurance business.
- Additional contingency reserves are set aside in order to allow for operational risks and for any data omissions and errors.

29.1.2 Reinsurance Risk

The Company purchases reinsurance as part of its risks mitigation programme. Reinsurance ceded is placed on both quota share and surplus programmes which is taken out to reduce the overall exposure of the Company to certain classes of business.

Premium ceded to the reinsurers is in accordance with the terms on the programmes already agreed based on the risks written by the insurance companies. Recoveries from reinsurers on claims are based on the cession made in respect of each risk and is estimated in a manner consistent with the outstanding claims provisions made for the loss. Although we mitigate our exposure through prudent reinsurance arrangements, the obligation to meet claims emanating from policy holders rests with the Company. Default of reinsurers does not negate this obligation and in that respect, the Company carries a credit risk up to the extent ceded to each reinsurer.

The Company uses Allianz SE and Munich Re as its reinsurance providers.

The following table shows the credit ratings of the reinsurance companies with whom the Company has arrangements.

Reinsurer	Rating	Rating Agency
Allianz SE	AA	S&P
Munich Re	AA-	S&P

29.2 Financial Risk

29.2.1 Market Risk

Market risk refers to the risk of possible adverse movements in the values of assets due to changes in market factors including interest rates, foreign exchange rates and equity prices. The Company does not have any exposure on equity price risk.

Market risk is an aggregation of,

a. Interest rate risk

b. Currency risk

a. Interest Rate Risk

Interest rate risk is the risk of interest rate volatility adversely affecting the market value of the investment portfolio. In an increasing interest rate environment, there will be a drop in the value of treasury bills and bonds when they are marked-to-market. The Company monitors its interest rate risk on a monthly basis by analysing movement in the interest rate-sensitive asset duration, the allocation to interest-rate sensitive assets, and the sensitivity of interest rate movements on the solvency margin. The report is reviewed by the local CRO and the Allianz Asia Pacific Risk Team.

The Company is not exposed to any material interest rate risks on financial assets and liabilities.

b. Currency Risk

The risk of fluctuation of fair values or future cash flows of a financial instrument due to a change in exchange rates is referred to as currency risk.

The Company's principal transactions are carried out in Sri Lankan Rupees and reinsurance payments are also done equivalent Sri Lankan rupee values and hence, its exposure to foreign exchange risk is minimal.

29.2.2 Credit Risk

Credit risk is counter-party default risk and includes the risk of failure of financial institutions with which the Company has placed deposits/investments to meet obligations, and the failure of reinsurers to meet claims when they fall due. It also includes the risk of default by policyholders on premium receivable, and the failure of employees to meet loans provided by the Company.

In addition to strict limits on single counter-party exposure, the Company follows a prudent credit policy which limits its investments to high grade corporate credit in line with Allianz Group policy and above the regulatory minimum criteria. Single counter-party exposure is monitored on a monthly basis by the CRO, and any deviations require special approval. The Company's investment approach is also guided and monitored by Allianz Insurance Management Singapore as per Allianz Group policies on investment.

Credit risk to external reinsurers appears when insurance risk exposures are transferred by the Company to external reinsurance companies to mitigate insurance risk. Potential losses can arise either due to the non-recoverability of reinsurance receivables already present or default on benefits that are under reinsurance treaties in force. The Company's exposure to reinsurance risk is minimal, as the majority of reinsurance is placed with Allianz Re and with reinsurers with strong credit ratings approved by the Group.

31 December 2013

Financial Instruments	Government Guaranteed Rs'000	AAA Rs. '000	AA+ Rs. ' 000	AA- Rs. '000	TOTAL Rs. '000
Available for Sale					
Government					
Securities	674,041	-	-	-	674,041
Unit Trust	20,000	-	-	-	20,000
Loans and Receivables					
Debentures	-	-	9,618	9,879	19,497
Fixed Deposits	-	111,134	22,444	61,476	195,054
Total	**694,041**	**111,134**	**32,062**	**71,355**	**908,592**

31 December 2012

Financial Instruments	Government Guaranteed Rs'000	AAA Rs. '000	AA+ Rs. '000	AA- Rs. '000	TOTAL Rs. '000
Available for Sale					
Government					
Securities	493,259	-	-	-	493,259
Loans and Receivables					
Debentures	-	-	10,000	-	10,000
Fixed Deposits	-	-	20,000	-	20,000
Total	**493,259**	**-**	**30,000**	**-**	**523,259**

The table below provides information regarding the credit risk exposure on other financial assets of the Company as at 31 December by classifying assets according to their due period.

