Under Our Care

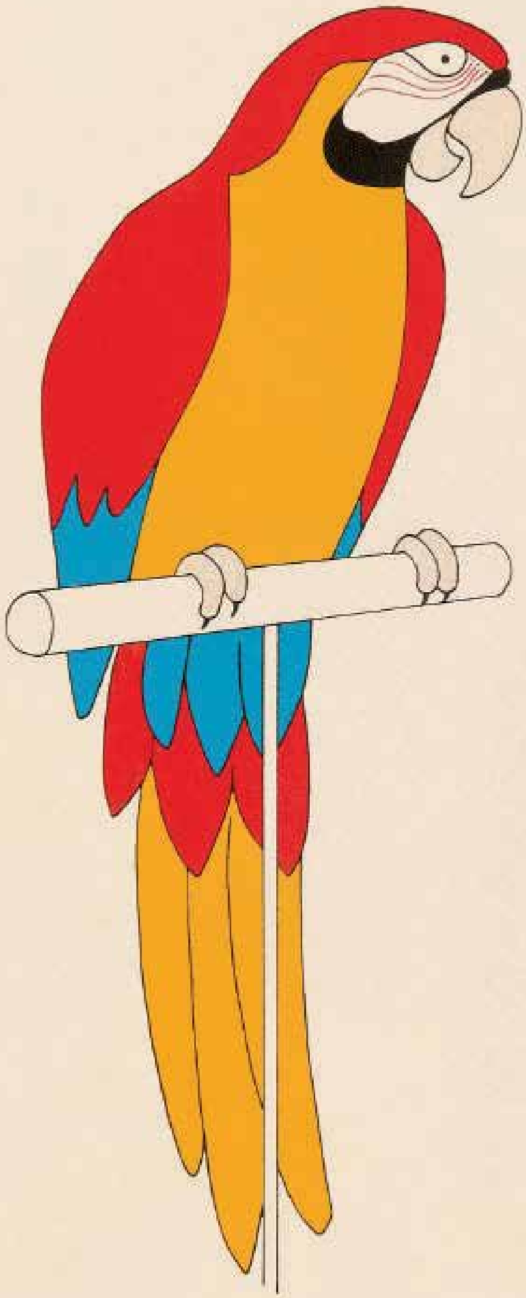
Allianz Insurance Lanka Ltd. | Allianz Life Insurance Lanka Ltd.

Annual Report 2016

Allianz

Under Our Care

Service is at the heart of what we do here at Allianz Lanka and we pride ourselves in creating a product and service portfolio that caters to diverse needs and requirements. Even as a brand that has gained respect and acknowledgement on a global scale, we have not lost touch with connecting to our customers on a personal level; one on which we can truly recognise and cater to them in our own efficient and unique way, as they place their trust under our care.



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 preferred employer in the insurance industry

To be the number one insurer for creating shareholder value

Mission

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

Guiding Principle

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

Core Values

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

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

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

Securing peace of mind away from home

Travel for either business or pleasure poses certain risks that could potentially serve as obstacles to an eagerly-awaited vacation. With Allianz as your travel partner, you are guaranteed relaxation and a risks-free travel experience with coverage both before and after the trip. With our provision of comprehensive covers at affordable premiums, we take your concerns into consideration and ensure you have the peace of mind you need when away from home

Financial Highlights

Gross Written Premium
LKR
4.6 Bn
Non Life Insurance

Gross Written Premium
LKR
1.0 Bn
Life Insurance

Investment Portfolio
LKR
1.9 Bn
Life Insurance

Investment Portfolio
LKR
2.0 Bn
Non Life Insurance

Net Profit
LKR
24 Mn
Non Life Insurance

Net Profit
LKR
26 Mn
Life Insurance

Allianz at a Glance

	2016	Change from previous year	2015	Change from previous year	2014	Change from previous year	2013	Change from previous year	2012	Change from previous year
NON LIFE INSURANCE										
Income Statement										
Gross written premium (Rs. 000)	4,576,123	30%	3,506,621	20%	2,923,611	39%	2,104,591	38%	1,521,463	1%
Underwriting Profit / (Loss) after expenses (Rs. 000)	(225,116)	-1461%	14,422	89%	(131,056)	-244%	90,931	-50%	183,401	4%
Profit / (Loss) before tax (Rs. 000)	37,635	-76%	159,055	1077%	13,518	-95%	249,228	-20%	310,899	11%
Balance Sheet										
Total Assets (Rs. '000)	5,211,062	27%	4,106,848	22%	3,363,034	23%	2,727,215	38%	1,970,061	10%
Shareholders' equity (Rs. '000)	973,471	-1%	986,717	10%	896,867	2%	875,510	12%	780,285	16%
Return on net assets (%)	2.43%	-78%	11.04%	-9%	12.15%	-45%	22.14%	-25%	29.41%	-16%
Earning per share (Rs.)	0.47	-78%	2.18	407%	0.43	-94%	7.75	-16%	9.18	-2%

	2016	Change from previous year	2015	Change from previous year	2014	Change from previous year	2013	Change from previous year	2012	Change from previous year
LIFE INSURANCE										
Income Statement										
Gross written premium (Rs'000)	1,040,269	13%	919,144	12%	823,456	-1%	828,790	56%	532,141	51%
Loss for the period (Rs'000)	25,959	94%	13,367	-81%	71,053	80%	39,527	-34%	59,587	2%
Profit / (Loss) before tax (Rs. 000)	37,635	-76%	159,055	1077%	13,518	-95%	249,228	-20%	310,899	11%
Balance Sheet										
Total assets (Rs'000)	2,907,569	49%	1,947,125	33%	1,467,970	36%	1,077,008	72%	626,712	29%
Investments (Rs'000)	1,930,971	23%	1,569,538	32%	1,186,394	31%	908,592	74%	523,259	33%
Shareholders' equity (Rs'000)	486,186	-21%	615,715	13%	545,347	108%	261,958	69%	155,104	-30%

About Allianz

More than 140,000 Allianz employees worldwide serve some 86.3 million retail and corporate customers in about 70 countries, who place their trust on the knowledge, global presence, financial strength and solidity of Allianz to support them in their moment of truth.

Operating Profit

€ 10.8 Bn

Share Capital

€ 1,170 Mn

Net Income

€ 7.25 Mn

Allianz Insurance Lanka Ltd. and Allianz Life Insurance Lanka Ltd., known together as Allianz Lanka, are fully- owned subsidiaries of Allianz SE, world leader in integrated financial services, headquartered in Munich, Germany.

More than 140,000 Allianz employees worldwide serve some 86.3 million retail and corporate customers in about 70 countries, who place their trust on the knowledge, global presence, financial strength and solidity of Allianz to support them in their moment of truth.

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).

Allianz SE is among the world's largest asset managers, with third party assets under management in 2016 amounting to €1.361 billion. We are also among the world's Top Ten insurance companies in terms of revenue, world leader in credit insurance, and Europe's largest insurer by market capitalisation, and enjoy one of the world's strongest solvency ratios - 218% in 2016. We also have one of the world's best credit ratings among international insurers.

Other recent financials (as at 31 December 2016)

Allianz SE has been named the World's Most Ethical Insurer by the Ethisphere institute, the thinktank that recognises companies that promote ethical business standards and practices internally, exceed legal compliance minimums and shape future industry standards by introducing best practices today.

Insurance Operations

As the global leader in Property-Casualty insurance, and ranked among the Top Five in Life/Health insurance, Allianz has in its portfolio of insurance products, a wide range of Property-Casualty and Life/Health products for both private and corporate customers.

Total Revenues

€ **122.4 Bn**

ROE

12 %

Allianz believes in prudent investments when it comes to ensuring the financial prosperity of our customers. We invest around 500 billion euros for our insurance customers, mostly in bonds, equities and real estate, which is roughly the same amount as the Dutch economy generates in a year.

Allianz insures many of the world's largest and architecturally significant structures. In Asia alone we insure 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 as well as Dubai's Palm Island, the world's largest artificial island, and numerous atolls in the Maldives.

In Business for 125+ years

Having celebrated 125 years in business in 2015, Allianz has a century-and-a-quarter of experience in catering to the changing needs of our retail and corporate customers in the shifting societal frameworks of diverse countries, which has given us the expertise to set concrete projections and priorities in performance as well as corporate social responsibility initiatives for decades to come.

Consolidating our Leadership Position in 2016

The Allianz Brand

A strong brand stands for quality, trust and resilience - attributes that remain just as relevant in the digital age as before.

Allianz continued to rank among the most valuable international insurance brands in 2016 in the Brand Finance Global 500 ranking, with the Allianz brand topping the Insurance Top 50 ranking for the third year in a row, the only insurer to be recognised among the world's 50 strongest brands in 2016. As a result of Allianz's strong premium growth, the Allianz Brand value increased to € 18. 6 billion, up 8.1% from the previous year. This places Allianz in the number 43 spot from among the top 500 global brands (up from 44th place in 2015).

In the 2016 ranking, Brand Finance recognised Allianz's resilience in a challenging environment and the Group's strong financial performance driven by our flagship brand, as well as our new 'customer centricity' and 'digital by default' approach, which made us one of the most brand-driven financial services companies in the year's ranking. Brand Finance recognised the capability of the

About Allianz contd.

Group's customer-centric approach to drive value and build on existing scales, and considered the Allianz brand to be particularly well-positioned to benefit from growth opportunities presented by digitalisation-driven changes in the insurance sector.

Ratings on Financial Strength

Allianz continued to maintain its stability and dominance in the market with excellent financial strength ratings given by premier global rating agencies in 2016 as well. The Group's strong ratings were reinforced by premier ratings agencies: Standard & Poor's AA – Stable outlook, Moody's Aa3 - Stable outlook, A.M. Best A+ - Stable outlook.

Continued Emphasis on Sustainability

Companies of the immense dimensions of Allianz can positively influence the macroeconomic environment we operate in, in partnership with governments, NGOs and the corporate sector, Accordingly, we take the lead in introducing sustainable practices in all areas of our operations throughout the world, because we know that sustainable companies are those able to circumvent all the challenges that come their way, be they climate change, political instability or volatile markets.

We have committed to tackling climate change, support the transition to renewable energy, and endorse the de-carbonization of the economy through sustainable investments in alternative energy sources like wind and solar parks. We have dedicated ourselves to breaking barriers by encouraging future generations and promoting social inclusion. This means that we now focus on the bigger picture that includes serving emerging markets.

Our approach to sustainability is organised around the five key roles that Allianz plays in day-to-day business, as a sustainable insurer, responsible investor, trusted company, attractive employer, and committed corporate citizen:

As a Sustainable Insurer we designed sustainable solutions which generated € 1.1 billion in revenue and provided insurance to the emerging consumers market, which increased our revenues to € 302.5 million.

As a Responsible investor, we divested € 225 million in equity from coal-based businesses, and launched a new ESG Scoring approach.

As a Trusted company, we reduced the Co2 emissions per employee by 25.3% over the six years from 2010 and trained +2,200 leaders in Integrity.

As an Attractive employer, we have committed to diversity and inclusiveness in the workplace, and are proud of the fact that 37.2% of Allianz managers in 2016 are women, and we scored 64% in the Work Well index especially designed for Allianz.

As a Committed corporate citizen, we re-shaped our corporate responsibility approach in 2016, to increase our contribution towards developing stronger, more inclusive communities. We believe that today's young people hold the key to the solutions needed for a better tomorrow, and launched 'Encouraging Future Generations' across the Group.

Allianz's corporate - giving in 2016 peaked at €19.4 million, which included a three year global partnership with SOS Children's Villages.

In December last year, we also unveiled the 'Allianz ESG Scoring Approach', which measures the sustainability performance of over 8,000 companies and governments on 37 key parameters such as greenhouse gas emissions, rated energy efficiency, occupational safety and data protection issues.

Our Corporate Responsibility Strategy

Our corporate responsibility strategy is structured around three main pillars: Low carbon economy, social inclusion, business integration:

Low carbon economy. As an insurer and investor, we help manage the risks arising from climate -change to promote a low-carbon economy. Our business model aims to protect people and businesses from risk, and our Climate Change Strategy forms its base.

Social Inclusion we have devised a new social inclusion programme that changes lives and mindsets and empowers each of us to live life to its full potential. We believe that social inclusion paves the way to a sustainable world and promotes more inclusive societies that include youth. This involves breaking down the barriers of country, language, culture, age, gender and social standing.

At the heart of Allianz's social inclusion strategy is access to education and employment for all people, everywhere.

Business integration. We have a global ESG strategy that ensures ESG integration in all our businesses, investments and assets, and manage material ESG risks and seek ESG opportunities whilst ensuring compliance, transparency, responsible sales as well as protect data and privacy across all businesses.

In 2016, we launched our first Climate and Energy Monitor, and commissioned the New Climate Institute and Germanwatch to assess the investment needs of the world's G20 countries to deliver on energy transition, and their attractiveness as potential destinations for investment in low-carbon electricity infrastructure.

Global Recognitions for Sustainability

The range and depth of our corporate social sustainability performance has been recognised with top ranking positions by many reputed international organisations that assess a company's CSR engagement.

Allianz has been recognised with top honours since 2000, by RobecoSAM's Corporate Sustainability Assessment, which analyses a company's performance according to specific categories. In 2016, RobecoSAM awarded Alianz with the prestigious Gold Class 2017. Allianz also received the RI Magazine Runner Up Prize 2016 for Best RI Report 2014.

Allianz has been included in the Dow Jones Sustainability Index since 2000. We are the highest ranked primary insurer to achieve a Gold rating, and have been recognised particularly for being one of the industry leaders in the areas of Risk Detection, Financial Inclusion, Environmental Reporting and ESG Insurance integration.

Allianz has been one of the long standing members of the FTSE4Good Index series as well, since 2001. In the 2016 assessment, we were ranked in the top 3% of our sector.

In 2016, Allianz once again received AAA rating from MSCI ESG Research for being one of the top performers in our sector. SCI ESG Research provides in-depth research, ratings and analysis of the environmental, social and governance-related business practices of thousands of companies worldwide.

Focus on Digitalization

Even as cybersecurity dominates the minds of risk experts globally, digitalization offers a chance to reach a larger audience and remote segments, which is especially important in emerging economies.

Under our 'Single Digital Agenda', Allianz focuses on developing web- and mobile-based solutions and interaction tools.

Thought Leadership

Allianz CEO Oliver Baté became a member of 'The B Team' in 2015, a global non-profit organisation that brings together a group of international leaders from business, civil society and governments to catalyse better ways of doing business that prioritise the well-being of people and the planet.

Co-founded by Richard Branson, Jochen Zeitz and Nobel Prize winner Muhammad Yunus, The B Team has 19 other global leaders. The team focuses on identifying climate initiatives, implementing transparency procedures and forming networks that protect employees.

Sponsorships

Some highlights

Allianz is proud to partner with a diverse array of teams, organisations, cultural figures, sporting venues, and educational programmes. Our partnerships are focused on community value and business relevance as we forge relationships with partners who share our values and commitment.

Formula 1

Allianz sponsors activities in areas which have a strong link with its business, like road safety and the Formula 1 grand prix, or in 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 Junior Music Camp, in partnership with the Lang Lang International Music Foundation, are projects designed to foster youth in developing countries and promote inter-cultural exchange.

As 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.

About Allianz contd.

Paralymics Movement

Allianz is committed to promoting inclusion, diversity, and excellence, both in the workplace and in the world of competitive sports. Since 2006, Allianz SE has been a proud partner of the International Paralympic Committee (IPC) and from 2011, the first "International Partner" of the IPC. In 2013. 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.

'My Finance Coach'

'My Finance Coach' is another non-profit initiative founded in Munich, Germany, in 2010, which aims to improve the financial literacy of children and youth. Allianz works in partnership with over 60 companies which include Deutsche Börse AG, Deutsche Kredit Bank, KPMG, McKinsey, and Volkswagen Bank in this venture. The programme strives to instruct youth on smart money management and raises awareness about the real-life outcomes of financial decisions which will enable them to create a financially stable future for themselves. The area of financial literacy has been neglected by countries worldwide, and studies have confirmed that more and more youth struggle with debt in their daily lives.

ALLIANZ LANKA

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. The Company received registration as an insurer from The Insurance Board of Sri Lanka in September 2004 to carry on Non Life Insurance business, underwriting operations commenced in January 2005.

Allianz Insurance Lanka has been one of the fastest growing insurers in Sri Lanka since inception, with its topline growing by more than 47% compound annual growth rate over the past 10 years. Allianz Life Insurance Lanka Ltd. too has grown by more than 44% compound annual growth rate over its seven years of operations.

Allianz Lanka has delivered strong and steady results in increasingly challenging operating conditions. The Company's revenue reached R. 4,576 million, the highest in its history, up 30% over the previous year's figures. The Life company recorded Rs. 1,040 million in revenue, up 13% over the previous year's figures. Our business is healthy and well-diversified, which makes us confident that we will continue to deliver positive results.

We have achieved many 'firsts' that have redefined industry benchmarks along the way. Among these, Allianz Lanka was:

- the first Non Life insurance company to achieve Rs. 1,000,000,000 (Rs. 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 Rs. 100,000,000 (Rs. one hundred million) gross written premium within the first year of operations

- the first insurance operation to comply with the statutory requirement of having two separate legal entities for Life and Non Life business

Alternative Energy

In Sri Lanka, Allianz Lanka has become the industry leader in alternative energy projects, and insures over 55% of the wind power in the country. We are well positioned to understand the unique exposures for renewable energy projects, and partner with clients to identify, quantify and mitigate risk efficiently and as cost effectively as possible.

Employees

Allianz Lanka has a staff and advisor strength of 1775, which includes 658 employees in sales and non sales functions in both the Life and Non Life businesses at the head office as well as our branches throughout the country. This is in addition to a field sales force (advisors) of 1117 in the Life and Non Life business areas. The male to female ratio is 73: 27.

We are an equal opportunity employer and have an inclusive recruitment process that commits us to diversity and inclusiveness. This creates a level playing field for candidates who may have been overlooked in traditional recruitment practices and has enabled us to recruit from a much wider talent pool than usual, which ensures we have the most suitable candidate in place for the job at hand, irrespective of ethnicity, religion, gender or social status. Local and overseas training is provided in technical and soft skills that not only develop the employee but also to improve his service offerings to customers.

Branches

We have a network of 57 fully-fledged branches throughout the country, which bring the world class products and services enjoyed by the Allianz clientele worldwide, to the doorsteps of our customers even into some of the most remote areas of Sri Lanka.

Contemporary IT infrastructure is now in place in our branches. This includes a unified communication system that connects our branches with the head offices as well as users of roaming devices, which has improved overall efficiencies.

IT platforms and Web solutions

We also climbed on the bandwagon of the digital revolution, which is fundamentally changing the way our customers make purchasing decisions, and have transformed the way we do business. Our products and services are now available to anybody, anywhere, at anytime of the day or night, and can be accessed from smart phones, computers and other digital devices at home, at work or on holiday.

We are investing in globally-shared IT architecture, networks and business platforms and have developed web-based multi-access customer interaction tools to address our customers' changing needs. IT systems across the Group are also being streamlined to reduce complexity and improve efficiency and accessibility. Digital channels of communication now connect us with colleagues around the world, which has also improved service speed and performance.

A range of comprehensive information on our latest product and services is available on our website, www.allianzlk.

About Allianz contd.

Sustainability Award

'Best Sustainable Insurance Company of the Year'

Being in the business of managing risk has helped us understand how practicing sustainability in all aspects of our business operations can mitigate financial and reputation risk. This has made us more innovative, and enabled us to adapt to our environment. We are also aware that sustainable practices help us attract and retain professional and committed employees.

Therefore, managing our triple bottom line, or working with the impacts of profits, people and planet, has become an integral part of our business. We are committed to the principle of sustainable development which, as defined by the World Council for Economic Development (WCED), "meets the needs of the present without compromising the ability of future generations to meet their own needs." In line with this, we address social equity (poverty, community issues and health), economic efficiency (promoting innovation, prosperity and productivity in all areas of business), as well as support the well-being of the environment (environment issues, climate change initiatives).