31 December 2013	< 180 days Rs. '000	180 to 365 days Rs. '000	365 < days Rs. '000	Total Rs. '000
Reinsurance Receivable				
- Life	15,988	-	-	15,988
Premium Receivables				
- Life	7,695	-	-	7,695
Total	**23,683**	**-**	**-**	**23,683**
% Distribution	100%	-	-	-

31 December 2012	< 180 days Rs. '000	180 to 365 days Rs. '000	365 < days Rs. '000	Total Rs. '000
Reinsurance Receivable - Life	13,389	-	-	13,389
Premium Receivables - Life	580	-	-	580
Total	**13,969**	**-**	**-**	**13,969**
% Distribution	100%	-	-	

29.2.3 Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments.

The table below summarises the maturity profile of the financial assets of the Company based on their market value. The Company maintains a portfolio of highly marketable securities that can be easily liquidated in the event of an unforeseen interruption of cash flow. Some of the specific actions by the Company to mitigate the liquidity risk include;

- Assets categorised into different tiers based on liquidity and a minimum allocation to each tier as specified in the Company's Investment Policy Statement.
- Cash outflows identified in advance matched through short-term deposits.

Maturity Analysis of Financial Assets 2013

	Less than 1 year Rs. '000	1-3 years Rs. '000	More than 3 years Rs. '000	Carrying Value Rs. '000
Available for Sale	**80,881**	**189,981**	**420,179**	**694,041**
Treasury Bonds	-	169,981	420,179	590,160
Treasury Bills	30,881	-	-	30,881
REPO	53,000	-	-	53,000
Unit Trust		20,000	-	20,000
Loans & Receivables		**132,483**	**82,068**	**214,551**
Debentures		9,618	9,879	19,497
Fixed Deposits		122,865	72,189	195,054
Total	**80,881**	**322,464**	**502,247**	**908,592**

Maturity Analysis of Financial Assets 2012

	Less than 1 year Rs. '000	1-3 years Rs. '000	More than 3 years Rs. '000	Carrying Value Rs. '000
Available for Sale	**43,262**	**118,099**	**331,898**	**493,259**
Treasury Bonds	6,000	118,099	331,898	455,997
Treasury Bills	29,562	-	-	29,562
REPO	7,700	-	-	7,700
Loans and Receivables	**20,000**	**10,000**	**-**	**30,000**
Debentures	-	10,000	-	10,000
Fixed Deposits	20,000	-	-	20,000
Total	**63,262**	**128,099**	**331,898**	**523,259**

The maturity analysis of financial liabilities is not disclosed due to non-availability of maturity data.

Operational Risk

This is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior.

Operational failure could result in dire consequences such as producing misleading financial information, loss of return, financial penalties from regulators or damage to the reputation of the Company. Operational risks arise from all operations of the Company.

While it is acknowledged that the Company cannot eliminate all operational risks, it is in a position to manage such risks by initiating a rigorous control framework and by monitoring and responding to potential risks.

The Company's Risk Management Team assesses all foreseeable risk involved in its operation and develop and implement action plans to control those identified operational risks. These action plans recommended by the team are to manage the operational risk in the following areas:

- requirements for having the appropriate segregation of duties, including the independent authorisation of transactions;

- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- Risk mitigation including insurance where this is cost effective.

Compliance with recommended action plans are supported by a periodic reviews undertaken by the Senior Manager Risk & Control and the Compliance Officer. The results of internal reviews are discussed frequently, and necessary action is taken.