We work with marginalised communities as well as introduce initiatives that sustain the environment. We have also brought to Sri Lankan shores the 'My Finance Coach' programme, Paralympic Movement and Junior Football sponsorships initiated by our parent company. We promote financial literacy among Sri Lankan youth in schools around the country, actively involve ourselves in enhancing the abilities of the local Paralympic players, as well as identify young football enthusiasts from low income families to participate in the Global Allianz Junior Football Camp held in Germany and Asia, which gives them access to world class coaching provided by the world renowned FC Bayern Munich team and coaches.

The prestigious National Chamber of Commerce (NCC) of Sri Lanka recognised Allianz Lanka for our efforts in significantly improving the financial literacy of Sri Lankan youth with an award in the Best Sustainability Project category at its national awards ceremony held in 2015.

In recognition of our commitment to sustainability, we were recognised as the 'Best Sustainable Insurance Company of the Year' at the 2016 South Asian Partnership Summit & Business Awards. The awards were presented by the World HRD Congress and endorsed by the Asian Confederation of Businesses, and celebrate celebrate leaders in the South Asian region who work to strengthen unity and increase economic opportunities in their areas of business.

More Milestones to Follow

We are confident that Allianz Lanka will celebrate many more milestones into the future, as we continue to follow our parent company in the guiding principles of integrity, competence and resilience.

To our valued customers, we pledge that, whatever the volatilities of nature, the adverse trends in financial markets, personal losses and emergencies faced in the course of daily life, we will stand by you to protect and support you in your moment of truth.

Diverse Products

Engineering risks vary with diverse industries and construction projects. This specialist construction sector requires long-term partnerships and worldwide expertise for complex projects. Allianz develops high-performance solutions for the most complex and demanding industry risks, with an approach based on highly specialised engineering and construction expertise backed by the underwriting excellence of the Group. Allianz Lanka provides expertise to many high-profile heavy civil engineering projects including Altair, One Colombo, Colombo City Center, Shangrila Hotel, Hambantota, the Southern Expressway, Arugambay bridge, Oil Exploration in Mannar, the 10 megawatte Solar PV Power Plant in Hambantota, numerous wind power projects and electricity transmission infrastructure capacity enhancement projects.

Another area of specialty is commercial property insurance, which is available for the simplest structure to the most complex high-rise. Allianz Lanka also provides exceptional risk surveys that review exposure risk from natural as well as human catastrophes. We insure many of the local and multi-national companies as well as several apparel and fabric manufacturing companies, hotels, apartments and condominium complexes. Our portfolio also includes banks and extensive commercial properties. In the Maldives, Allianz Lanka insures luxury islands - the Velaa Private Island, Cheval Blanc and Randheli.

About Allianz contd.

Directors' Profiles

Heinz Dollberg

Consultant, Asia Pacific Region, Allianz SE

Heinz joined the Allianz Group in 1978 as a manager in the head office at Stuttgart. Since then, he has gained experience in various positions within the Allianz Group, which include General Manager, International Department, and Vice President, Overseas Division, Allianz Group, Munich, to name a few. In his capacity as Executive Vice President of Allianz, he held directorships on various boards including Allianz Insurance (Hong Kong) Ltd., and Allianz Fire and Marine Japan Ltd. Heinz is still a member of the boards of Allianz EFU Health Insurance Limited (Pakistan), Bajaj Allianz General Insurance Co., Ltd. (India), Bajaj Allianz Life Insurance Co. Ltd. (India), Allianz China Life Insurance Co. Ltd. (China), P.T. Asuransi Allianz Life Indo (Indonesia) as well as our companies in Sri Lanka.

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

He currently works as a consultant for Allianz following his retirement as Director of the Asia, Middle East and North Africa Division of Allianz SE, Munich, which position he held from 1998 until 2011. He was responsible for overseeing the control, market research and negotiations of M&A acquisitions.

Surekha Alles

Director/ Chief Executive Officer, Allianz Lanka

Surekha joined Allianz Insurance Lanka Limited at its inception in 2005, as Head of General Insurance Operations, and was appointed Chief Executive Officer one year later. She was appointed to the Boards of Allianz Insurance Lanka Limited and Allianz Life Insurance Lanka Limited in June 2010.

Surekha has over three decades of experience in the insurance industry and has held positions in senior management in various areas of insurance.

She is a Chartered Insurer and Fellow of the Chartered Insurance Institute, London, and holds a MBA from the University of Western Sydney. She is also a Senior Associate of the Australian New Zealand Institute of Insurance and Finance.

Alan David Smee

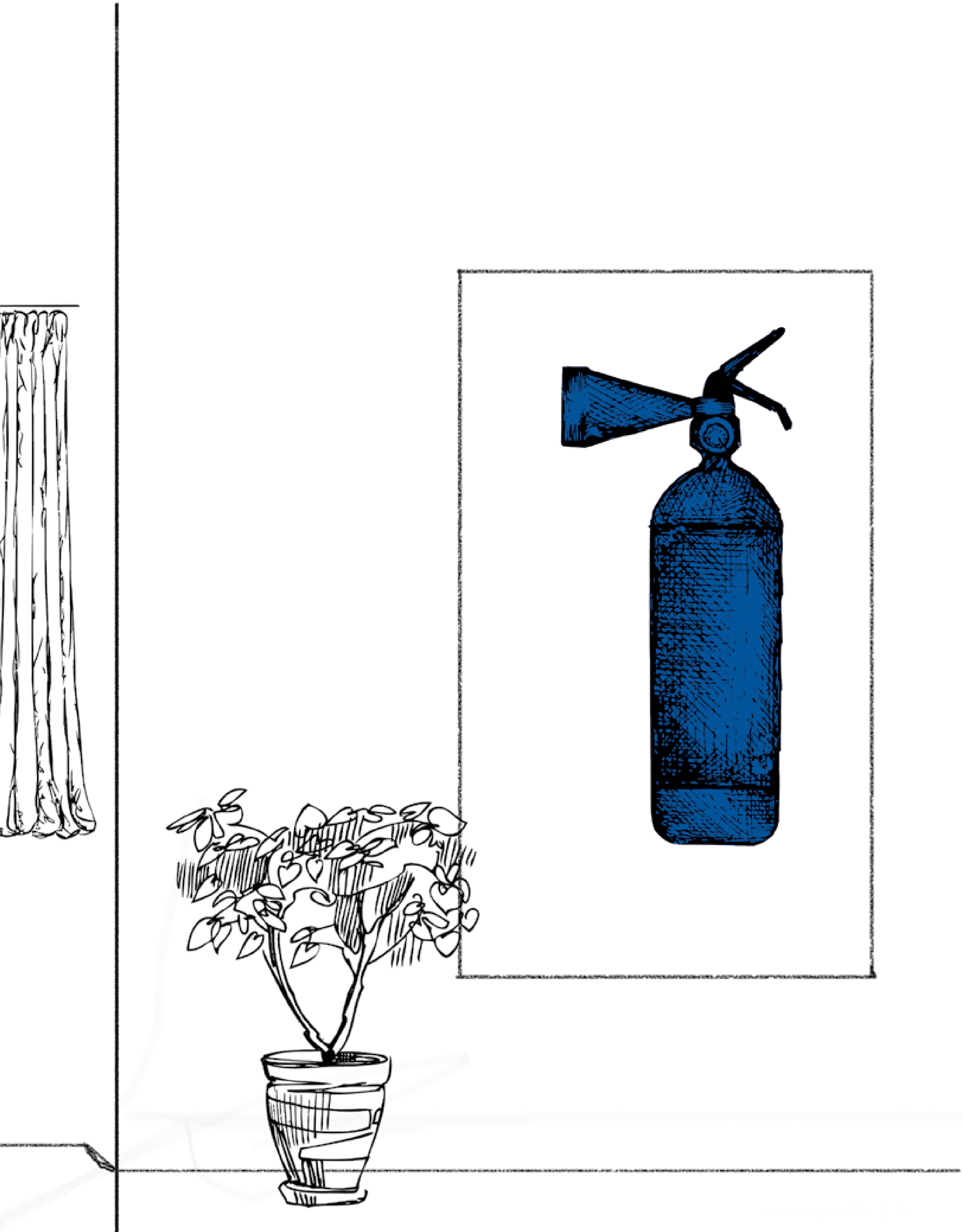
Regional Head of P&C, Allianz APAC

Alan is an international insurance executive with 25+ years of experience in diverse areas of insurance, in several key European, Australasian, and Asian P&C markets. As Regional Head of P&C, Allianz APAC, Alan assists in strategy development as well as partners in implementing key value-chain improvements for Allianz entities. Alan uses advanced analytical skills with deep commercial acumen, and has held senior management positions in both technical and operational areas.

He has experienced and/or studied practices in many other markets, and over a number of years, has written or co-written many articles, papers and presentations on a variety of insurance subjects. Alan joined the Allianz Insurance Lanka Limited and Allianz Life Insurance Lanka Limited on 6 July 2015.

Protecting what you value and love the most

With Allianz, you're in control and can reliably plan to realise your dreams. Our comprehensive insurance solutions have taken the hassle out of insurance and put you in charge to choose what is right for you. Peace of mind is at hand with us as we offer you a guarantee that your home and what you treasure the most is safeguarded by us. Our innovative plans are cost-effective and save time in emergencies along with affording you the benefit of the extensive experience of our experts who are only a phone call away.



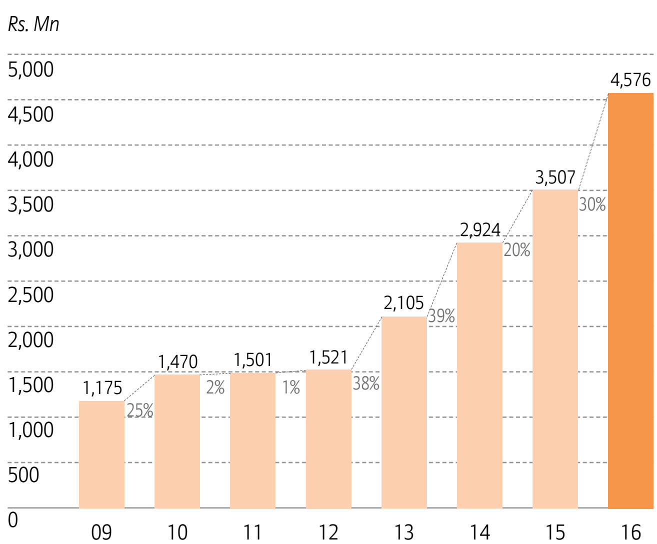
Financial Overview

NON LIFE INSURANCE

Gross Written Premium (GWP)

The Company's GWP for the year grew by 30% to Rs.4,576 million, far exceeding the industry growth of 13.71% YoY. Expansion in retail business lines and aggressive growth in the motor and health businesses were the key growth drivers.

Gross Written Premium (GWP)

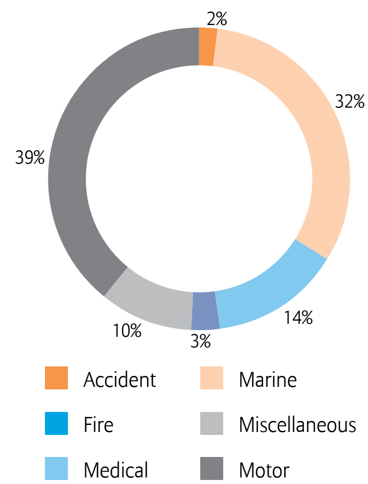


Premium by Class

Non-motor business has always been the dominant contributor to company growth. This year, too,the contribution from non-motor stood at 61% of total business, a growth of 12% YoY.

Motor business grew by 78% in the year under review. Growth was driven by the expansion in retail business lines and largely outperformed the industry growth of 15%in the year. The newly established agency channel also contributed to this outstanding growth. The motor contribution to the total GWP composition increased to 39%, from 29% in 2015.

Premium by Class

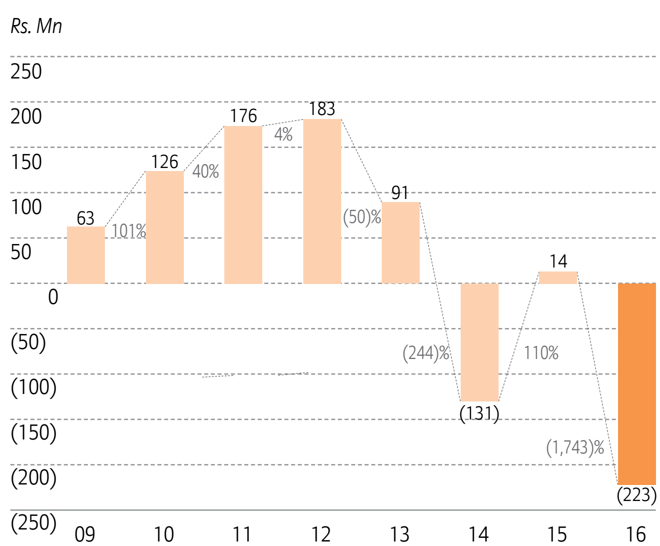


Underwriting Results

The Company recorded an underwriting loss of Rs. 225 million in 2016, mainly due to the flood losses incurred during the year and the loss increase in the accident class. The Company's expansion into retail business as a long term strategy also had a short term negative impact on underwriting results.

Underwriting loss is an indication of the net result generated solely from Non Life insurance business carried out during the year, before considering investment and any other income generated by a company in the same period.

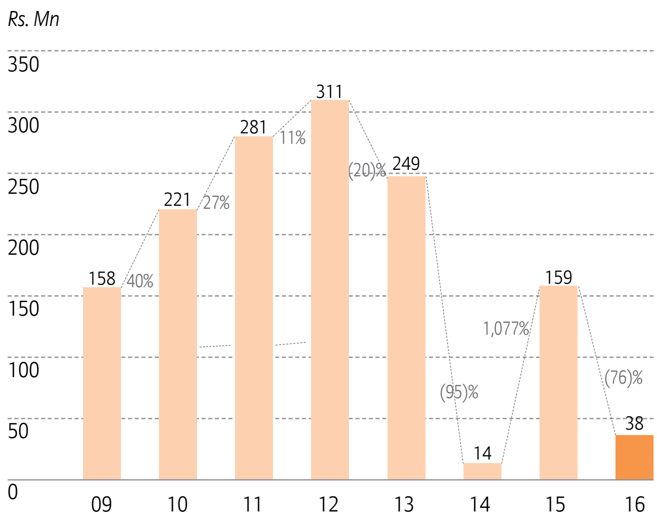
Underwriting Results



Profit Before Tax (PBT)

The Company recorded a profit before tax amounting to Rs. 38 million during the year, which is a 76% negative growth over 2015 as a result of underwriting losses.

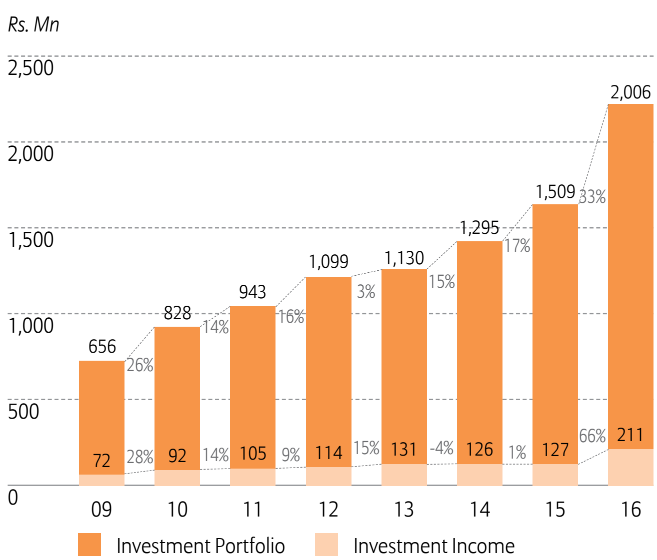
Profit Before Tax (PBT)



Investment Portfolio

The upward revision of policy rates resulted in the growth of investment income and the amount of investment income in 2016 was Rs. 211 million, an increase of 66% YoY. The investment portfolio saw a healthy growth of 33% YoY to Rs. 2,006 in 2016. The 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

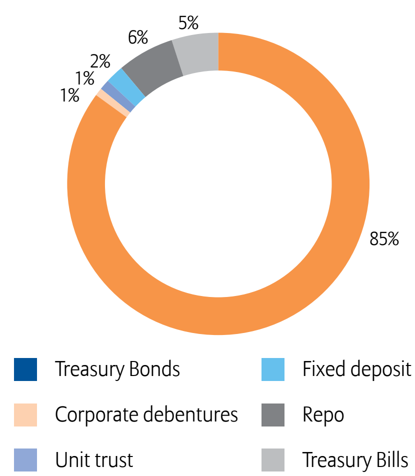


Investment Portfolio - Asset Allocation

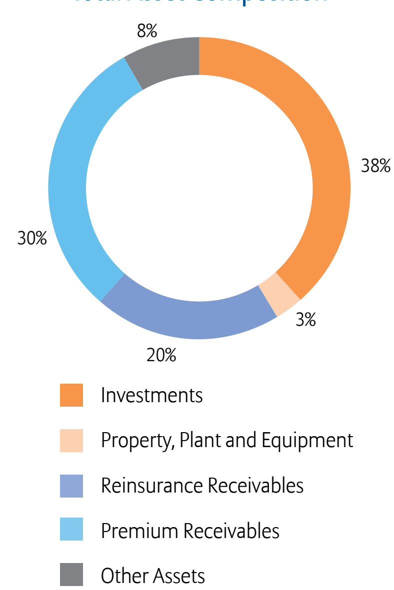
The Company's investment strategy is aligned with the guidelines set by the Allianz Group, which serves as the basis for investment decisions.

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. About 96% of investments were held in government securities whilst most of the remaining 2% was invested in fixed deposits.

Investment Portfolio - Asset Allocation

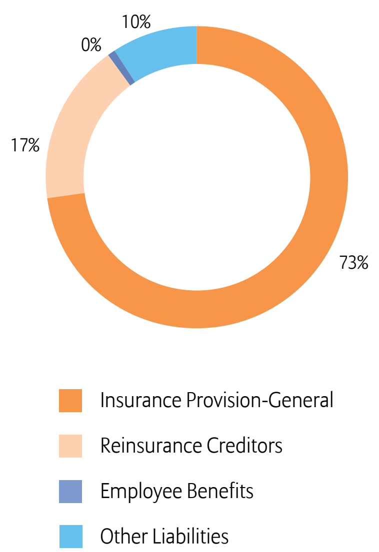


Total Asset Composition



Financial Overview contd.

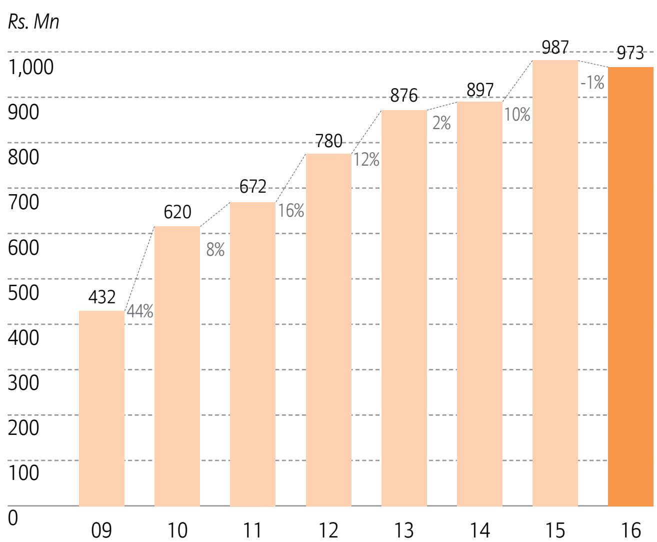
Total Liability Composition



Net Assets

The net assets of the Company as of end 2016 declined to Rs. 973 million, from Rs. 987 million in 2015, which is a 1% decline YoY.