Moreover, business risks such as changes in the environment, technology and the industry are monitored through the Company's strategic planning and budgeting process.

29.3 Financial Assets and liabilities

29.3.1 Fair value Hierarchy for Assets Carried at Fair Value.

The different levels have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table represents an analysis of financial Investments recorded at fair value by level of the fair value hierarchy:

As at 31 December 2013	Level 1	Level 2	Level 3	Total Market Value
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Available for Sale				
- Treasury Bonds	590,160	-	-	590,160
- Treasury Bills	30,881	-	-	30,881
- Unit Trust	20,000	-	-	20,000
- REPO	-	-	53,000	53,000
Total	641,041	-	53,000	694,041

As at 31 December 2012	Level 1	Level 2	Level 3	Total Market Value
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Available for Sale				
- Treasury Bonds	455,997	-	-	455,997
- Treasury Bills	29,562	-	-	29,562
- REPO	-	-	7,700	7,700
Total	485,559	-	7,700	493,259

28.3.2 Assets /Liabilities Not Carried at Fair Value

As at 31 December 2013	Level 1	Level 2	Level 3	Total Fair Value	Total carrying
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Loans and Receivables					
- Fixed Deposits	-	-	195,054	195,054	195,054
- Corporate Debentures	-	-	19,497	19,497	19,497
- Premium Receivable	-	-	7,695	7,695	7,695
- Reinsurance Receivable	-	-	15,988	15,988	15,988
Total	-	-	238,234	238,234	238,234

As at 31 December 2013	Level 1	Level 2	Level 3	Total Fair Value	Total carrying
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Liabilities					
- Reinsurance Liability	-	-	22,646	22,646	22,646
Total	-	-	22,646	22,646	22,646

Notes to the Financial Statements *(Contd.)*

As at 31 December 2012	Level 1	Level 2	Level 3	Total Fair Value	Total carrying
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Loans and Receivables					
- Fixed Deposit	-	-	20,000	20,000	20,000
- Corporate Debentures	-	-	10,000	10,000	10,000
- Premium Receivable			580	580	580
- Reinsurance Receivable	-	-	13,389	13,389	13,389
Total	-	-	43,969	43,969	43,969

As at 31 December 2012 Carrying value	Level 1	Level 2	Level 3	Total Fair Value	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Liabilities					
- Reinsurance Liability	-	-	18,277	22,646	22,646
Total	-	-	100,171	100,171	100,171

The Company does not anticipate the fair value of the above to be significantly different to their carrying values and considers the impact as not material for the disclosure.

Nine Year Summary

ALLIANZ INSURANCE LANKA LTD.

Statement of Income

	2013 RS.'000	2012 RS.'000	2011 RS.'000	2010 RS.'000	2009 RS.'000	2008 RS.'000	2007 RS.'000	2006 RS.'000	2005 RS.'000
Gross written premium	2,104,591	1,521,463	1,501,300	1,469,538	1,174,822	601,103	414,017	300,949	75,402
Net earned premium	684,309	435,561	336,747	293,436	265,074	115,236	52,771	24,922	6,775
Income from investments and Other income	158,297	127,498	105,454	95,379	95,709	45,640	21,199	11,394	3,996
Insurance claims and benefits (net)	(317,839)	(163,837)	(139,168)	(172,754)	(150,698)	(59,178)	(33,219)	(18,239)	(7,503)
Underwriting and net acquisition cost/income (including reinsurance)	121,337	163,639	151,610	115,060	88,096	66,090	50,006	19,293	4,340
Expenses	(396,876)	(251,962)	(173,452)	(109,816)	(139,869)	(80,854)	(37,549)	(22,503)	(16,508)
Profit before taxation	249,228	310,899	281,191	221,305	158,312	86,934	53,207	14,867	(8,900)
Income tax expenses	(55,567)	(81,397)	(46,594)	(53,996)	(38,646)	(14,190)	(3,669)	(2,105)	-
Net profit for the year	193,661	229,502	234,597	167,309	119,666	72,744	49,538	12,762	(8,900)