Net Assets



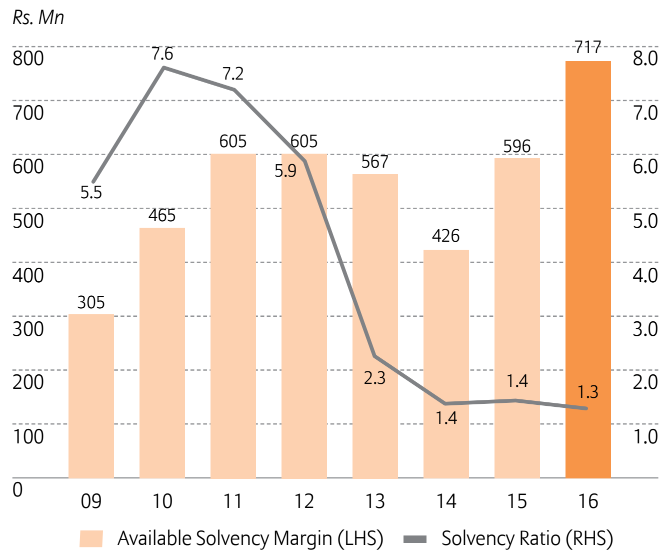
Solvency Margin

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

The Company's solvency ratio by end - 2016, stood at 1.3, which is comfortably above the regulatory minimum.

In 2016, the Solvency Ratio computation was replaced by RBC Capital Adequacy Requirement Ratio (CAR Ratio) in accordance with Insurance Board of Sri Lanka (IBSL) requirements.

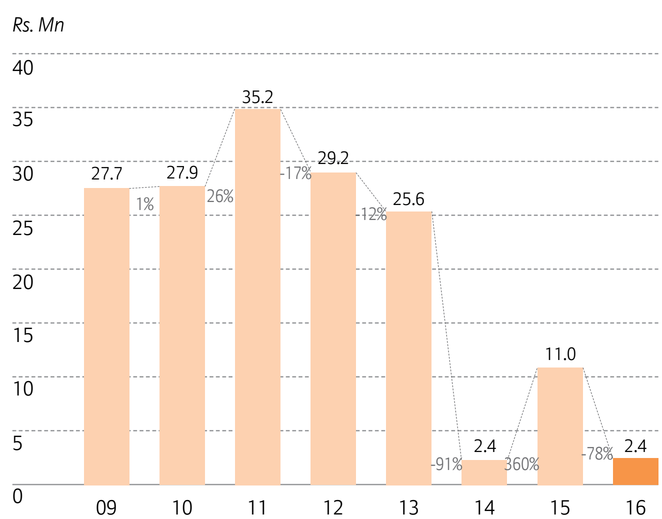
Solvency Margin



Return on Equity (ROE)

ROE fell to 2.4% in 2016, compared to 11% in 2015, which was largely due to the underwriting losses incurred during the year. However, the low ROE is considered a short term factor and is expected to make a positive contribution towards increasing shareholder value in the long term.

Return on Equity (ROE)



Earnings per Share (EPS)

The EPS decreased to Rs. 0.47 in 2016, from Rs. 2.18 in 2015 as a result of underwriting losses.

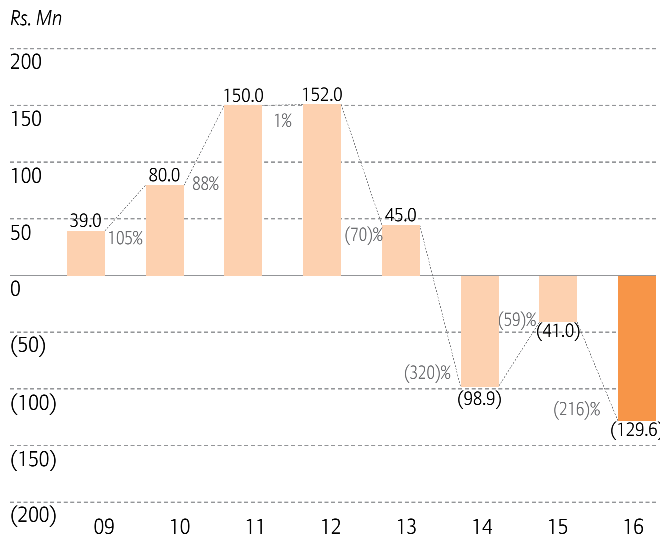
Earnings per Share (EPS)

Economic Value Added (EVA)

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

The economic value addition showed a negative figure of Rs.129.6 million in 2016, compared to a negative figure of Rs. 41 million in 2015. This is the result of a lower profit margin when compared with shareholder equity.

Economic Value Added (EVA)

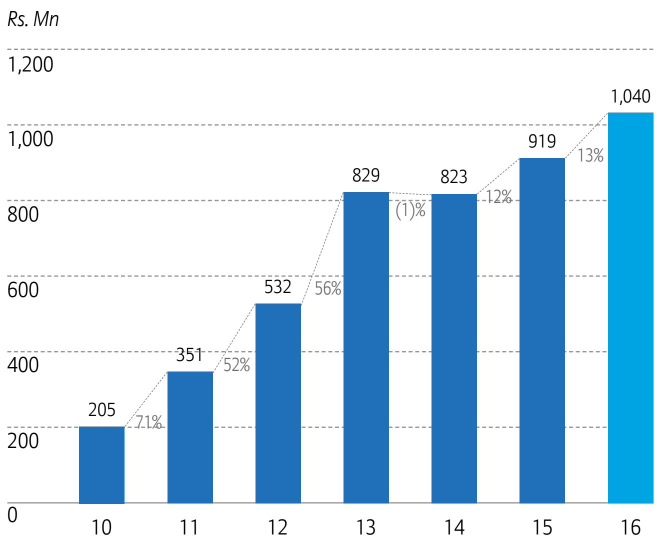


Financial Overview contd.

LIFE INSURANCE

The following figures are confirmation of the Company's exceptional performance during the year , and its potential for future growth.

Gross Written Premium (GWP)

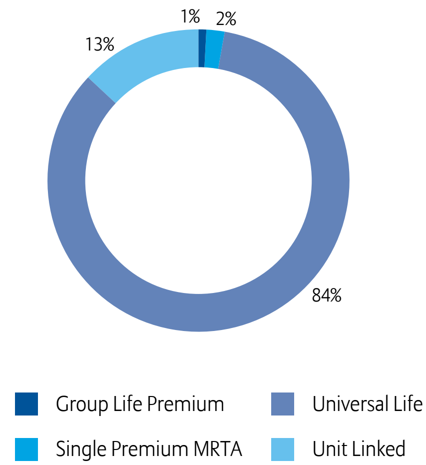


2016 was a remarkable financial year which surpassed the GWP target of Rs.1 billion and proved the success of the strategies adopted during the last few years. During the period 2013 to 2014 there was negative growth of -1% in GWP because the Company focused on consolidating its market position by laying the foundation for aggressive expansion in the forthcoming years by opening a number of branches Islandwide. With time, Company growth showed steady improvements of more than 10%, which was a clear indicator of progress with stability in the market.

The GWP composition further illustrates the Company's success in maintaining its position of trust in customers' minds - more than 60% of GWP was from renewal premiums in addition to 32% of GWP contributed from FY premiums or new business achieved during the year.

	LKR'Mn	%
FYP	337	32%
Single Premium	50	5%
Group Premium	17	2%
Renewal Premium	637	61%
Total GWP	1,040	

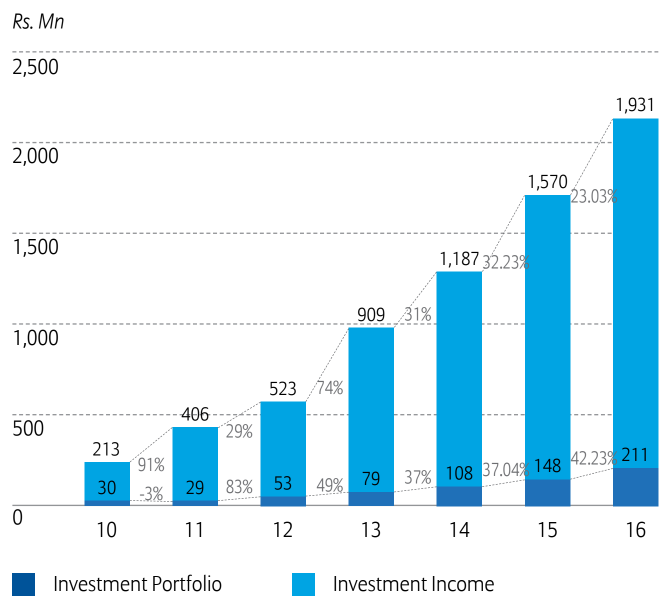
Premium by Insurance Type



The Allianz Life Insurance core product, Universal Life, represents 84% of the total GWP, while Unit Link had a 13% weightage in the product mix in 2016.

Investments

Investments

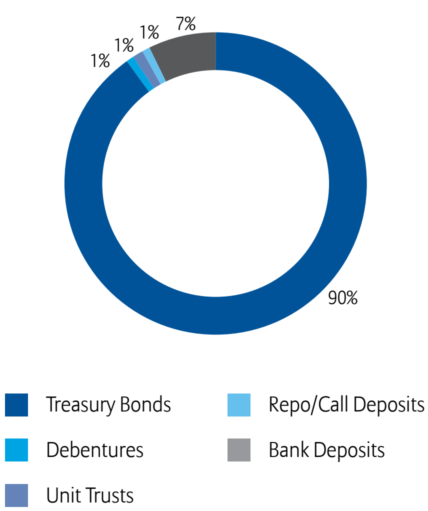


The Company has in place a long- term investment strategy that assures growth into the future and ensures that funds are available when needed. Investments were in high grade financial instruments which succeeded in growing the investment portfolio by 23% over the last year, with funds mainly sourced from GWP growth. This enabled the Company to grow its interest income by 54% during the year. The Company maximizes its financial investments in order to increase interest income and uses the best maturity mix with the majority of investments made in government securities.

Investment Portfolio- Asset Allocation

Investments pertaining to the Life fund are made in conformity with the investment guidelines stipulated under the Insurance industry regulations, and ensure the primary objective of a Life insurer of providing its policyholders with financial protection. To further ensure prudence and diligence, the Company's investment strategy is aligned to the guidelines of the Allianz Group, which are more stringent than the regulatory requirements. Over 90% of investments are made in risk free government securities, followed by 7% investment in fixed deposits in highly rated licensed commercial banks, which provide secure returns. The Allianz Life fund did not invest in speculative instruments such as equities, which are highly volatile in nature and pose significant risk. The Company decided on the best asset mix to maximize returns while maintaining an optimum risk level and meeting its liquidity requirements.

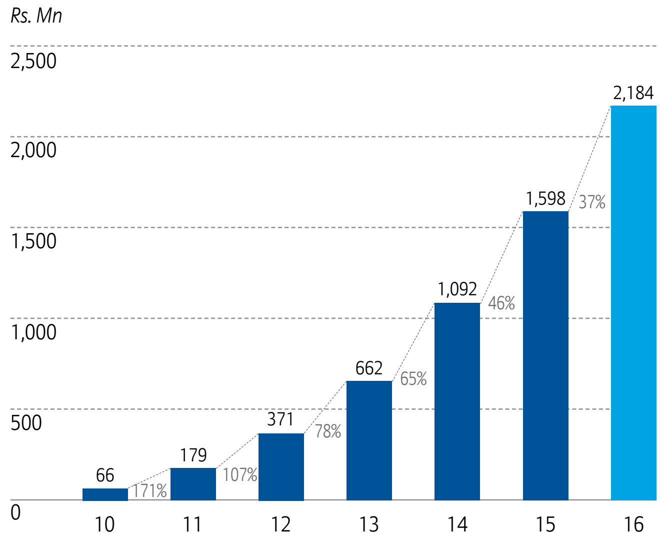
Investment Portfolio- Asset Allocation



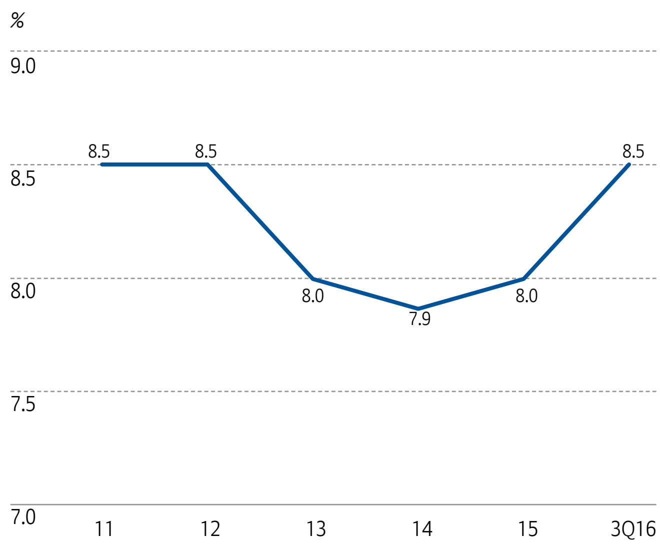
Life Fund growth

In 2016, the Company's Life fund reached Rs. 2.18 billion, which is a growth of 36% compared to the previous year and an annual compound growth rate of 79% over the last six years. The rapid growth of the Life Fund over the years is an indicator of its strength and the ability of the Company to fulfill its obligations to its policyholders.

Life Fund growth



Historical Crediting rates



Allianz declared a crediting rate of 8.5% in 2016 for all the Universal Life policyholders. There is an upward trend of the crediting rates declared by Allianz in recent years. This is due to the significant improvement of the investment performance of the policyholders' fund.

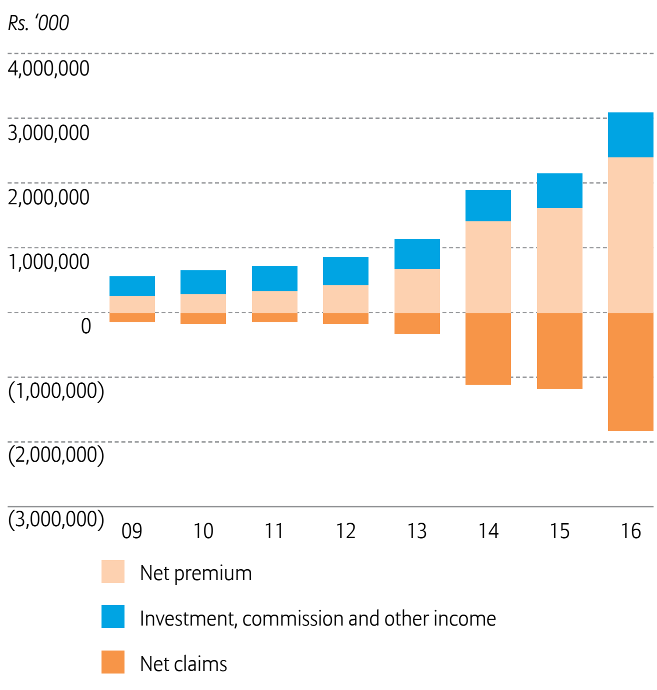
Statement of Value Added

Allianz Insurance Lanka Ltd.

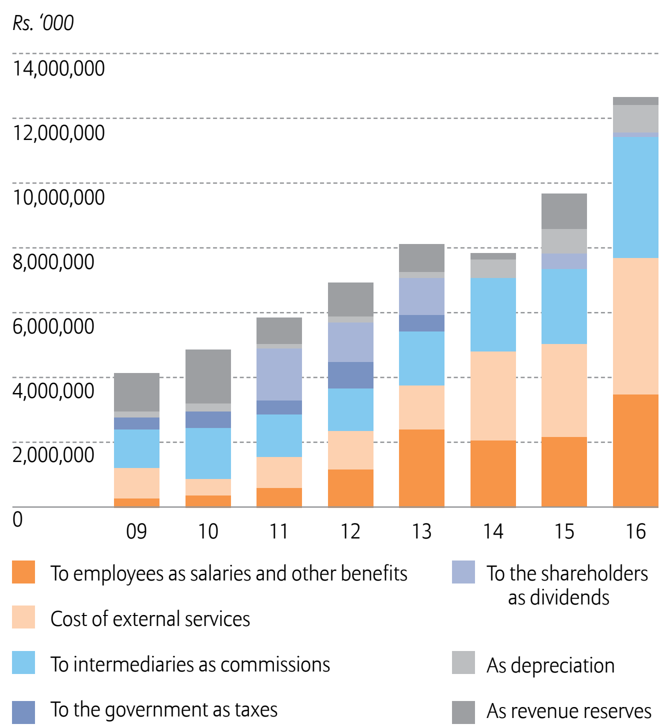
Value Addition	2016 Rs.'000	2015 Rs.'000	2014 Rs.'000	2013 Rs.'000	2012 Rs.'000	2011 Rs.'000
Net premium	2,400,551	1,617,389	1,421,992	684,309	435,561	336,747
Investment, commission and other income	683,291	521,157	474,534	445,540	424,328	389,323
Net claims	(1,814,727)	(1,169,854)	(1,109,326)	(317,839)	(163,837)	(139,168)
Cost of external services	(424,259)	(290,052)	(274,238)	(134,664)	(116,399)	(91,867)
Total value added	844,856	678,640	512,962	677,346	579,653	495,035

Value Distribution	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
To employees as salaries and other benefits	347,575	41	214,845	32	207,365	40	241,366	36	117,508	20	61,575	12
To intermediaries as commissions	373,161	44	233,012	34	228,384	45	165,906	24	133,191	23	132,260	27
To the Government as taxes	13,933	2	50,122	7	-	0	55,408	8	81,382	14	46,594	9
To the shareholders as dividends	-	0	-	0	-	0	111,250	16	125,000	22	158,333	32
Retained with the business												
- as depreciation	86,485	10	71,728	11	55,565	11	21,417	3	18,109	3	14,748	3
- as revenue reserves	23,702	3	108,933	16	21,648	4	81,999	12	104,463	18	81,525	16
Total value distributed	844,856	100	678,640	100	512,962	100	677,346	100	579,653	100	495,035	100

Value Addition - Non Life Insurance



Value Distribution - Non Life Insurance

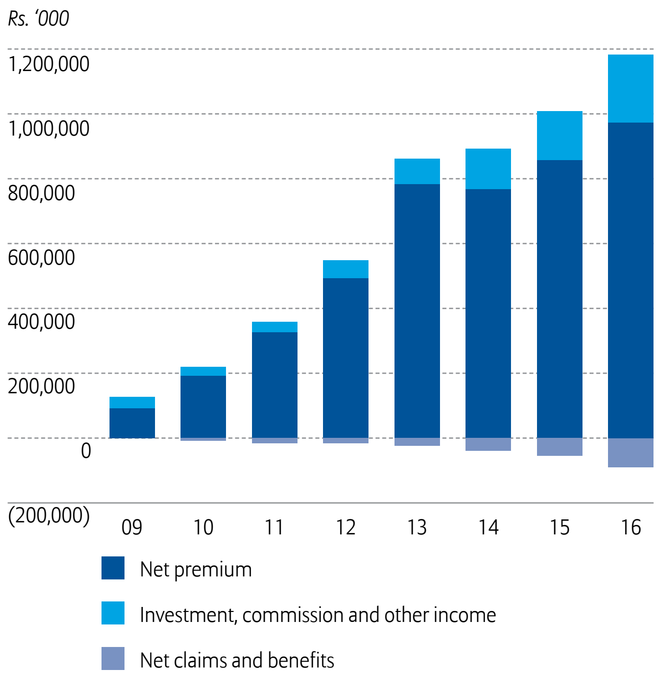


Allianz Life Insurance Lanka Ltd.

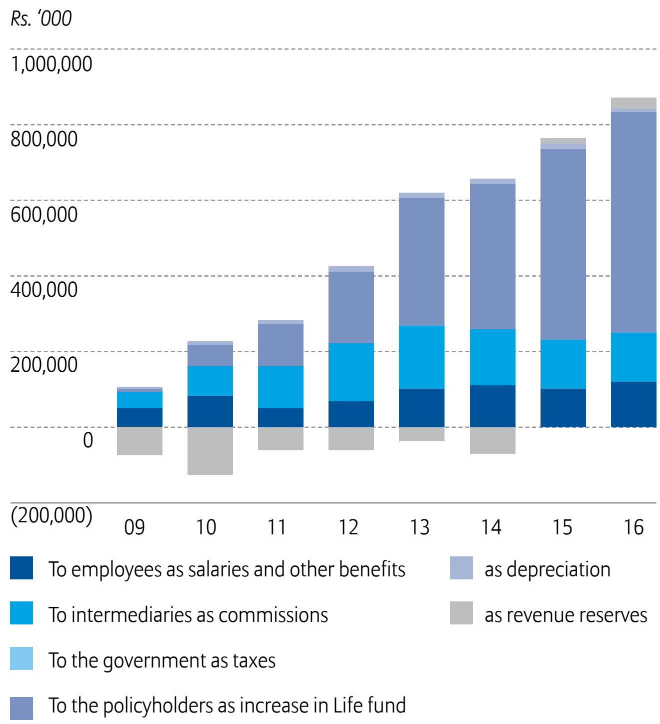
Value Addition	2016 Rs.'000	2015 Rs.'000	2014 Rs.'000	2013 Rs.'000	2012 Rs.'000	2011 Rs.'000
Net premium	973,115	859,835	768,148	784,600	497,452	329,558
Investment and other Income	210,507	148,000	125,236	78,931	52,753	31,087
Net claims and benefits	(86,648)	(52,493)	(38,562)	(23,316)	(15,877)	(12,612)
Cost of external services	(222,630)	(188,628)	(263,422)	(256,509)	(167,200)	(124,151)
Total value added	874,345	766,713	591,400	583,706	367,128	223,882

Value Distribution	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
To employees as salaries and other benefits	120,585	14	104,142	14	110,663	19	103,447	18	72,039	20	52,765	24
To intermediaries as commissions	130,863	15	129,688	17	150,816	26	167,881	29	150,136	41	108,782	49
To the government as taxes	-	-	-	-	-	-	-	-	-	-	-	-
To the policyholders as increase in Life fund	586,504	67	506,222	66	384,958	65	335,881	58	191,674	51	112,933	50
Retained with the business	-	-	-	-	-	-	-	-	-			
'- as depreciation	10,434	1	13,294	2	16,016	3	16,024	3	12,867	4	10,015	4
'- as revenue reserves	25,959	3	13,367	2	(71,053)	(12)	(39,527)	(7)	(59,587)	(16)	(60,613)	(27)
Total value distributed	874,345	100	766,713	100	591,400	100	583,706	100	367,129	99	223,882	100

Value Addition - Life Insurance



Value Distribution - Life Insurance



Economic Overview

The Sri Lankan Economy

The Sri Lankan economy grew by 4.4% YoY during 2016, down from 4.8% the previous year. The slower growth in the year of review was driven by weaknesses in the Agriculture sector, which accounts for 7.5% of GDP and saw a negative growth of 4.2% as a result of inclement weather conditions. Growth in services in 2016 was 4.2%. The industrial sector recorded a significant growth rate of 6.7%.

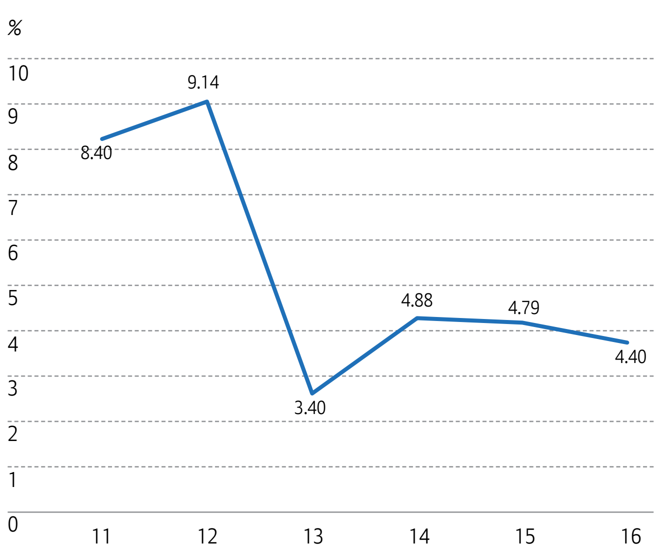
The unemployment rate moved down to 4.2% at the end of 4Q2016, compared to 4.4% at end - 4Q2015 and 4.7% for the entire year of 2015. Inflation increased slightly to 4.2% in December 2016, from 4.1% in November 2016.

The main contributors to the decline in the Agriculture sector were rice, tea and rubber cultivation as well as the cultivation of cereals, which declined by 31.0%, 11.2%, 10.7% and 10.5% respectively. However, Freshwater Fishing, Growing of Spices and Animal Production recorded growth rates of 9.9%, 6.4% and 6.3% respectively in that period.

The growth of the Industrial sector, which accounted for 27.1% of GDP, was from the construction sector, which grew by 14.9%, while Mining and Quarrying grew by 14.4%.

The Services sector which is the largest contributor to GDP accounting for 57.0% of the total, grew by 4.2% in 2016. The sub activities of Financial Services, Insurance and Telecommunications grew by 12.4%, 8.5% and 8.3% respectively during 2016.

Sri Lanka-GDP Growth



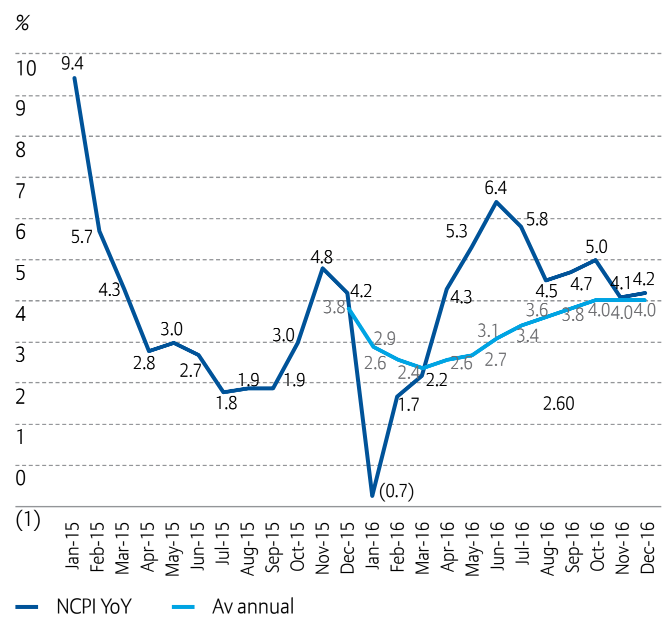
Source: Central Bank, Department of Census and Statistics

Inflation Rate

Inflation, as measured by the National Consumer Price Index (NCPI, Base: 2013= 100) increased slightly to 4.2% in December 2016, from 4.1% in November 2016. On an annual average basis, inflation was 4.0% in December 2016 and remained unchanged from the figures of the previous month.

The NCPI Core inflation decreased marginally to 6.7% in December 2016, compared with 6.8% in November 2016. On an annual average basis, core inflation stood at 5.9% in December 2016, compared with 5.8% in November 2016.

Inflation

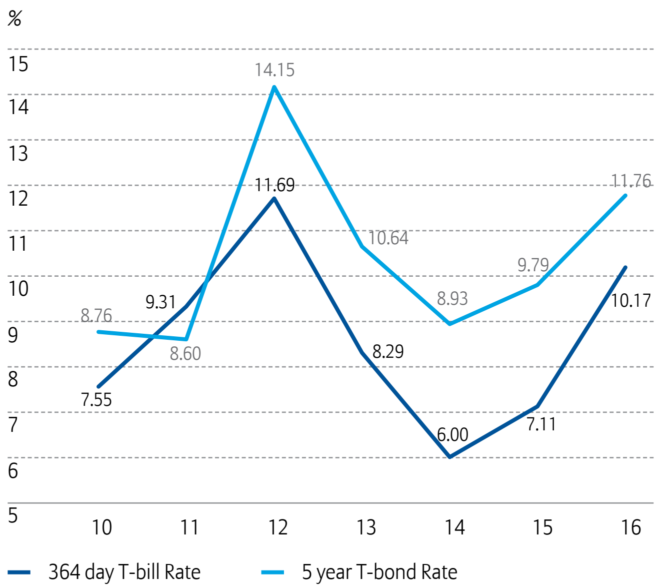


Source: Department of Census and Statistics

Interest Rates

Interest rates edged up during 2016, driven by increased private sector demand for bank credit as well as increased public sector bank borrowings. Yield on 364-day treasury bills increased to 10.17% at end- 2016, from 7.11% at end- 2015. Treasury bond yields (5 year) increased by 197bps to 11.76% at end - 2016 when compared to their performance in end- 2015.

T-bill and T-bond Rates

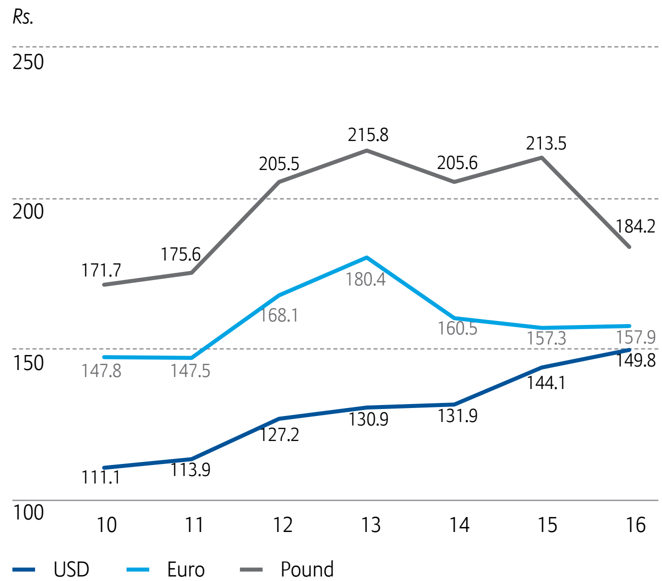


Source: Central Bank

Exchange Rate

The LKR depreciated marginally, by about 4%, against the USD during 2016, and stood at 149.8 at end-2016, compared to 144.1 at the end of the preceding year. The LKR was almost unchanged against the Euro but appreciated by 14% against the Sterling Pound during the year under review.

Foreign Exchange Rates

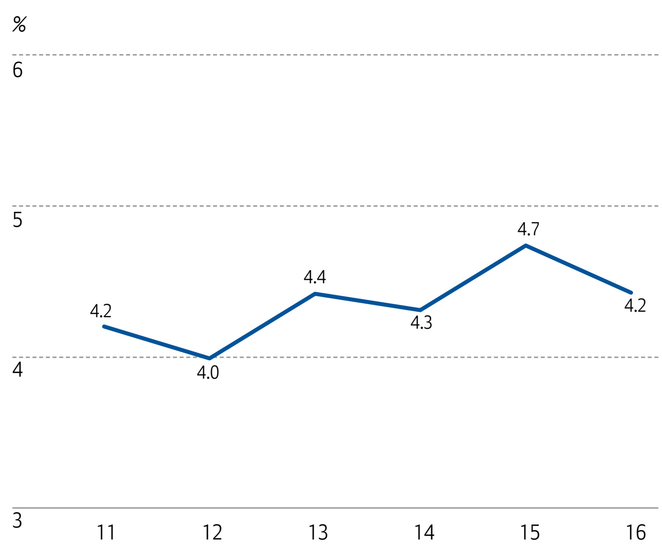


Source: Central Bank

Unemployment Rate

The unemployment rate decreased to 4.2% at end - 4Q2016, from 4.4% at end - 4Q2015 and 4.7% for the entire year of 2015. The labour force participation rate was 54% in the period.

Sri Lanka-Unemployment Rate



Economic Overview contd.

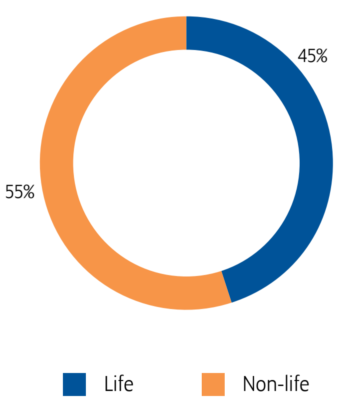
Equity Market

The All Share Price index declined by -9.6% during 2016. Market sentiments were muted during the year, with rising interest rates, fiscal issues and the balance of payments the main concerns for investors. During 2016, a marginal net foreign inflow of Rs 400 million was registered, and by the end of 2016, market capitalisation amounted to Rs. 2,745 billion.

Insurance Industry

The insurance industry recorded an increase in GWP of 16% during the year. The total GWP for both Life and Non Life sectors came in at Rs. 140 billion, compared with Rs. 121 billion in 2016.
There were 30 insurance companies operating in the country as at end - December 2016, of which three were composite insurers, 12 offered Life insurance and 15 offered Non Life insurance.

Life Vs Non-life

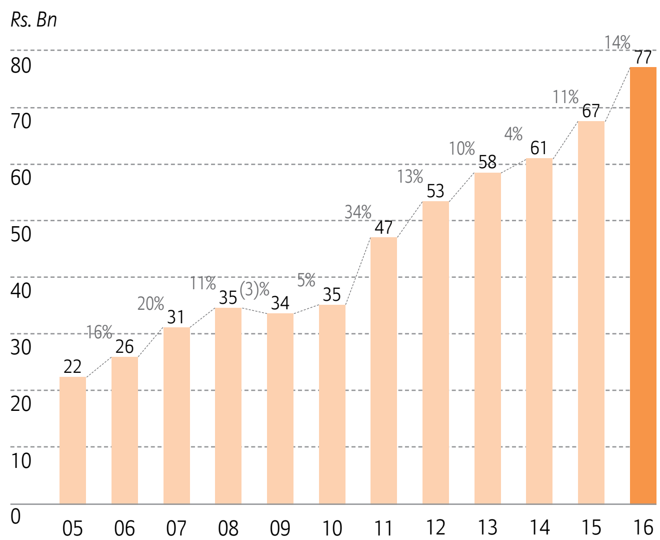


Source: Insurance Board of Sri Lanka

Non Life Insurance

During 2016, Non Life insurance GWP grew by 14% to Rs. 77 billion, compared to Rs. 67 billion in 2015. This sector continues to be dominated by motor insurance, which accounted for 64% of GWP during 2016 and recorded a YoY growth of 15% during the year.

Non Life Insurance Industry GWP

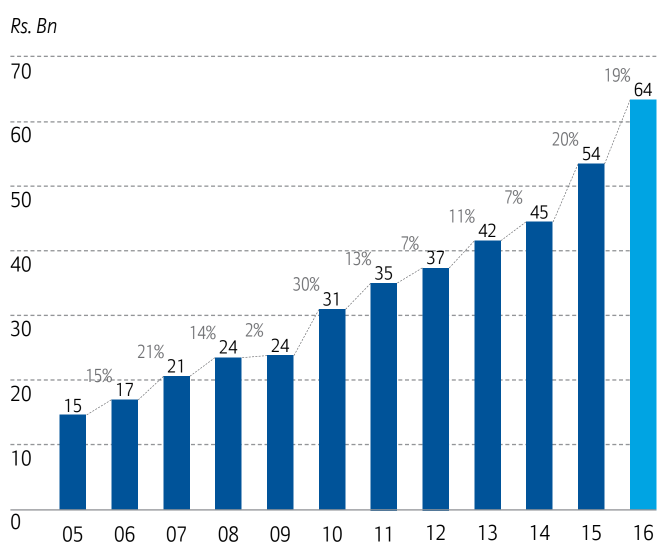


Source: Insurance Board of Sri Lanka

Life Insurance

During 2016, Life insurance GWP grew by 19% to Rs. 64 billion, compared to Rs. 54 billion in 2015.

Life Insurance Industry GWP

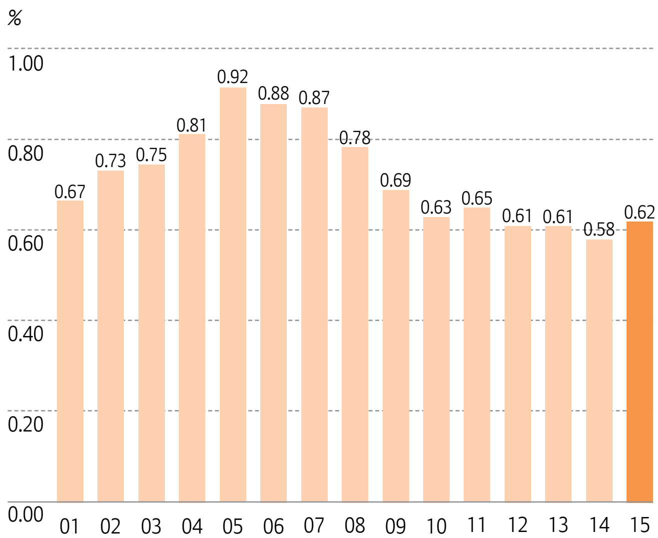


Source: Insurance Board of Sri Lanka

Insurance Penetration

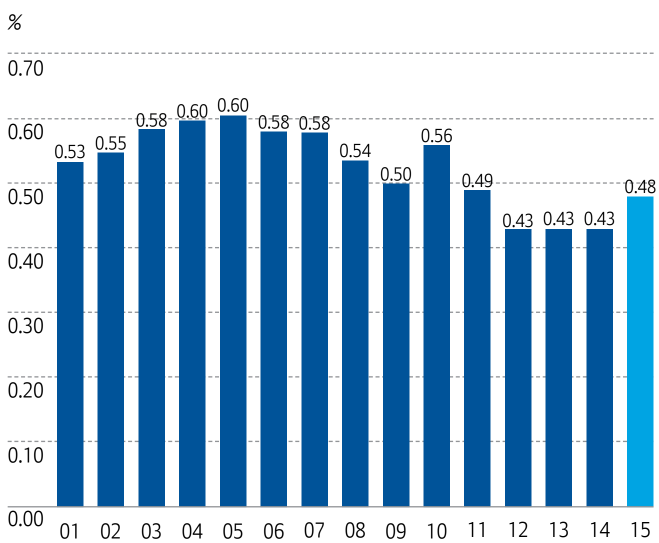
Non Life insurance penetration, as measured by the ratio of GWP to GDP, marginally increased to 0.62% in 2016, from 0.58% a year ago.

Non Life Insurance Premium as a % of GWP



Life insurance penetration as measured by the ratio of GWP to GDP remains low, at 0.48%, indicating strong growth potential.

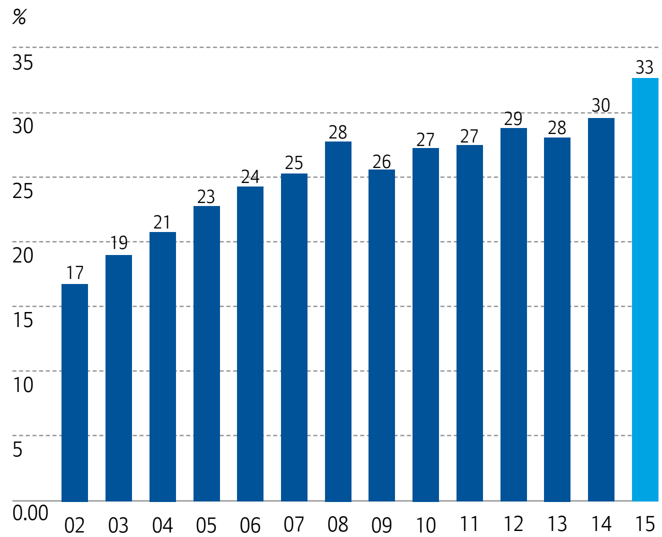
Life Insurance premium as a % of GDP



Source: Insurance Board of Sri Lanka

Furthermore, the number of Life insurance policies in force as a percentage of the labour force has markedly increased over the last few years, indicating that the working population considers Life insurance an important component of financial planning.