Balance Sheet	2013 RS.'000	2012 RS.'000	2011 RS.'000	2010 RS.'000	2009 RS.'000	2008 RS.'000	2007 RS.'000	2006 RS.'000	2005 RS.'000
Assets									
Investments	1,129,579	1,098,551	943,206	828,458	656,207	347,368	151,914	93,338	55,618
Property, plant & equipment	63,563	34,999	19,020	26,330	31,988	22,963	2,287	3,708	4,773
Intangible assets	46,884	24,870	10,122	11,233	19,453	9,802	-	-	-
Reinsurance receivables	463,164	261,048	341,143	296,505	125,480	133,939	104,561	75,308	12,948
Premium receivables	897,033	451,657	379,805	334,602	130,678	104,593	76,520	57,937	24,939
Other assets	60,187	55,070	77,072	95,316	111,342	23,680	4,022	2,148	2,485
Deferred tax assets	8,906	7,616	5,060	3,183	7,124	2,884	3,273	-	-
Cash & cash equivalents	57,899	56,250	18,485	19,827	23,172	54,804	43,618	31,000	7,861
Total Assets	**2,727,215**	**1,970,061**	**1,793,914**	**1,615,454**	**1,105,444**	**700,033**	**386,195**	**263,488**	**108,624**
Liabilities and Shareholders' Equity									
Liabilities									
Insurance provision-Non Life	1,130,653	529,878	468,653	520,252	315,105	238,503	146,349	112,811	24,587
Reinsurance creditors	451,752	469,908	535,829	336,200	240,657	86,537	88,505	56,121	19,734
Employee benefits	8,169	5,890	4,112	4,899	2,856	966	567	355	126
Other liabilities	198,155	168,117	91,037	105,524	107,535	46,881	28,954	19,043	15,575
Bank overdraft	62,976	15,983	22,540	28,457	7,345	14,866	3,409	6,285	-
Total Liabilities	**1,851,705**	**1,189,776**	**1,122,171**	**995,332**	**673,498**	**387,753**	**267,784**	**194,615**	**60,022**
Shareholders' Equity									
Stated capital	250,000	250,000	250,000	250,000	250,000	188,635	67,510	67,510	60,001
Revenue reserves	616,708	534,706	430,243	349,446	181,946	123,645	50901	1363	(11,399)
Fair Value reserve	8,803	(4,421)	(8,500)	20,676	-	-	-	-	-
Total Shareholders' Equity	**875,510**	**780,285**	**671,743**	**620,122**	**431,946**	**312,280**	**118,411**	**68,873**	**48,602**
Total Liabilities and Shareholders' Equity	**2,727,215**	**1,970,061**	**1,793,914**	**1,615,454**	**1,105,444**	**700,033**	**386,195**	**263,488**	**108,624**

Six Year Summary

ALLIANZ LIFE INSURANCE LANKA LTD.

Income Statement

	2013 RS.'000	2012 RS.'000	2011 RS.'000	2010 RS.'000	2009 RS.'000	2008 RS.'000
Gross written premium	828,790	532,141	351,299	204,814	101,816	4,013
Net earned premium	784,600	497,452	329,558	192,569	94,322	3,840
Income from investments and other income	78,931	52,173	31,087	30,092	33,819	22,331
Insurance claims and benefits (net)	(23,316)	(15,877)	(12,612)	(5,715)	(3,283)	-
Net acquisition cost	(170,131)	(152,276)	(111,814)	(81,149)	(48,014)	(1,849)
Increase in Life insurance provision	(335,881)	(191,674)	(112,933)	(58,289)	(7,317)	(684)
Expenses	(373,730)	(249,964)	(181,792)	(201,486)	(145,243)	(33,289)
Profit before taxation	(39,527)	(59,587)	(58,506)	(123,978)	(75,716)	(9,651)
Income tax expenses	-	-	-	-	-	-
Net Profit for the year	**(39,527)**	**(59,587)**	**(58,506)**	**(123,978)**	**(75,716)**	**(9,651)**