No. of Life Policies in Force as a % of the labour force



Regulatory Developments

The Insurance Board of Sri Lanka (IBSL) published a revised Risk Based Capital (RBC) framework in October 2013 following four quarters of voluntary road test submissions and evaluation of the road test results and feedback received from the industry. A parallel run was conducted from the first quarter of 2014 to the fourth quarter of 2015, where all insurers were required to submit results on a quarterly basis using both rules. The industry has now moved towards submitting results using the RBC framework from the first quarter of 2016.

IBSL plans to embark on the development and formalisation of the micro insurance sector with the assistance of the World Bank. The regulator wants to develop a micro insurance- specific regulatory framework based on globally accepted insurance standards.

Risk Management

The acceptance and active management of risks have always been core competencies of Allianz. The main focus for risk management is adequate risk steering as opposed to mere risk avoidance or minimisation.

The acceptance and active management of risks have always been core competencies of Allianz. The main focus for risk management is adequate risk steering as opposed to mere risk avoidance or minimisation. Risk management is an integral part of the management and control system, and ensures the timely identification, analysis, measurement, management and reporting of risks. This system provides the basis for successful value-based management, including the efficient allocation of capital and the optimisation of key performance measures through consistent consideration of risk-return implications.

The Company's risk 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 pre-determined risk tolerance level at an early stage.

The following risk assessments and reporting are conducted on a periodic basis:

Top Risk Assessment

The key risks faced by the Company are identified annually and reviewed on a quarterly basis, along with the status of the mitigation plans. In addition, any new risks exposure due to new product launches, competitor action or changes in strategy or the business environment, will be evaluated and assessed. The risks and action plans are reported to the Allianz Asia Pacific (AZAP) Risk Management team.

Solvency Assessment

Solvency is reviewed on a monthly basis and a detailed analysis is conducted to identify the reasons for monthly movements. The Capital-at-Risk methodology is used to carry out the monthly solvency stress test in order to identify the most sensitive variables affecting solvency and to determine internal thresholds. Again, the AZAP Risk Management team receives a monthly report. For local regulatory purposes, solvency is reported on a quarterly basis to the Insurance Board of Sri Lanka (IBSL).

Qualitative Risk Assessment

Key risks, including main operational risks on governance and culture, capital and limits, reporting and model coverage and the internal control framework, are evaluated. Status updates along with mitigation plans and timelines are reviewed and reported to the regional team.

Loss Data Capture

The Company has pre-defined internal as well as Group reporting thresholds above which all operational loss events are reported to senior management and the Region. Operational loss events including fraud are flagged to the Chief Risk Officer (CRO) by the respective department heads, with a quarterly sign-off obtained by the CRO to ensure that this has been adhered to.

Risk Management Committee (RiCo)

The in-depth risk function operates under the direction of the CRO. In addition, a local RiCo supports the CRO and the Board by acting as the prime risk controlling body.

The main responsibilities of the RiCo are to:

- Pre-approve the Company's risk management policy, risk strategy/appetite and carry out reviews to ensure alignment with local regulatory and Allianz Group requirements.
- Monitor the approved risk tolerance and exposure to individual risks.
- Determine management actions for non-compliance of risk owners to limits of the risk policy.
- Request, follow-up and assess contingency and action plans in case of (imminent) limit breaches.
- Review the risk management function's effectiveness and development in the context of regulatory and Allianz Group requirements.
- Report to the Allianz Asia Pacific Risk Management team on a quarterly basis and escalate material issues to the Board of Directors.
- Promote the Allianz risk culture and develop risk management talent for the Company.

The RiCo held two meetings during the year, where the main item on the agenda was an update by the Chief Risk Officer (CRO) on the Company's top risks and the status of the mitigation plans. Potential risks that can arise from changes in the political, economic or regulatory environment such as regulatory reporting of solvency based on the Risk Based Capital (RBC) framework were also deliberated.

Top Risks

Top risks to which the Company is exposed have been identified and action was 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 treasury bonds and bills, as well as corporate bonds 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 and monitored by Allianz Insurance Management, Singapore, as per Allianz Group policies on investment.

Credit risk to external reinsurers materialises 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.

Currency Risk is the risk of exchange rate movements adversely affecting profitability. Based on our foreign exchange management limit framework, currency risk is monitored and managed by the investment and risk management functions. The Company is primarily exposed to movement in the USD-LKR as a portion of premium income as well, since part of reinsurance payments are in USD. This risk is managed by way of a direct hedge which matches USD inflows 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 the risk that in the event of a liquidity crisis, refinancing is only possible at higher interest rates or by liquidating assets at a discount. The risk of this materialising is very low, as receipts and payments are monitored on a monthly basis with cashflow projections. In addition, predetermined minimum buffers are maintained in terms of liquidity tiers to ensure the availability of funding to meet unforeseen obligations.

Underwriting Risk - Non Life, Non Life insurance businesses are exposed to premium risk related to the current year's new and renewed business as well as reserve risks related to the business in force. Changes in profitability over time are measured based on loss ratios and their fluctuations. We face the risk that underwriting profitability is lower than expected. The volatility of the underwriting profitability measured over one year defines our premium risk. Premium risk is sub-divided into natural catastrophe risk, terror risk and non-catastrophe risk. The Allianz Insurance Lanka underwriting guidelines and procedure manual has clear underwriting limits in place that take into account our business environment. It is periodically reviewed and updated with changes in Group guidelines

Risk Management contd.

and requirements. Periodic training is conducted by the Chief Underwriting Officer for all staff in the technical team. In addition, risks are mitigated by external reinsurance agreements. All these measures contribute to the limitation of risk accumulation.

Underwriting risk - Life, Underwriting risks of our Life/Health operations (biometric risks) include mortality, disability, morbidity and longevity risks.

- Mortality, disability and morbidity risks are risks associated with the unexpected increase in the occurrence of death, disability or medical claims on our traditional products, including on our traditional Life and health insurance products.
- Longevity risk is the risk that, due to changing biometric assumptions, the reserves covering our portfolio might not be sufficient to cover extended life spans. Biometric assumptions like life expectancy play a significant role.

As profitability calculations are based on several parameters like historical loss information, assumptions on inflation or on mortality and morbidity, the realised parameters can differ from the ones used for the calculation. Periodic reviews of assumptions used to generate reserve requirements are carried out and assumptions are revised in line with experience, to minimise the risk of reserve inadequacy. Premium rates are also reviewed periodically to ensure they adequately reflect risks covered, based on past claims experience.

Sound practices governing product development that clearly define roles and responsibilities and approval structures are in place to mitigate underwriting risks at an early stage. This will be underpinned by the adoption of the Allianz Asia Pacific product approval governance framework for new Life insurance products in 2016.

Operational Risk remains a top priority for the Allianz Group as well as to the Company. 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 a breakdown of electricity or a natural catastrophe, or damage caused by employee fraud, or losses arising from litigation and court cases. Identification, assessment and quantification of operational risks through the quarterly Risk and Control Self-Assessment exercise continue to be a key focus. In addition, the Company monitors and records operational loss events through the Loss Data Capture process, also on a quarterly basis. These events are assessed, reviewed and mitigation actions put in place.

Reputation 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 (i.e. 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 Reputation Management Committee, which comprises senior management from each key function, meets periodically to address any reputational issues that have been brought to its attention, or issues that may have potential reputational impacts.

Annual Highlights

Customisation and implementation of the Investment Limits Framework was the key area of focus during the first quarter. Annually set thresholds on asset classes and single counterparty exposure limits were reviewed and adjusted, if deemed necessary, to suit local requirements.

Audits of the external fund management process for the Unit linked product is carried out on a quarterly basis to ensure the funds are being managed as per the guidelines and limits set forth in the agreement. Monthly reports are submitted to the local risk team by the investment officer.

Audits of the welcome call process for the Unit linked product in order to identify and minimise mis-selling is conducted on a semi-annual basis. A quarterly submission is sent by the Underwriting department to local risk and compliance detailing the key observations.

The CRO attended the Allianz Asia Pacific CRO Conference in Thailand at which the priorities for 2017 were discussed and agreed on. A separate workshop was held in Malaysia during 3Q16 where the new AZAP CRO met the various local CROs and laid out the priorities for the rest of the year

Internal Control Systems

Allianz has an effective internal control system for verifying and monitoring its operating activities and business processes, in particular the control of financial reporting, in line with Allianz global guidelines. The risk management system regularly assesses the appropriateness of the internal controls.

Overall risk organisation and co-ordination with the Allianz Group

A Group-wide comprehensive system of risk governance is achieved by setting standards related to the organisation structure, risk strategy and appetite, written policies, limits, documentation and reporting. These comprehensive standards ensure the accurate and timely flow of risk- related information at the local and regional levels.

The risk function is supported by Group Risk through the development of a common risk management framework and by monitoring adherence to Group minimum requirements.

As a general practice, the 'first line of defense' rests with the business managers of the two operating entities (Non Life and Life). They are responsible for both the risks and the returns on their decisions. Our 'second line of defense'is made up of independent oversight functions such as Risk, Compliance and Legal.

The main specific risks faced and mitigated during 2016 are as follows

Priorities for 2017

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

- To continue to promote the risk management culture within the organisation
- To comfortably meet regulatory solvency targets under the RBC framework
- To set internal thresholds on earnings volatility
- To further strengthen internal control systems with greater focus on model risk management
- To fully implement the Allianz Asia Pacific product approval governance framework for new Life insurance products
- To widen and strengthen the company-wide operational loss data capturing and reporting process

Risk Management contd.

Non Life

Risk faced	Actions taken to mitigate
Market risk specifically interest rate risk	Concrete actions were taken to reduce the asset liability duration mismatch (due to short liability duration and longer asset duration) and our strategy going forward is to reduce the duration gap further.
Operational risk	Internal audit reviews were conducted on identified high risk areas and improvements made in systems and processes.
Solvency requirements	Solvency at the end of December was 121%, only slightly above the regulator threshold as the rapid growth of the company required an increase in the Required Risk Capital under the RBC framework. We have mitigated the risk by requesting our parent company for a capital infusion of 2.5 million Euros. The Allianz Group has approved this capital injection and this is expected to provide a comfortable buffer to support the projected growth of the Company during 2017 and beyond

Life

Risk faced	Actions taken to mitigate
Market Risk specifically interest rate risk	Due to the longer duration of our liabilities and the shorter duration (compared to our liabilities) of our assets, we faced an asset liability duration mismatch and concrete measure were taken to match asset and liability cash flows. This matching strategy will continue over the next year as well.
Operational risk	Internal audit reviews as well as a review from Group audit were conducted on identified high risk areas and improvements made in systems and processes

Compliance at Allianz

As an Insurer and long-term investor, social and environmental responsibility is fundamental to our day to-day business because we have to keep our promises for our customers not only today but in 20 to 30 years from now. Over the last 127, years we have built systems and processes that help us to do business in a sustainable way

"As an Insurer and long-term investor, social and environmental responsibility is fundamental to our day to-day business because we have to keep our promises for our customers not only today but in 20 to 30 years from now. Over the last 127, years we have built systems and processes that help us to do business in a sustainable way"
Sustainability at Allianz www.allianz.com

To re-draft the story of sustainability and reinforce Allianz's global leadership position a 'Renewal Agenda' was introduced by the Allianz Group CEO. Allianz Lanka followed the guidelines and path set by the Group, and entered 2016 with a positive mindset that gave more responsibilities to Compliance to create an ethical environment to drive our business.

In Allianz Lanka, the compliance function is an integral part of the "Three-Lines-of-Defense" concept.

The lines of defense are;

- First line of defense - risk taking in the operating business
- Second line of defense - certain assurance functions (e.g., Actuarial, compliance, Legal and Risk Management)
- Third line of defense - internal and external audit

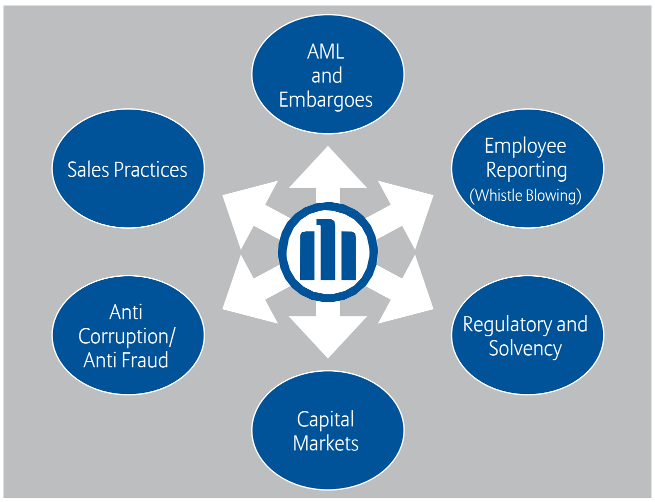
Within the Internal control systems, the compliance function acts as a key function and its main objectives are identified as; developing compliance policies and ensuring their due implementation; supporting and monitoring compliance with applicable laws, regulations and administrative provisions to protect Allianz Lanka against compliance risks. This includes the identification, assessment and mitigation of these risks; advising senior management and supervisory bodies on compliance with laws, regulations and administrative provisions; assessing the possible impact of any of these changes of the legal environment on Allianz Lanka's operations; evaluating and monitoring compliance risks on possible impacts on legal or regulatory sanctions; significant financial losses or loss to reputation to Allianz Lanka as a result of not complying with laws, regulations and administrative provisions.

The compliance function is assessed in the following risk areas;

- Corruption
- Money laundering and terrorism financing
- Economic sanctions
- Sales compliance
- Regulatory compliance
- Antitrust compliance

Compliance at Allianz contd.

- Fraud governance including internal fraud
- Data privacy
- Foreign account and tax compliance Act (FATCA).



As part of the internal control system, the compliance function exercises a set of activities to achieve its objectives which include the following elements :

- Promoting a culture of integrity and compliance
- Providing compliance training and communication
- Providing advice
- Establishing and maintaining compliance principles and procedures
- Investigation and employee reporting
- Interacting with regulatory authorities
- Monitoring and reporting

Integrity Campaign

In 2016, Allianz Lanka gave priority to promoting integrity, of which compliance is a key element. Promoting integrity means acting in accordance with our values, responsibilities as well as introducing excellence and innovation wherever we do business. Many of our managers participated in a specially formulated integrity campaign, and were given the opportunity to share their thoughts and the values they added to the Company in their daily work. All participants made positive contributions, especially in the sessions on case studies, and were rewarded accordingly. Twenty eight employees at management level participated.

Privacy at the Heart of our Operations

Allianz Lanka also gave prominence to the Allianz Group Data Privacy Renewal Agenda, a three- year multi – phase programme that evaluates and addresses the requirements of the Global General Data Protection Regulation. Although there is no specific data privacy regulation in Sri Lanka in line with Global requirements, Allianz Lanka appointed a team to implement the programme within the Company. With this programme, Allianz Lanka addresses privacy and data protection concerns while maintaining trust in the use of personal data and enabling technical developments in digital transformation. Allianz Lanka commemorated International Data Privacy Day on 28 January 2016, by sharing the relevant Group Article among employees and providing a questionnaire to senior management and managers to ascertain their data privacy IQ.

Compliance Review

The Allianz Regional Compliance Review took place in May 2016, at which senior management was given the opportunity to meet the Regional Head of Compliance and team share their ideas, and learn the importance of the Compliance role in the Renewal Agenda and the support needed from line management to fulfill these responsibilities. The Compliance Review was completed, and received many positive comments from the regional team who also suggested areas that needed improvement, such as the screening processes relating to sanctions and embargoes as well as anti money laundering.

Compliance Refreshment

Compliance refreshment training was conducted the Training department for all employees. More focus was given to anti- fraud training and a successful training session was conducted with the Non Life Sales force of the Galle district. A refresher compliance session for senior management was also conducted in the first quarter of the year, and refresher training on anti- money laundering was conducted for underwriting staff. Compliance continues to be a key component in the induction training for new recruits.

Sales Compliance

The sales force recruitment audit took place during the first quarter of the year and the findings were shared with the sales administration department and the GM Sales and Distribution. Training sessions were also conducted for the agency force on compliance topics, and for the sales agents, on the code of conduct. Compliance training slides were also included in the training sessions conducted by the Company's Life Training department and at a 'train the trainer session' conducted with the Life sales training team. Seventy eight personal files were reviewed by the Compliance department and about 65 agents underwent compliance training sessions. One 'train the trainer' session conducted for the Allianz Life Training division and the Compliance department was included in the familiarisation session conducted by The Life Training division.

Allianz has zero tolerance of fraud and corruption. To ensure this, the Company has in place a well designed and effectively implemented compliance system which allows us to detect compliance violations. The Allianz policies, procedures and minimum standards and guidelines are binding on all employees, senior management and the Board of Directors worldwide. These policies, procedures and guidelines describe the ways in which we should fulfill our compliance- related responsibilities, and express our values and internal protocols. Our compliance system infuses awareness of these responsibilities on all staff in their day-to-day work. Important guidance by the Group and Region have helped the Company focus on compliance priorities and on on-going developments in the compliance system.

Monitoring and Reporting

As one of its objectives, the Compliance function monitors adherence to applicable laws and regulations, and regularly reports to senior management on relevant compliance matters. In addition, it monitors any changes in compliance risk areas, compliance incidents, and/or any other compliance violations. In this process, Compliance monitors and investigates internal fraud and misspelling cases, violations on anti trust, anti money laundering, data privacy, economic sanctions and embargoes, and non compliance with laws and regulations.

In 2016, no violations were reported on any of the areas mentioned, and only 5 fraud cases and 2 mis-selling matters were reported during the year:

Compliance Focus in 2017

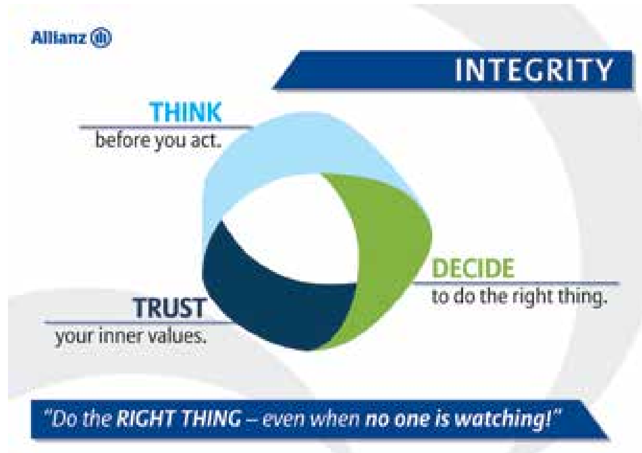
The Compliance department will continue to participate in the Integrity Campaign and the Data Privacy Renewal Programme. More focus will be given to better fraud governance by bringing in more active members to the committee to carry out fraud audits and other activities.

We will continue refresher trainings and, with the support of the IT department, will develop a compliance e-training tool. We will concentrate on anti- money laundering and terrorism financing, and will look at an implementation tool for these areas, with the support of the Region. More training and awareness among exposed employees and managers will also be in the Compliance priority list for 2017.

The Compliance department will carry out audits, reviews and spot checks in all departments, divisions and branches, in addition to carrying out its day-to-day compliance functions.

Integrity is integral to business at Allianz

Allianz has intensified the spotlight on integrity today. Business practices are being scrutinised even more carefully to ensure they are conducted ethically at all times



Integrity, as defined by Allianz, is 'the quality of being honest and having strong moral principles.'

Integrity has been in the Allianz DNA down the decades. As reiterated by Allianz Global CEO Oliver Bate, "Integrity is at the core of what we do. Allianz is one of the few financial institutions that still has the trust of its clients, regulators and society, based on three very clear elements, of which integrity is the first and foremost." The Allianz Group has also received international accolades for integrity and been recognised as one of the world's most ethical companies.