Balance Sheet

	2013	2012	2011	2010	2009	2008
Assets						
Investments non Unit Linked	908,592	523,259	393,807	221,193	189,150	231,775
Investments Unit Linked	44,587	-	-	-	-	-
Property, plant & equipment	25,637	25,635	25,065	23,787	18,147	6,210
Intangible assets	1,653	3,128	4,738	-	-	-
Reinsurance receivables	15,988	13,389	10,710	3,108	2,376	-
Other assets	59,335	37,722	34,936	43,358	57,981	19,238
Cash & cash Equivalents	21,216	23,039	15,778	8,351	5,849	2,522
Total Assets	**1,077,008**	**626,172**	**485,034**	**299,797**	**273,503**	**259,745**
Liabilities and Shareholders' Equity						
Liabilities						
Insurance provision-non Unit Linked	662,191	370,897	179,223	66,290	8,001	684
Insurance provision-Unit Linked	44,587	-	-	-	-	-
Reinsurance creditors	22,646	18,277	10,645	7,252	5,098	937
Other liabilities	77,237	75,856	69,803	65,481	93,179	17,776
Employee benefits	3,318	1,602	1,254	820	508	-
Bank overdraft	5,071	4,436	2,629	1,865	2,085	-
Total Liabilities	**815,050**	**471,068**	**263,554**	**141,711**	**108,871**	**19,397**
Shareholders' Equity						
Stated capital	592,624	492,499	492,499	349,999	249,999	249,999
Revenue reserves	(358,122)	(318,132)	(258,935)	(200,429)	(85,367)	(9,651)
Fair value reserve	27,456	(19,263)	(12,084)			
Total shareholders' equity	261,958	155,104	221,480	158,086	164,632	240,348
Total Liabilities and Shareholders' Equity	**1,077,008**	**626,172**	**485,034**	**299,797**	**273,503**	**259,745**

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. eg. - 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 Non Life insurance business whereby a result is determined at the end of the accounting period reflecting the profit or loss from providing insurance cover during that period, and any adjustments to the profit or loss of providing insurance cover during earlier accounting periods.

Annuity

A series of fixed 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 payment starts at the outset of the contract, it is an immediate annuity. If it starts at some point in the future, it is 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 policyholder's death.

Cedent

The 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 – Non-Life 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

Glossary of Insurance Terms *(Contd.)*

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.

Crediting Rate

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 – Non Life Insurance Business

Under the annual basis of accounting, these are acquisition costs relating to the unexpired period of risk of contracts in force at the balance sheet date carried forward from one accounting period to subsequent accounting periods.

Insurance Risk

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

Insurance Provision – Non Life

Usually relates to the proportion of net written premiums relating to periods of risk after the accounting date that 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.

Net Asset Value

The value of all tangible and intangible assets of a company minus its liabilities. It reflects a company's fundamental value.

Net Combined Ratio – Non Life 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 Non Life insurance business, net earned premium is 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 the relevant reinsurance).

Formula:

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

Glossary of Insurance Terms *(Contd.)*

Non Life Insurance Business

Insurance (including reinsurance) business falling within the classes of insurance specified as Non Life insurance business under the Regulation of Insurance Industry Act No.43 of 2000.

Non - Participating Business

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

Policy Loans

A loan from the insurer to a policyholder 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).

Proportional Reinsurance

A form of reinsurance in which the sum insured written by the primary insurer is divided proportionally between the primary insurer and the reinsurer, and the reinsurer is allocated a corresponding share of the premiums and claims.

Provision for Outstanding Claims

Provision for claims that have already been incurred at the balance sheet date but have either not yet been reported or not yet been fully settled.

Reinsurance

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

Reinsurance 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, ie. - retained net for own account.

Solvency Margin - Non Life

The difference between the value of admissible assets and the value of liabilities required to be maintained by the insurer who carries on Non Life insurance business as defined in Solvency Margin (Non Life 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).

Technical Provisions

Uncertain liabilities directly connected with insurance business,

Glossary of Insurance Terms *(Contd.)*

made to ensure that obligations under insurance contracts can always be met.