Allianz has intensified the spotlight on integrity today. Business practices are being scrutinised even more carefully to ensure they are conducted ethically at all times, employees are advised to promote ethical behaviour throughout the organisation, and a new business strategy, the Renewal Agenda, has been introduced to drive ethical performance across the Group.

A Change of Perspective

Allianz has changed its perspective on success. Take the attainment of strong financial results, for instance. Oliver Baté explains that despite being one of the world's more successful corporates, Allianz will no longer measure success in terms of figures alone. Instead, the company will now ask itself questions like, "how am I achieving my financial results'? Am I cutting corners, am I violating laws in order to get success?"

Why this intense spotlight on integrity? one may ask. Oliver Baté says that integrity will be a main component in Allianz's strategy for success in a fast-changing environment, and the key differentiator that will maintain the company's distinctiveness in a world in which individuality is fast disappearing. "The world is in a process of rapid and fundamental change…. This means we need to take decisive action. Allianz has a strong position in many areas. Our partners place their trust in us. We have one of the most attractive brands in the world. We lead the field when it comes to insurance and asset management expertise. The core of our organisation consists of exceptionally loyal and motivated employees. We have a business model that has stood the test of time and reliably achieves solid results, even in times of crises. …. None of these guarantee that an organisation will survive … but because Allianz has built such a solid foundation for itself and because its business is still showing such positive development, we are in a position to see these changes as an opportunity and create added value from them."

Allianz Lanka CEO Surekha Alles explains that integrity is of particular relevance to the insurance business because, "..we are in the business of delivering a promise for a future date, so it is the pillar on which our customers build their faith on the organisation, and on which our reputation as an insurer is built.'

Allianz believes that integrity must begin at home, namely with its employees, so ethical behavior is made mandatory from the top down, across the Group. The Company insists that integrity is also the most important quality for leadership, so incentive systems are being geared to ensure that career progression is based on the aspirant's

record of Integrity. The HR and Compliance departments will be scrutinising personnel files prior to all promotions to ensure that this requirement is met.

External customers will reap the benefit of this focus, too, as the yardstick of integrity is also being rigorously applied to all aspects of the business including sales compliance, anti-fraud, anti-trust, anti money laundering and data protection.

Walking the Talk

Allianz has developed an Integrity Campaign to create staff awareness of the importance of integrity and help managers deal with integrity challenges. Using the tagline 'think, trust, decide' the campaign advises staff to 'Think before you act, Trust your inner values, Decide to do the right thing.' In a situation that challenges their integrity they are to 'Ask for advice', 'Trust' (their instincts) but verify, and lastly, document the steps they have taken.

Marketing collateral - posters, banners, videos and articles - are also designed, and a 'dilemma book' available on AZ Connect, (the Allianz website for internal customers) invites employees to share their integrity experiences. An 'integrity community' has been created in Integrity Space within Allianz Connect which also encourages communication across the Group. Extensive trainings have been devised as well, to provide employees with the skills to handle situations that challenge their integrity.

Employees are advised, 'integrity starts with you' and told to, 'trust your inner values.' Each employee is invited to take the lead and act as a role model by embedding integrity in all actions and decisions. They are to 'walk the talk' by setting the tone and culture that promotes integrity. They are to act as they want others to act, and communicate in an honest, open and transparent manner, even in challenging situations.

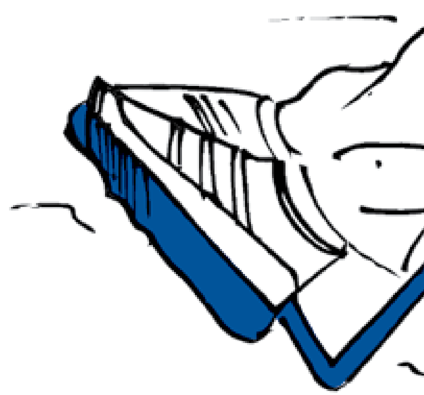
Allianz middle management has been identified to be the key drivers of the initiative and are asked to encourage their teams to participate in training sessions on the subject. Integrity ambassadors or consultants have been appointed to deal with straight-forward issues on integrity. Staff are advised to contact facilitators from the Compliance, HR and Communications departments for guidance on how to deal with ambiguous situations.

Allianz branch offices are to localise the content of the training materials developed at Group level and design their own communication material that includes articles, e-mails and CEO messages to communicate the message throughout the organisation.

Oliver Baté cautions, however, that the Company must not use the label of integrity to cover up any shortfalls, 'integrity should not be used as an excuse, for example, not to innovate or not to give clients what they need.'

Allianz is confident that this emphasis on integrity will substantially reduce incidents of compliance which are, all too often, discovered too late. The initiative could also augment the company's record of retention as many companies lose talented personnel due to unresolved compliance issues.

Assuring financial stability and security in your golden years



Investing your assets profitably is key to ensuring a relaxed and pleasurable retirement. Planning for your golden years is made a breeze with Allianz' global network that can be leveraged to help you plan ahead to ensure fruitful returns on your investment.

In trusting Allianz when planning for your future, you are afforded the financial freedom and confidence to continue living life on your own terms. Our dependable investment plans set you on course to make the most of your retirement.

CEO's Review

> *The strategy on which Allianz Lanka builds our future success follows the Renewal Agenda approach. We continue to keep our customers at the heart of our business, and focus on customer convenience in every aspect of our service.*

The past year was yet another challenging one, which saw several unprecedented changes taking place in the international arena that somewhat overshadowed the significant developments experienced by the local industry.

The international front was marked by political shocks that will impact the global economy for decades to come. Yet, despite the volatile political, economic and financial scenarios, the global economy grew by a surprisingly good 2.4%. The quantum of economic activity in global markets was attributed to being a main reason for market resistance to the unexpected political events of the year.

Notwithstanding precarious politics, it is noteworthy that Sri Lanka experienced significant political gains from the unprecedented goodwill extended to us by many countries, which augurs well for the country's future development. The local economy grew by 4.1%, due to some setbacks in the first half of the year caused by adverse weather conditions that put a dampener on the country's economic momentum. The severe drought conditions that prevailed in many parts of the country were offset in May 2016 by one of the worst floods faced by Sri Lanka in more than two decades. The economy began picking up in the fourth quarter of the year, however, due to the resurgence of the construction boom, of which the infrastructure and construction industry has been a major beneficiary, as a number of key mega infrastructure projects got off- ground.

Industry performance

Momentum was maintained in the industry as well, with both the Life as well as Non Life segments recording solid growth and an especially encouraging 19% growth in Life. Although 2016 was a year of change due to the implementation of the Risk Based Capital model and the segregation of companies, the transition was very smooth in most areas. Regulation in compliance and good governance continues to take place, which is another positive indicator that the industry is rapidly attaining high standards of professionalism.

Allianz Insurance Sri Lanka performance

Your Non Life Company had another remarkable year and recorded a robust growth of 30% amounting to about Rs 1 billion over last year, and achieved a GWP of Rs. 4.5 billion. The year saw your Company undertake many initiatives to further accelerate growth and improve efficiencies.

Your Company strengthened many operational areas with the recruitment of experienced specialists in key capacities. We also introduced and relaunched a range of products to keep in step with market demands, which were well received. These products include cyber insurance, political risk insurance, critical illness, an individual medical product, comprehensive hoteliers insurance and shop insurance, which were customised to market needs.

Our strategy to grow retail business brought results, and although the concentration in the past years was on corporates, the initiatives taken in the recent past to build our retail portfolio have brought us results. A key factor that reinforced our retail business was the 78% growth of the motor portfolio, which now has our retail portfolio accounting for 50% of our total portfolio. This is graphic confirmation of our success in reaching out to the public and reciprocates the confidence they have placed in us. A new agency channel introduced in line with our Renewal Agenda, of which more information is given below, also contributed an additional almost 13% to this growth.

But the Company's expansion into retail business had an initial short term negative impact as well, which translated into underwriting losses further exacerbated by the flood claims incurred during the May 2016 floods.

Despite heavy outflows in flood claims and expansion expenses, your Company succeeded in recording a Profit Before Tax of Rs. 38 million, and grew our investment portfolio by a substantial 33% YoY to Rs. 2 billion as at 31 December 2016. Our prudent investment strategy of placing 96% of our assets in government securities lies at the core of this satisfactory outcome. Net assets were at Rs. 974 million, which is a 15% decrease YoY, again, mainly due to heavy outflows on flood losses. Company solvency stood at 1.28, which is comfortably above the required regulatory threshold.

Allianz Life Insurance Sri Lanka performance

I am happy to say that your Life company turned around this year, and recorded profits of Rs. 26 million, reaching the Rs. 1 billion mark in GWP which is a growth of 13%. We are pleased to have introduced another 'first' to Sri Lanka, *Arogya*, a Life insurance policy cum savings plan that provides people with the financial relief they seek when undergoing essential and expensive medical care for 26 critical illnesses.

Other financial indicators have also been satisfactory. The Life Fund grew by 21% and reached Rs. 2.18 billion. The solvency margin stood at 3.01, far above the regulatory minimum. The investment portfolio grew by 16% to Rs. 1.9 billion in the year under review. The Life company, too, pursued a prudent investment strategy and placed 98% of its portfolio in government securities this year.

This investment strategy, reinforced by our financial strength and healthy Life Fund, enabled us to once again declare an annual dividend, of 8.5%, to our policyholders, who have continued to enjoy strong returns on their investments with us over the past several years.

The Life Insurance market has tremendous growth potential in Sri Lanka. The increase in Life penetration in the working population, which has grown from 20% to 35% following the expansion of urbanisation and higher per capita incomes, bears this out. Both the industry and the regulator make special efforts to create awareness among the public of the need for Life insurance. To exploit this opportunity, we strengthened our distribution by identifying hiccups in the processes and took counter-measures to combat shortcomings, and our distribution channels are now better than ever before.

Renewal Agenda

Two years previously, Allianz Group CEO Oliver Batë introduced a Renewal Agenda designed to keep pace with the rapid evolvement of the global financial services industry, which builds on the Group's strong foundations and solid leadership and leverages our superior skills. This comprehensive roadmap details how Allianz will strengthen organisational performance and health to serve our customers and other stakeholders better.

The Agenda builds on four pillars of trust, at the core of which stands Customer Centricity, which exemplifies the fact that the other three pillars, namely, Digital and Technical Excellence, Stronger Growth and Employee Motivation will be effective only if our customers continue to maintain their trust in us.

The strategy on which Allianz Lanka builds our future success follows the Renewal Agenda approach. We continue to keep our customers at the heart of our business, and focus on customer convenience in every aspect of our service. Insurance ‘jargon’ is being simplified and made more understandable, lengthy processes are being made more manageable, and customer touchpoints are being revisited and revamped. To us, the quest for service excellence will be a continuous journey and not a destination, as we will raise the bar higher to get even better at what we do.

Digitalisation is a key area that is being rigorously pursued to provide our customers with a service that exceeds their expectations. Ease of access is key to business success today, and the year 2016 was themed the ‘Year of Mobility’ to bring this maxim to the fore. Accordingly, our sales staff are now equipped with the tools to provide customers with speedy quotes 24/7 for many retail products. The ‘Roaming Office’ facility has been introduced to enable staff to work from anywhere, anytime, which has boosted productivity, improved internal efficiencies, enabled the use of alternative technologies, and greatly enhanced the overall customer experience.

Teams have been appointed to continue to take the Renewal Agenda further, by developing technical excellence and enhancing performance culture. This is still a work-in-progress. We must be more focused and faster in attaining these areas, but I am confident that these challenges will also be surmounted in the not-too-distant future.

Future Plans

We are pleased and proud at our progress thus far. As a multinational with no local partner nor captive business, we have continued to maintain our stability in, and commitment to, the Sri Lankan market in a scenario of short-lived multinational entrants. I believe that the key to Allianz Lanka’s success is that in our striving for top line growth, we are also intent on growing sustainably.

Your Company will further invest in cutting- edge technology to keep pace with our growth momentum, spur enhancements in customer service delivery through speed of response, as well as improve internal efficiencies.

We are committed to further expanding our business in Sri Lanka, the required steps are being taken to achieve this end, even as I speak.

We stand by our values of being the most trusted company that acts with integrity in all areas of business. Your Company, in line with Regional and Group strategy, designs a carefully strategised plan that outlines our outlook for the forthcoming three years. This is monitored bi-annually and tweaked, if necessary, to mirror current realities. Our growth momentum could be attributed to this careful planning and forecasting.

Developing our people within to take up new areas of opportunity is a driver of our success strategy. This we are able to accomplish at all levels because of the substantial support received from the Region and the Group. Multinational exposure received from international training and skill enhancement has equipped our people to stand out from the competition. A talent pool has already been identified to take the Company to new heights of excellence in future years.

Having concluded another successful year, I wish to reiterate that our many triumphs and achievements have been due to the invaluable contributions of each of our stakeholders, whose commitment has strengthened our unity and realised our aspirations for success. To our valued customers, my deep appreciation of your loyalty. I am honoured that you continue to trust us as your preferred insurance partner, and give you our sincere commitment that we will be with you in your moment of truth. To my colleagues on the Board, I thank you for your ready support and counsel, which continue to be a source of strength to me. To the Regulator, I say a special ‘thank you’ for the many areas in which you supported me in my quest to make Allianz Lanka an insurer of integrity. I am delighted to say that we have on board an excellent team who are passionate about their work and on delivering results. I thank you all for standing by me to realise another successful year.

Surekha Alles
Chief Executive Officer
Allianz Insurance Lanka Ltd./ Allianz Life Insurance Lanka Ltd.

17 February 2017

Allianz Moments

Allianz Lanka had a busy year of events that launched new products, drove performance, engaged stakeholders, and improved sales

Allianz Lanka had a busy year of events that launched new products, drove performance, engaged stakeholders, and improved sales

New Year Programme

2 January

The corporate calendar kicked off with a ceremony held at the Allianz Lanka head office at Nawam Mawatha, Colombo, to mark the dawning of another new year. Buddhist, Christian, Hindu and Muslim clergy invoked blessings for the Company's prosperity and success. The traditional oil lamp was lit and sweetmeats of *kiribath, kavum* and *kokis* were served.

The entire head office of over 400 staff, participated. Branches followed suit with similar celebrations to mark this auspicious day of new beginnings.

Launching Pad rolls out plans and rewards performance

25 January

This annual event launched the business plan for the unfolding year and also recognised and rewarded those top performers in Life sales and distribution who had over-achieved their ANBP targets in 2015.

This year's event was held at the Ministry of Disaster Management auditorium in Colombo and was attended by about 175 sales staff and senior management.

Motor Day drives sales

11 April

This was a town storming event held in all towns of the Allianz branch network. Non Life staff around the country brought vehicles to a halt to gather information on customers' motor insurance experience. The exercise was successful in obtaining a number of new business leads.

Allianz Moments contd.

Avurudu Ganu Denu programme Spurs Life Sales Performance

25 April

This first- ever business launch programme was held at the head office auditorium, to motivate branch Life sales staff to obtain a minimum of 20 Life proposals. Successful staff were rewarded with a special Avurudu gift presented to them by CEO Surekha Alles.

Another branch opened at Dehiattakandiya

21 May

Allianz Lanka added the 57th branch to its extensive islandwide network, with the opening of the Dehiattakandiya branch. Allianz Lanka CEO Surekha Alles was Chief Guest and Dehiattakandiya Divisional Secretary Sheromini Kumari was Guest of Honour at the opening ceremony.

Allianz Annual Awards

3 June

This annual celebration of excellence recognises top sales performance as well as non sales staff who went beyond the requirements of their jobs to improve work areas and processes.

The much-awaited event was held with a difference this year. Jaffna was the venue of choice, because the Jaffna branch was the highest performer in 2015. This year's awards day did away with the usual glittering ceremony in a five star Colombo hotel, in favour of an overnight stay in Jaffna for over 300 field staff and non sales staff. The ceremony was held at the Tilco Hotel, Jaffna, with Allianz CEO Surekha Alles as Chief Guest and Nagalingam Vedayahan of the Jaffna District Secretariat the Guest of Honour.

T Gangasudan of the Jaffna branch was the Champion of Champion (Life), and Asitha Roshan of Corporate Sales, the Champions of Champion (Non Life). They received valuable rewards in cash and kind, as well as the much-coveted Champion of Champion trophy. The Jaffna branch was adjudged the Best Branch and the award was claimed by branch manager M. Mahendraraj.

This year's Directors' Awards went to outstanding performers Dananjaya Lakmal of the Finance division and U.N.D.P Malinga of the Actuarial department for their innovative suggestions for enhancing workplace performance.

Allianz Sports Day

6 August

The Recreation Club Allianz organised a sports day for internal staff, at the BRC Grounds in Colombo. Events included a six- a- side cricket tournament, tug o' war and a fancy dress parade, in addition to track and field events.

More than 640 Life and Non Life staff participated in this eventful day of fun and action.

Ask Easy Quote Launch

8 September

This is a new app that enables quotations to be obtained through a smart phone or tablet, and was launched at the Allianz head office. Allianz Shop Keepers' Insurance is one of the many products that benefit from the new app.

Allianz Life Sports Day

9 September

A sports day organised by the Life division was held for all Life sales staff and the head office technical teams, at the Buddhadasa Grounds in Battaramulla. Field and competitive events like net ball, cricket and tug o' war made it a memorable day. CEO Surekha Alles was Chief Guest.

Launch '2 in 1 Drive Safe' With Feature Enhancements

15 September

The Allianz motor product was re-branded '2 in 1 Drive Safe' and re-launched with new features at a ceremony at the head office that was also attended by the media. The new motor product assures motorists that their premium will remain unchanged for two consecutive years, irrespective of their claims experience.

Master Mind Quiz

5 October

A quiz programme, 'Master Mind,' was organised by the HR department for head office and branch staff at the Sasakawa Auditorium, Colombo. Each team had five members and the quiz was in five rounds that covered the subjects of sports, current affairs, art and literature, history and geography, as well as general knowledge.

The Finance division won the quiz and the Sales Administration team was adjudged the best dressed team.

Allianz Moments contd.

Allianz Lanka wins ‘Best Sustainable Company of the Year’ South Asia award

13 October

Allianz Insurance Lanka Limited was adjudged the ‘Best Sustainable Insurance Company of the Year’ at the 2016 South Asian Partnership Summit & Business Awards presented by the World HRD Congress. The awards ceremony, held at Waters Edge, was attended by many prominent corporate sector leaders and officials from several South Asian countries.

The Awards are endorsed by the Asian Confederation of Businesses, and honour and celebrate leaders around the region who work to strengthen unity and increase economic opportunities. The jury for the awards comprised respected business leaders, researchers and academics from several countries.

Quizzing the Finance Sector

18 November

Allianz took its prowess in quiz competitions to the corporate arena with the organising of a quiz for private sector finance Institutions. The event was organised by the Non Life distribution team and held at the head office auditorium.

More than 20 teams from the finance sector participated in the five rounds of questions on sports, current affairs, art and literature, history and geography and general knowledge.

LB Finance PLC were adjudged the winners, with AMW Capital Leasing & Finance PLC following at their heels as 1st runners up and Kanrich Finance Limited as 2nd runners up.

Annual Staff Get Together

2 December

Staff gathered at the Grand Monarch Hotel in Talawatugoda for their annual evening of fun and entertainment. More than 500 employees were present and had a rollicking time, dancing to popular English and Sinhala music, and vying with each other to win a number of exciting competitions and raffles. Winners received valuable gifts of electric appliances and gift vouchers, and Satkunarajah Tharshan from the Jaffna branch walked off with the evening’s grand prize - a return air ticket to Bangkok.

Sustainability Report

The impact we have on the lives of our stakeholders is the yardstick by which we measure our success. A key component of this is the influence of our presence on the communities we work and live in.

The impact we have on the lives of our stakeholders is the yardstick by which we measure our success. A key component of this is the influence of our presence on the communities we work and live in. Whether it is in restoring lives in the aftermath of a disaster, creating jobs by protecting start up SMEs, or providing economic opportunities to those who lack the financial or physical capabilities to realise their dreams, Allianz reaches beyond the products and services we provide, to fulfill our responsibilities as a concerned neighbour and committed corporate citizen.

Sustainable practices

As a global insurer, we have in place systems and processes that ensure that the business we do is not only profitable but sustainable as well. Our long- term commitment to our customers ensures that environmental, social and governance (ESG) issues are managed in a manner that reduces underwriting risks.

Volunteerism

We harness the power of the Allianz team to develop and strengthen our links with local communities. Sharing the time and talents of our people benefits both the communities as well as builds skills in our employees that can be brought back to the workplace.

Sustainability Awards

To underscore our commitment to sustainability, we were recognised as the **'Best Sustainable Insurance Company of the Year'** at the 2016 South Asian Partnership Summit & Business Awards and winner of the 'Best Sustainable Company of the Year' South Asia award, presented by the World HRD Congress and endorsed by the Asian Confederation of Businesses.

Best sustainable Insurance Company of the Year Award

The South Asian Business Awards honour and celebrate leaders in the region who work to strengthen unity and increase economic opportunities. The jury for the awards programme comprised respected regional business leaders, researchers and academics.

The awards ceremony was attended by many prominent corporate leaders and officials from several South Asian countries, and held at Waters Edge, Battaramulla, on 13 October 2016.

'My Finance Coach' continues to promote financial literacy among youth

Balangoda Budda Jayanthi Maha Vidyalaya and Kandy Mahamaya Balika College were the schools to which the much- sought- after 'My Finance Coach' programme was introduced during 2016. To date, this initiative has increased the financial literacy of about 5,000 young people in more than 30 schools throughout Sri Lanka.

'My Finance Coach'instructs youth on smart money management with the tools needed to be financially competent citizens and create a financially stable future for themselves. This is a global Allianz CSR initiative first introduced in Germany by parent company Allianz SE.


My Finance Coach

The programme was brought to Sri Lankan shores in November 2013, where it is a first-of-its kind initiative. Allianz Lanka was recognised for our contribution towards the financial literacy of Sri Lankan youth with an award in the Best Sustainability Project category at the prestigious National Chamber of Commerce (NCC) awards last year.

Statistics confirm that Sri Lankans are becoming increasingly more in debt to banks and financial institutions due to a lack of awareness of how to balance their needs and wants. Allianz Lanka believes that this situation will be mitigated to some extent in the future if teenagers on the threshold of adulthood are educated on financial literacy.

Accordingly, the programme targets students aged between 15 and 17 years and teaches them about business and finance in a way that is relevant to their everyday lives, using interactive practical examples and exercises that are easy to follow. Feedback received proves that the project is very popular not only among schoolchildren, but also with teachers and parents.

Allianz Lanka has received commendations and requests to introduce the project to many more schools. The Company is now working with the Ministry of Education to take the project forward.

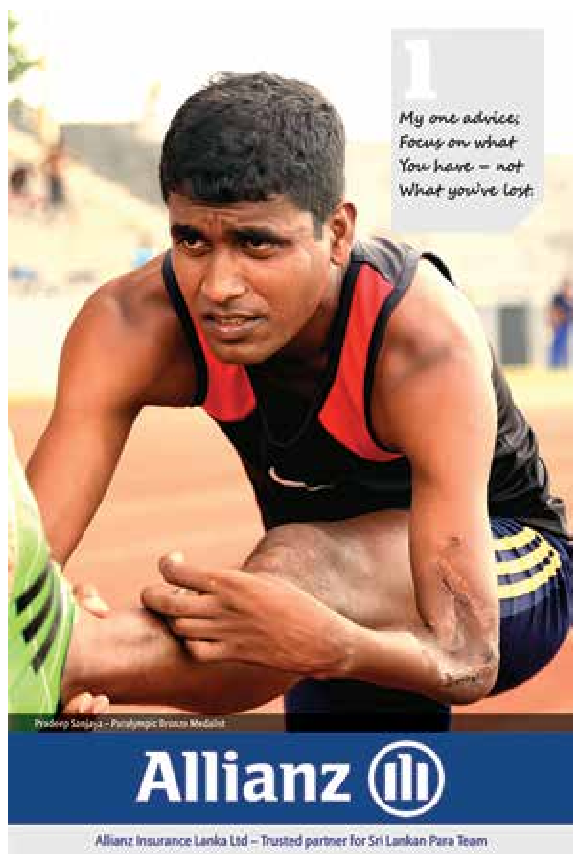
Further extension of paralympic sponsorship to support the differently abled

We continue to follow in the footsteps of our august parent with a further commitment of two more years, to improve the quality of life of differently-abled para-athletes. Allianz Lanka has, since 2013, enjoyed the experience of partnering these plucky players and helping them achieve their dreams to compete and win in international sporting events, and has also contributed to uplift para sports in Sri Lanka, with both financial support and technical assistance. Hitherto, para sports was not given the attention accorded to other sports in Sri Lanka.

By joining forces, both organisations have been able to expand our interest in disability sports and increase opportunities for para athletes, as well as raise awareness of the vital contributions of differently -abled people to society.

The Allianz Lanka partnership supported our para player to excel at the 2016 Rio games in Brazil, at which Sri Lanka won a bronze medal, and in the Asian Para games in Incheon, South Korea in 2014, which won fourteen medals including one Gold Medal, for Sri Lanka.

There is a strong link between Allianz and the Paralympics. Allianz became the first international partner of the International Paralympic Committee (IPC) in 2011 because of a shared commitment to the core values of the Paralympics: courage, determination, inspiration, and equality. The topics of health, rehabilitation and re-integration into society after a casualty are part of Allianz's daily business. Our partnership also provides a meaningful link between Paralympics and the concerns of our employees and customers. The athletes' passion for the sport, their ability to believe in themselves, and their ambition to strive for excellence in achieving their goals, mirrors the Allianz work ethic.



Sisudiriya supports continuous commitment to educational excellence

This is a scholarship awarded to the children of Allianz Life policyholders who achieved the highest ranking in the Grade 5 examination and were placed among the first two students district-wise. Unlike most scholarships which award a one –off payment, Allianz Lanka forges a long –term commitment to support the scholarship winners throughout their secondary education upto completion of the first attempt at the G C E Advanced Level examination, with a payment made monthly. Oshani Hashinika Gayashani of Sri Dhammananda Maha Vidyalaya, won the scholarship in 2015

"This scholarship is a great help to me to continue with my studies, and excel. Thank you Allianz! "

'We have implicit trust in Allianz, which is why I took out a Life insurance policy with them, and we are indebted to the Company for proving us with the resources for our daughter's higher education,' endorses her father. T. M. Sanath Jayashantha.

Allianz Lanka launched the scholarship programme to commemorate 125 years of service of parent company, world renowned financial service provider Allianz SE, in 2015. There was no winner in the current year as the criteria was not met.

Enhancing the facilities of the Nuffield School for the deaf and blind, Jaffna

Allianz staff donated money to buy equipment for the school's science lab as well as renovate the school's toilets.

Staff also visited the school and pitched in to help with some cleaning and repairs. They were warmly welcomed by the principal and students.

At Nuffield School

Bringing light to the lives of orphans

Staff entered into the spirit of the Season of Goodwill by graciously deciding to forego the annual 'Secret Santa' gifts. They decided instead to utilise this money to buy much- needed items of essential goods and gifts for the Mother Theresa Home in Moratuwa.

Many staff attended the presentation and spent time with the orphaned children, singing carols and distributing toys and sweetmeats, which were received with eager anticipation and rapt smiles.

Helping colleagues rebuild their lives after the flood

The Company and staff presented those of their colleagues in Maharagama, Kiribathgoda and Kelaniya who were affected by the May 2016 floods, with essential items to help tide over the worst effects of the disaster.

Each member of staff volunteered to sacrifice one day's pay to support their disaster sticker colleagues.

An employee's home damaged due to flooding

Cutting-edge technology that keeps us connected

The digital revolution is fundamentally changing the way customers make purchasing decisions. Today's customers are discerning and demanding, expect a hassle-free buying experience, and shift loyalties if not provided with high quality products and speedy, efficient service at competitive prices.

The digital revolution is fundamentally changing the way customers make purchasing decisions. Today's customers are discerning and demanding, expect a hassle-free buying experience, and shift loyalties if not provided with high quality products and speedy, efficient service at competitive prices.

This prompted Allianz SE to look into fundamentally changing the way the Group does business. Leading-edge technology was seen as being a key business enabler that provides real time customer interaction and enhances services. The Group invested substantially in globally-shared IT architecture, networks and business platforms and developed web-based multi-access customer interaction tools to address changing customer needs. On the operational side, systems across the Group are being streamlined to reduce complexity and improve efficiency. These initiatives have ensured that Allianz products and services are available anywhere in the world, anytime, and can be accessed from smart phones and other handheld devices.

2016 declared Year of Mobility

Allianz Lanka also climbed on the IT bandwagon to fine-tune our focus on information technology. The year 2016 was themed the Year of Mobility within the Company, and awareness was promoted of the vital role played by IT in many areas of our business. All enhancements were focused on using technology to promote mobility and our employees were also exhorted to use IT in creative ways that addressed our strategic goals.

Roaming Office and BYOD

In line with our theme, Allianz Lanka introduced several IT-enabled mobile work opportunities for staff, of which one was the Roaming Office. This gave employees the flexibility to work from different locations, including their homes, with diverse working patterns and equipment. The initiative aims to reduce costs, increase productivity as well as improve internal efficiencies, and will use alternate technologies where appropriate.

Introducing the Bring Your Own Device (BYOD) concept also gave employees the freedom to bring their own smart devices to work and to use these devices to access company information and applications.

The BYOD concept is proving popular among employees in businesses around the world.

Branch Communication

A unified communication system for branches is now in place. This has improved overall performance and contributed significantly to improving staff productivity. This is a contemporary IT infrastructure enhancement that also facilitates easy connectivity with head office users of roaming devices.

Online portals for enhancing sales efficiency

Allianz Lanka's IT department developed a range of IT solutions and apps for the sales team to promote ease of use and access, and improve operational efficiencies.

An online quotation portal for non motor products was set up during the year, which enables the sales team obtain quotations on their mobile devices wherever they are. This helps them meet customer needs in a more timely and efficient manner.

The Advisor Arena Online Portal was also enhanced to provide sales agents with a dashboard view of vital information on the progress of a sale, and access relevant statistics. An app, QPortal, was embedded into the Advisor Arena portal to gather customer information based on an in-built questionnaire. This will facilitate hassle-free profiling of the customer during the sales process.

Client Space is yet another remarkable digital development that will enable customers to obtain all insurance services online. The programme will be online shortly.

Other business processes and automations

More and more companies are opting to automate mundane business processes. This frees up vital human resources to address stakeholder needs, manage inquiries effectively, and support tasks that require personalised attention.

Allianz Lanka, too, introduced several automation processes during the year under review. These include:

- 'HR Layer,' an end- to- end process automation system that facilitates HR operations
- A document management system (DMS) for motor underwriting that provides faster underwriting of new business
- The Enhance Assessor App which provides customers with on-site assessor services for speedy claims settlements.

We have also introduced digital channels of communication that connect us with our colleagues around the world. Webinars and video conferencing are now the norm at Allianz Lanka, and are being used as effective tools of communication. This has substantially improved efficiency by giving us speedy access to vital information from our parent company and country offices, which is an important requirement for an international insurer like us. Social media networks further support the globalisation and diversity of our workforce.

Allianz Lanka will be introducing more leading- edge technologies that will continue to raise the bar for service efficiency and promote a more efficient working environment into the future.

Human Capital Report

As an employer of choice, we have established a diverse and inclusive culture where people are respected for who they are, recognised for what they contribute, and celebrated for what they can become, and encouraged to make a positive difference in the world around them.

Allianz SE has successfully introduced a range of initiatives over the years, to attract, develop and retain talent across the Group. Allianz Lanka, too, has followed in the footsteps of our august parent to introduce many strategies that have effectively built the quality and enhanced the capacities of our people.

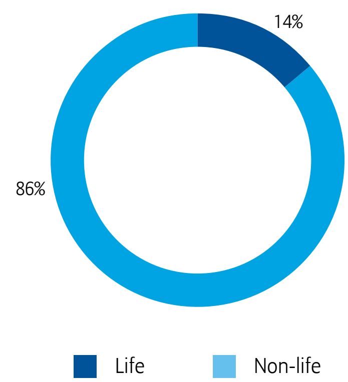
As an employer of choice, we have established a diverse and inclusive culture where people are respected for who they are, recognised for what they contribute, and celebrated for what they can become, and encouraged to make a positive difference in the world around them.

Fundamental to our HR strategy is understanding our employees' needs and aspirations and ensuring that all dealings with staff are transparent and a two-way process.

Staff Composition and Movements

Allianz Lanka had 569 employees in its Non Life company and 89 employees in its Life company as at 31 December 2016.

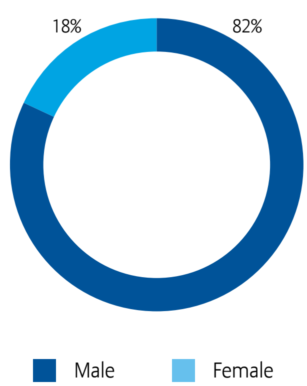
Staff Composition - 2016



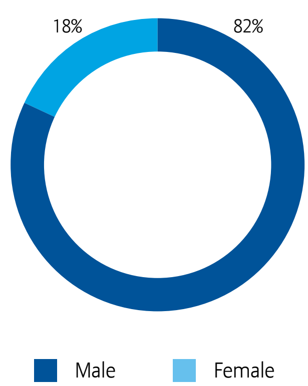
Male / Female Distribution

Description	Non Life	Life	Total
Male	465	73	538
Female	104	16	120
Total	569	89	658

Non Life



Life



Average Age and Average Tenure Age

Company wise

Description	Non Life	Life
Average Age	32.19	37.38
Average Tenure Age	2.00	2.82

Gender wise

	Non Life	Life
Average Tenure	2	2.82
Tenure Age Women	2.27	5.02
Tenure Age Men	1.92	2.34

Age Group

Age Group	Non Life Company		Life Company	
	Male	Female	Male	Female
<25	94	27	3	1
25-29	95	25	5	6
30-34	115	21	21	2
35-39	73	9	9	2
40-44	51	6	22	4
45-49	21	4	6	0
50-54	14	7	4	1
55-59	0	3	2	0
60-64	0	2	1	0
65>	2	0	0	0
Total	**465**	**104**	**73**	**16**

Attrition rate

	Non-Life	Life
Average staff	491	88
Resignations only	160	27
	33%	31%

Human Resources Strategy

The Allianz human resources strategy is built into the Company's new 'Renewal Agenda.' It is a corporate strategy recently introduced into all aspects of business, and sets out the ways and means by which the Company would strengthen performance and progress organisational health in order to improve the stakeholder service experience. The Renewal Agenda focuses on five company aspects - 'true customer centricity' (customer service excellence in every area of business)' 'digital by default' (digitalization of all processes); 'technical excellence' (state-of-the-art skills that promote innovation and growth'; 'Growth engines' (exploring new sources for profitable growth' ; 'inclusive meritocracy,' (reinforcing a culture in which people and performance matter). 'Inclusive Meritocracy' covers the human resources function within Allianz and defines a company which progresses people based solely on their talents and abilities. Achieving this level of people excellence involves addressing four areas termed the 'four people attributes' - Customer and Market Excellence; Collaborate Leadership; Trust; Entrepreneurship.

Driving a culture in which people and performance matter involves mentoring the employee through every step of his/her journey with Allianz, from the point of hiring to the moment of exit, and covers the following key areas:

a) Recruitment – identifying and recruiting the right candidate for the job
b) Performance – making employees responsible for their own development as they grow with the Company in an environment that motivates them to perform at optimal levels, recognises and rewards their performance
c) Training –developing of employees' professional, technical and soft skills
d) Career growth – assuring career progression to outstanding performers

a) Recruitment

In step with Inclusive Meritocracy, an Allianz Global Initiative introduced the Employee Value Proposition (EVP) to showcase Allianz's strength as a recruiter and retainer of exceptional talent.

The EVP tagline 'Allianz is the Home for those who DARE' is being used in all communication, and branding is being standardised across all Group companies. The Allianz Careers webpage, top jobs webpage, and internal job advertisement templates were also streamlined in line with global EVP.

Refferral scheme

A unique referral scheme was introduced during the year which involved all employees in the recruitment process. Current Allianz employees were asked to invite potential candidates within their social networks to submit their *curriculum vitae* to assess their prospects of a career with Allianz. Once the CV is submitted, the potential recruit follows standard Allianz recruitment channels and selection is based on the applicant's suitability for the job. The scheme is based on the Allianz belief that our employees are best placed to make informed decisions on their referred candidates' potential for recruitment to, and retention with, Allianz. Allianz is always on the lookout for potential talent and this system has been effective in tapping hitherto unexplored potential.

Similar schemes introduced in other corporates confirm their effectiveness in improving candidate quality, identifying candidates who are a better fit for the company, and ensuring higher retention levels, in addition to significantly reducing recruitment costs. This ultimately reduces the company's requirements for recruitment in the future.

b) Performance

Evaluation processes reviewed and revamped

The Performance Assessment process was reviewed and updated to bring it in line with the Inclusive Meritocracy strategy and establish a performance culture within the Company.

Probation evaluation - This was changed to being held quarterly instead of monthly, to provide a more effective evaluation and feedback mechanism.

Directors Award

Mid-year performance review - A more formal mid-year performance appraisal was introduced to assess employee performance during the interim period.

Annual performance review - From 2017 onwards, Allianz will introduce the People Attributes component of the Renewal Agenda to all annual performance appraisals of management grade staff across the Group. Allianz Lanka had a head start here, and introduced these attributes to the performance evaluation of grades from and above that of Assistant Manager.

Directors Award

This much coveted award is presented annually to non-sales staff, for outstanding contributions made over and above their job descriptions. Any member of staff can nominate their colleagues for the award, and many nominations were received in 2015. Six nominations were shortlisted by the Directors Award Committee.

Two employees, Dananjaya Lakmal, Executive, Finance Department, and U.N.D. P.H Malinga, Manager, Actuarial Department, were adjudged as having made the most outstanding contributions to enhancing effectiveness in the workplace in 2015. They were rewarded with overseas trips, cash awards, plaques and certificates at a presentation made by the Allianz CEO at the Sales Convention held in Jaffna in June 2016.

Staff Engagement

Employee engagement continues to be a key topic throughout the Allianz Group, because Allianz believes that a strong leadership culture builds engaged employees, which results in better business performance. A culture of Inclusive Meritocracy in which people and performance matter, is integral to this engagement.

Accordingly, the annual Allianz Engagement Survey was held for the eleventh consecutive year and more than 125,000 employees from across the Allianz Group were invited to participate.

This year, Allianz Lanka had a staff participation of 88% which is 3% less than the participation rate of 91% recorded last year. This reduced participation is due to the increased cadre and a higher number of new employees who were unfamiliar with the annual Allianz survey.

The survey has three key areas of assessment which were evaluated on 12 dimensions or sub-parameters:

1. Employee Engagement Index (EEI) - a key measurement of employee satisfaction, loyalty, advocacy and pride in their organisation.
2. The Inclusive Meritocracy Index (IMIX) - measures the progress of the organisation in establishing a culture of Inclusive Meritocracy.
3. The Work Well Index (WWi) - a scientifically designed index that measures the stress levels of employees. It is composed of ten equally weighted areas that cause work-related strain and

measures demands, rewards, control, support, and social capital. A higher index score is associated with better employee health and productivity.

The Employee Engagement Index of Allianz Lanka recorded the same rating of 79% recorded in the previous year (2015) whilst the Inclusive Meritocracy and Work Well Indexes dropped 3% and 2% respectively compared to 2015.