Underwriter

A member of an insurance company who acts on behalf of his or her employer to negotiate, accept or reject the terms of an insurance contract. They are responsible for ensuring the quality and reliability of risk transfer solutions and their job is to develop products that best reflect the characteristics of the risks and clients' needs.

Underwriting Profit

The underwriting result generated by transacting Non Life insurance business without taking into account investment income.

Ultimate Loss

As calculated at the end of the calendar year under consideration, the ultimate loss for an accident year indicates the estimated aggregate claims expenditure that will have to be paid to finally settle the claim(s). It comprises the claims payments already made for the accident year in question and the remaining claims reserve posted for payments in future years. Since claims reserves are based on estimates, the ultimate loss changes from one calendar year to the next. Reference may therefore also be made to the ultimate loss position or the ultimate loss estimate.

Unexpired Risk Reserve

The excess of the estimated value of claims and expenses likely to arise after the end of the financial year from contracts concluded before the date, insofar as their estimated value exceeds the provision for unearned premiums (after deduction of any acquisition costs deferred).

Unit-Linked Life Insurance

A type of Life insurance with a savings component where the benefits payable depend on the performance of the assets invested in a fund. The investment risk is borne by the policyholder.

Written Premium – Non Life 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.

Written Premium - Life Insurance Business

Premiums to which the insurer is contractually entitled, and received in the accounting period.

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 Lanka Ltd., on 20 January 2004 under the Companies Act No 17 of 1982 in Sri Lanka. The Company was re-registered as Allianz Insurance Lanka Ltd., under the Companies Act No. 7 of 2007.	A public limited liability company incorporated in Sri Lanka on 24 March 2008, 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 Rangam Bir	Heinz Dollberg Surekha Alles Rangam Bir
Auditors	KPMG Sir Mohamed Macan Markar Mawatha, Colombo 3.	KPMG Sir Mohamed Macan Markar Mawatha, Colombo 3.
Consultant Actuaries	NMG Financial Services Consulting 65 Chulia Street, #37-07/08, OCBC Centre, 049513 Singapore.	Catalin Jumanca Allianz SE, Koeniginstrasse 28, 80802 Munich, Germany.
Secretaries	EM & EN Agents and Secretaries (Pvt) Ltd. M & N Building, No. 2, Deal Place, Colombo 3.	EM & EN Agents and Secretaries (Pvt) Ltd. M & N Building, No. 2, Deal Place, Colombo 3.
Bankers	Citibank Hongkong & Shanghai Banking Corporation Bank of Ceylon Sampath Bank PLC Peoples Bank PLC Commercial Bank of Ceylon PLC Nations Trust Bank PLC Seylan Bank PLC	Deutsche Bank AG Standard Chartered Bank Commercial Bank of Ceylon PLC. Sampath Bank PLC National Development Bank PLC National Savings Bank Bank of Ceylon Peoples Bank PLC Nations Trust Bank PLC

Branch Network

Registered Office No. 92, Glennie Street, Colombo 2.

No. 92, Glennie Street, Colombo 2.

We're closer to our customers to serve them better

Ahangama
57/3, Matara Road, Piyadigama, Ahangama.

Aluthgama
168, Galle Road, Kaluwa Modara, Aluthgama.
Tel: 072-2316971

Ambalangoda
21/1/1, Aluth Para, Ambalangoda.
Tel: 091-2255895

Anuradhapura
523/3, 1st Floor, Maithreepala Senanayake Mw., Anuradhapura.
Tel: 025-2234899

Avissawella
143/D1, Rathnapura Road, Avissawella.

Balangoda
143/1, Barns Ratwatte Mw., Balangoda.
Tel: 045-2289422

Bandarawela
35/2, Police Kanda, Welimada Road, Bandarawela.
Tel: 057-2231214

Badulla
20, Mahiyangana Road, Badulla.

Batticaloa
140, 3/1, Trinco Road, Batticaloa.
Tel: 065- 2228224

Chilaw
105/01/02, Colombo Road, Chilaw.
Tel: 032- 2224831

City
Level 2, Valiant Towers, 46/7, Nawam Mw., Colombo 02.
Tel: 011 2303171

Dambulla
659 1/1, Anuradhapura Road, Dambulla.
Tel: 066-2283446

Eheliyagoda
142, Main Street, Eheliyagoda.
Tel: 036-2257135

Elpitiya
45/1 A, Pituwala Road, Elpitiya.
Tel: 091- 2290812

Embilipitiya
127/C, New Town Embilipitiya.
Tel: 077-3784355

Galle
141, 1/1, Colombo Road, Kaluwella, Galle.
Tel: 091-2227392

Gampaha
6/2, Siri Kurusa Road, Gampaha.
Tel: 033-2234995

Gampola
73/1/2, Nuwaraeliya Road, Gampola.

Ja Ela
17, Old Negombo Road, Ja-ela.
Tel: 011-2240238

Jaffna
100, Manipay Road, Jaffna.
Tel: 021-2221761

Jaffna - Metro
86, Navalar Road, Jaffna.

Kalawana
Main Street, Kalawana.
Tel: 045-2255010

Kalutara
302, 2nd Floor, Galle Road, Kalutara South.
Tel: 034- 2221318

Kandy
27/3/1, HSBC Building, Cross Street, Kandy.
Tel: 081- 2205152

Kegalle
245, Colombo Road, Kegalle.
Tel: 035-2230157

Kilinochchi
404, Railway Station Road, Kilinochchi.
Tel: 021-2285441

Kiribathgoda
63/1 New Kandy Road, Kiribathgoda.
Tel: 011-2907825

Kuliyapitiya
262/1/1, Madampe Road, Kuliyapitiya.
Tel: 037-2283470

Kurunegala
174, Negombo Road, Kurunegala.
Tel: 037- 2230505

Lunugamvehera
07, New Town, Lunugamvehera.

Maharagama
237/1, Highlevel Road, Maharagama.

Matale
17, Kandy Road, Matale.
Tel: 077-3015059

Matara
31/1, Anagarika Dharmapala Mw., Matara.
Tel: 041- 2234583

Mathugama
121, Agalawatta Road, Mathugama.
Tel: 034-2248372

Minuwangoda
87/A, Kurunegala Road, Minuwangoda.
Tel: 011-2281145

Negombo
51, Galison Road, Negombo.
Tel: 031-2228455

Nittambuwa
0087/1/B, Kandy Road, Nittambuwa.

Nugegoda
331 A, Highlevel Road, Nugegoda.
Tel: 011-2819519

Nuwaraeliya
1st Floor 28/1, Kandy Road, Nuwaraeliya.

Panadura
A.S Building, 229 1/2, Galle Road, Panadura.
Tel: 038-2244288

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60 A, Wewakumbura Road, Saranapala Mw., Piliyandala.
Tel: 011-2615820

Point Pedro
1st Floor, Sinnaththuraj Building, Main Street, Nelliyadi.
Tel: 021-2262952

Polonnaruwa
120, Batticaloa Road, Polonnaruwa.
Tel: 027-2224100

Rathnapura
142, Bandaranayaka Mawatha, athnapura.
Tel: 045-2230520

Thanamalwila
176, Thanamalwila.
Tel: 047-2285311

Thirunelvelli
28, Palaly Road, Thirunelvelli.
Tel: 021-2212380

Tissamaharamaya
142/1, Hambantota Road, Tissamaharamaya.
Tel: 047-2239591

Trincomalee
447/2, Dockyard Road, Trincomalee.
Tel: 026-2226255

Vauxhall Street
235, Vauxhall Street, Colombo 02.
Tel: 011-2303124

Vavuniya
45, 2nd Cross Street, Vavuniya.
Tel: 024- 2225473

Wellawatte
527, Galle Road, Wellawatte.
Tel: 011-2363148

Wennappuwa
Halmillakelewatte, Wennappuwa.
Tel: 031-2256261

Notes

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