	2016 Rating	2015 Rating
Employee Engagement Index (EEI)	79%	79%
Inclusive Meritocracy Index (IMIX)	74%	76%
Work Well Index (WWi)	73%	76%

According to the feedback received, Allianz Lanka shows positive ratings in the areas of 'Superiors' and 'Jobs & Processes' but 'Work & Health' and 'Survey Follow up' scores need improvement. The HR department will take the necessary steps to address areas of concern.

Creating awareness of the four People Attributes

A survey was carried out by the Group to assess employee awareness of the four People Attributes within the Inclusive Meritocracy area of the Renewal Agenda. The People Attributes of customer and market excellence, collaborative leadership, entrepreneurship and trust define the approach taken to achieve business objectives in the Renewal Agenda.

c) Training

We carried out several training and development initiatives on technical and soft skills development locally. Selected management grade staff have also been nominated for training programmes, conferences, meetings and seminars organised and conducted by the Allianz Group in Germany and by the Regional Office in Singapore.

We also reviewed and strengthened the induction and familiarisation programmes for new recruits. All new employees now undergo a compulsory training at head office prior to on- the- job training at their respective branches or departments. Several programme were carried out that cover the distribution management team, sales staff and operational support staff in branches, which were conducted by the respective technical departments, HR, Sales, Training and Development departments and other support service units.

Training hours during the year

Total numbers of training hours - 17,050
No. of training hours per employee - 26 hours

Training cost

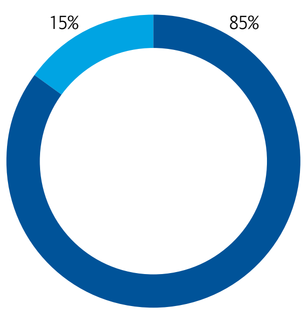
Foreign training cost - Rs. 7,698,942
Local training cost - Rs. 1,330,677
Total Training Cost - Rs. 9,029,619

30 employees participated in 39 programmes conducted in 2016 by the Allianz Group Head Office and the Regional Office and obtained immense exposure to their areas of work. The programmes were conducted in the Asia Pacific region and Europe and participants

Training and development Workshops

were given opportunities to share their knowledge with colleagues from other Allianz operational entities.

Training Cost Composition



Workshop on high performance through employee engagement and coaching and feedback

A special workshop to enhance performance through employee engagement and coaching, with regular feedback, was conducted by Holly Cormack of The Open Space, an international training academy based in Singapore that provides high-end development programmes globally. The workshops was for managers with at least one staff reporting to them and aimed to highlight the importance of employee engagement and regular coaching and feedback in enhancing team performance. The managers were trained to use tools and techniques that would motivate team performance.

Workshop content included the importance of feedback and coaching in Inclusive Meritocrasy; understanding the four globally consistent People Attributes with three underlying target behaviours - raising organisational, team and employee performance; understanding emotional intelligence and its link to performance and feedback; coaching styles, benefits of coaching, and the coaching module.

Programme for new recruits

A programme, 'Accelerate,' was introduced for new recruits, to speed up the settling in process and help them enhance their on-the-job performance from the initial months of joining the Company. All new recruits are required to follow the programme on completion of three months service with Allianz.

Areas covered include information on the Company's new Renewal Agenda; customer care in line with the customer centricity component of the Renewal Agenda, and an assessment to evaluate their knowledge of company practices and procedures gained through the induction, familiarisation and the accelerate programmes for new recruits. A panel discussion with relevant department heads was also included to enable staff to obtain solutions for any issues they face in the course of their work.

This is a follow-up to the ongoing induction training programme in which new recruits learn about, and liaise with, other departments.

Professionalism

	Total Employee Cadre	No of Professionals
Life UW/ claims	12	8
Life sales and distribution	53	3
Non life UW/ claims	136	20
Non life sales and distribution	372	15
Finance	26	14
Support Services	59	24
Total	**658**	**84**

Workshops and WebEx sessions for the talent Pool

d) Career growth

Formation of Asia Pacific Talent Pool (APTP)

This is a talent management initiative launched by Rashmi Sharma – Regional Head of Talent, Allianz Asia Pacific, during her visit to Allianz Lanka in April 2016.

The initiative grooms and develops future leaders of Allianz and identifies outstanding performers from Allianz offices worldwide for appointment to this prestigious pool. The HR department of Allianz Lanka sourced 45 high- performing middle management and senior staff, from executive to general manager grades, for membership of the pool.

This select team will be given opportunities to access global and regional activities, participate in cross functional projects, benefit from expert talks by visiting Allianz delegates from the Group and Region, participate in skills development activities of the talent forum held exclusively for APTP members, as well as access online fora through webinars conducted by the Region.

Allianz Lanka organised two session titled "Expert Talks" during the year only for members of the talent pool, with the objective of developing them by providing them with additional exposure and networking opportunities.

The Regional Head of Legal and Compliance, Dr Petra Maerkl, spoke on the Allianz compliance function and its importance to the company and the need for employees' compliance, as well as new initiatives in compliance.

Group Claims Expert, Jenny Lambert, conducted a session on the claims function, its best practices, the Allianz perspectives and measures on managing claims as well as global trends. Jenny also shared her personal experiences and insights gained during her career with Allianz.

The members of the talent pool members also participated in several online webinars conducted by the Allianz Regional Office for talent pool members in the Asia Pacific region.

Other initiatives and activities

Human Resources goes digital

The HR department fell in step with global digitalization initiatives by introducing the 'HR Layer' rollout workflow system. This system tracks the recruitment process, from the period of the initial request for employment upto the time of recruitment of the successful applicant.

The workflow system is effective because it tracks real- time progress and conforms to the Allianz aim of promoting a paperless office.

Developing the personalities of Wayamba University and Sabaragamuwa University undergraduates

Allianz HR took our prowess in soft skills training into the academia by organising a session on personality development at the Wayamba University, Kuliyapitiya. The training was conducted by Sussil Liyanage - AGM Sales Training and Development on 29 September, the University's Insurance Day. More than 200 undergraduates participated.

A session was also conducted for the Sabaragamuwa University Insurance undergraduates during their field study tour on 27 September 2016.

Promoting work - life balance

Initiatives were organised during the year to enhance the work life balance and promote teamwork and fellowship. A recreation club was also established during the year to promote this aim.

Staff are provided with gym, badminton and pool membership at the St. Joseph's College Sports Complex in Darley Road, Colombo.

Please see Allianz Moments on page xx for more employee initiatives organised during the year.

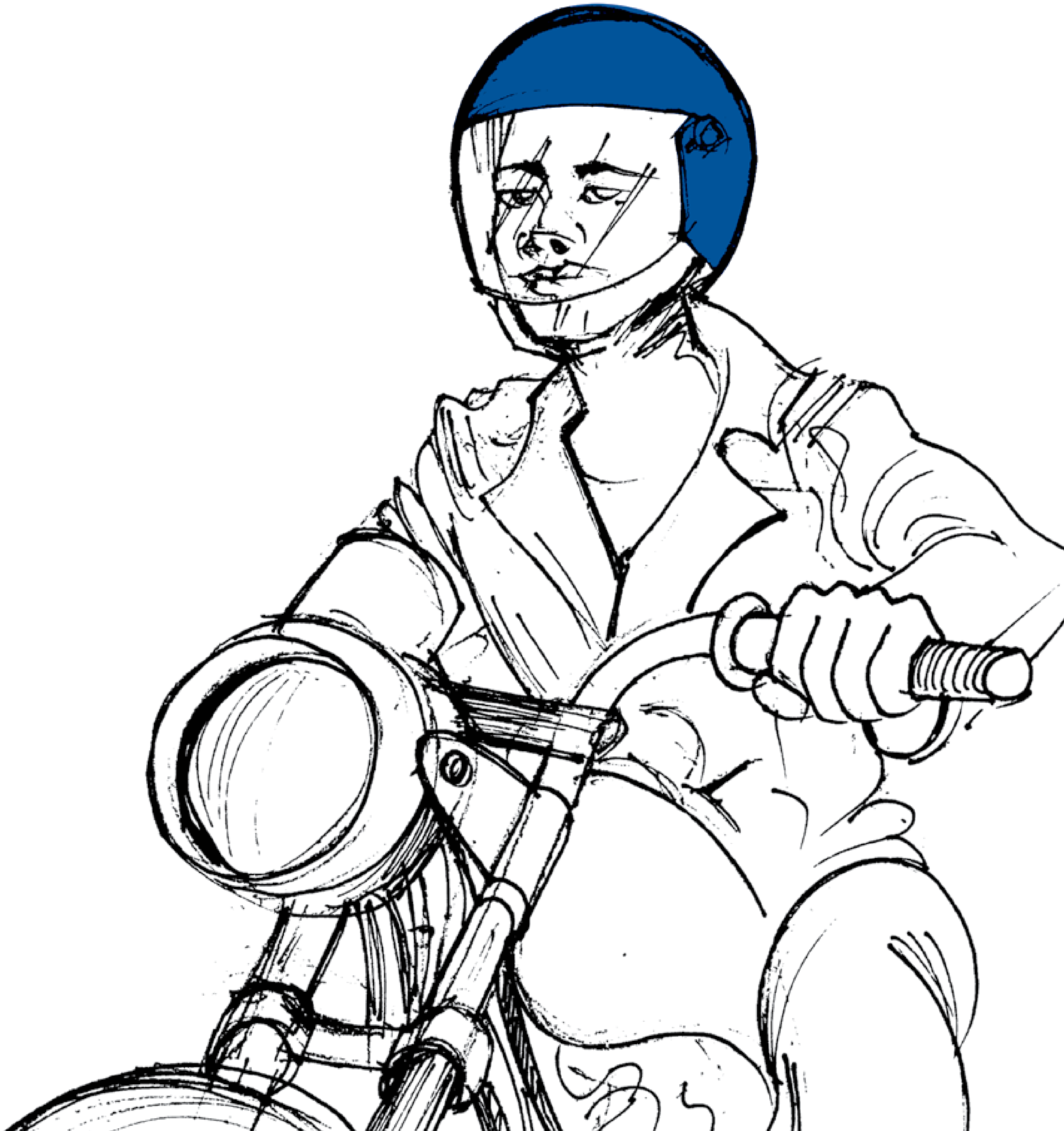
We are confident that our strategy of Inclusive Meritocracy will succeed in keeping our employees happy, fulfilled and productive, and help forge their long- term commitment to Allianz.

Allianz believes that our people are the most important assets of the company, so we will continue to build on these many initiatives to further enhance their effectiveness.

A driving commitment to protect your vehicle wherever you go

Allianz is the leading strategic partner to the automotive industry worldwide, having insured over 40 brands of cars in more than 25 countries.

We are more than just about motor insurance. We believe in complete coverage of your motor needs. Enjoy your ride through life knowing you are afforded the advantage of comprehensive protection for your valued set of wheels. Rest assured that we are committed to protecting your vehicle in any eventuality and gearing you to face your journey on the road with confidence.



Financial Statements
Allianz Insurance Lanka Ltd.

Directors Report

The Board of Directors of Allianz Insurance Lanka Limited have pleasure in presenting the 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 2016.

The Audited Financial Statements were approved by the Board of Directors on 17 February 2017.

Principle 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 Insurance, Banking and Asset Management services.

Review of Business performance 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 22 to 25. The future developments of the Company are presented in the CEO's Review on pages 46 to 48. These reports, together with the Audited Financial Statements,reflect the state of affairs of the Company.

Corporate Governance

The Board of Directors is committed to maintain an effective corporate governance structure and process, and best practices on corporate governance. Systems and procedures are in place to ensure that corporate governance is adequately and practically dealt with. The Company has 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 achievement of objectives, compliance issues, and on the strategy and existing risk exposure.

Compliance with Laws and Regulations

To the best of the knowledge and belief of the Directors, the Company has not engaged in any activity contravening the existing laws and regulations of the country.

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.

Risk Management and Internal Control Systems

The Board considers risk management and internal controls as being integral to the management of the Company and business processes.

The Allianz Group has put in place a comprehensive framework that ensures risks are properly identified,analysed and evaluated. Continuous review of the risks faced by the Company is done by the Risk Management Committee (RiCo) which is chaired by the Company's designated Chief Risk Officer. Details of the Company's comprehensive risk management framework are given in the Risk Management Report on pages 34 to 38.

The Board is satisfied with the effectiveness of the system of internal controls and risk management that were in place during the year under review and up to the date of approval of the Annual Report and Financial Statements.

Financial Statements

The Company's Financial Statements duly signed by the Directors, together with the accounting policies and notes thereto of the Company, are provided on pages 72 to 113, and the Auditors' Report on the Financial Statements is provided on page 71 of the Annual Report.

These Financial Statements and notes give a true and fair view of the Company's financial position as at 31 December 2016 and of its performance for the year ended on that date, and comply with the requirements of the Sri Lanka Accounting Standards and the Companies Act No. 07 of 2007.

Earnings Summary

For the year ended 31 December	2016 Rs. '000	2015 Rs. '000
Gross Written Premium (GWP)		
Accident	111,082	152,407
Fire	1,466,472	1,185,326
Marine	121,448	94,962
Medical	618,031	642,411
Miscellaneous	469,128	423,363
Motor	1,789,962	1,008,152
Total GWP	4,576,123	3,506,621
Net Earned Premium	2,400,551	1,617,389
Underwriting Profit / (Loss)	(225,116)	14,422
Profit Before Taxation	37,635	159,055
Taxation	(13,933)	(50,122)
Profit After Taxation	23,702	108,933
Profit brought forward from previous year	499,643	390,118
Dividents	-	
Profit available for appropriation	523,345	499,051

Operating Results

GWP grew significantly by 30 % to Rs. 4,576 million, from Rs. 3,506 million in 2015.

The Company has recorded Rs. 38 million operating profit which declined by Rs. 121 million mainly due to an increase in underwriting loss.

Financial Results

The Company recorded a net profit of Rs. 24 million (2014: Rs. 109 million).

Investments

The details of investments held by the Company are disclosed in Note 5 to the Financial Statements. The strategic assets allocation is derived in accordance with its associated risks and returns. Investments are closely monitored and reviewed by the Finance and Investment Committee(FiCo).

Asset allocation by class

As at 31 December	2016		2015	
	Rs. '000	%	Rs. '000	%
Sri Lanka government securities	1,918,290	96	1,364,163	90
Fixed deposits	48,015	2	85,586	6
Corporate debentures	16,185	1	17,850	1
Unit trusts	23,479	1	41,065	3
Total	2,005,969	100	1,508,664	100

Property and Equipment

Details of property and equipment are given in Note 6 to the Financial Statements.

Solvency (Risk based Capital)

The Statement of Solvency for Non Life Insurance has been prepared in accordance with the Solvency Margin (Risk Based Capital) of Non Life Insurance Rules 2015 amended by Extraordinary Gazette No 1945/19 of December 15, 2015 and is disclosed below.

The Company is well capitalised and is comfortably meeting its internal and regulatory solvency targets as at 31 December 2016.

For the year ended 31 December	2016 Rs. '000
Total Available Capital (TAC)	716,952
Risk-based Capital Requirement (RCR)	561,811
Risk-based Capital Adequacy Ratio (CAR)	1.28

Dividends and Bonus Issue

There was no dividend or bonus issue during the financial year.

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 and we place great emphasis on fostering leadership, talent and continuous personal development. Only by unlocking our employees' potential and enhancing our services can we achieve our primary goal of being a reliable partner to our customers. We encourage equal opportunity, 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 success fully 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. This 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-oriented 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 2016 was Rs. 500 million (2015: Rs. 500 million).

The total equity of the Company as at 31 December 2016 amounted to Rs. 973 million (2015: Rs. 987 million). The movement of equity is shown in the Statement of Changes in Equity on page 74.

Directorate

The Board consists of three members, and the information on the Directors of the Company is available in the Directors profiles on page 19.

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

- Heinz Dollberg
- Surekha Alles
- Alan Smee

Directors' Remuneration and Other Benefits

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

Directors' Interest in Contracts with the Company

None of the Directors had any material interests, either directly or indirectly, in any transactions or contracts with the Company other than as disclosed in Note 29.2 to the Financial Statements.

Statutory Payments

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

Environment

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

Going Concern

The Board of Directors made necessary review of the financial position and corporate plans for the ensuing years and are satisfied that the Company has adequate resources to continue its operations in the foreseeable future.

Accordingly, the Financial Statements are prepared based on the going concern concept.

Events after the Reporting Date

There were no material events that occurred after the reporting date that require adjustments to or disclosure in the Financial Statements, other than those disclosed in Note 32 to the Financial Statements on page 103.

Auditors

The Financial Statements for the year ended 31 December 2016 have been audited by 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.

Details of their remuneration are given in Note 29.2 to the Financial Statements. As far as the Directors are aware, the Auditors do not have any other relationship with the Company nor do the Auditors have any interest in contracts with the Company.

Heinz Dollberg
Director

Surekha Alles
Director

Secretaries to the Company
N& N Agents and Secretaries (Pvt) Limited

17 February 2017

Certification of Incurred but not Reported (IBNR) Reserve

17 February 2017

To the shareholders of Allianz Insurance Lanka Ltd

Allianz Insurance Lanka Ltd 31 December 2016 Net IBNR and LAT Certification

We hereby certify that the IBNR provision (inclusive of CHE) of LKR 71,922,074 is adequate in relation to the Claim Liability of Allianz Insurance Lanka Ltd as at 31 December 2016, 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 incurred claim obligations as at 31 December 2016, 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 LKR 1,866,437,637 set by the Company, net of reinsurance, is adequate in relation to the unexpired risks of Allianz Insurance Lanka Ltd as at 31 December 2016, in many but not all scenarios of future experience. As such, there is no premium deficiency to be recognised by the Company.

The results have been determined in accordance with internationally accepted actuarial principles. 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 (FASM, FIA)
Fellow of the Actuarial Society
of Malaysia
Fellow of the Institute and
Faculty of Actuaries

For and on behalf of NMG Consulting
Dated 17 February 2017

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www.NMG-Group.com
30 Hill Street, #03-02A, Singapore 179360

Independent Auditors' Report

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(Chartered Accountants)
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Internet : www.lk.kpmg.com

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, 2016, and the statement of profit or loss and other comprehensive income, changes in equity and statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Board's Responsibility for the Financial Statements

The Board of Directors ("Board") is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2016, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we state the following:

a) The basis of opinion and scope and limitations of the audit are as stated above

b) In our opinion:
   - we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company,
   - The financial statements of the Company give a true and fair view of its financial position as at December 31, 2016, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards, and
   - The financial statements of the Company comply with the requirements of Section 151 of the Companies Act No. 07 of 2007.

As required by Section 47(2) of the Regulation of Insurance Industry Act, No.43 of 2000, as far as appears from our examination, the accounting records of the Company have been maintained in the manner required by the rules issued by the Insurance Board of Sri Lanka, so as to clearly indicate the true and fair view of the financial position of the Company.

KPMG

CHARTERED ACCOUNTANTS

Colombo
17 February 2017

Statement of Financial Position

(All amounts in Sri Lanka Rupees Thousands)

As at 31 December	Notes	2016 Rs. '000	2015 Rs. '000
Assets			
Financial Investments	5	2,005,969	1,508,664
Property, plant and equipment	6	105,704	106,539
Intangible assets	7	43,194	37,979
Reinsurance receivables	8	1,044,035	609,392
Premium receivables	9	1,573,724	1,537,905
Other receivables	10	57,858	93,767
Amounts due from related parties	11	498	-
Insurance contract - deferred expenses	12	208,380	163,756
Deferred tax assets	27.2	50,406	8,792
Cash and cash equivalents	13	121,294	40,054
Total assets		5,211,062	**4,106,848**
Equity and liabilities			
Equity			
Stated capital	14	500,000	500,000
Available for sale reserve	15	(48,646)	(12,926)
Retained earnings	16	522,117	499,643
Total equity		973,471	**986,717**
Liabilities			
Insurance contract liabilities	17	3,077,685	2,086,080
Reinsurance payables		716,432	674,047
Employee benefit obligations	18	17,801	12,490
Other payables	19	262,151	301,264
Bank overdraft		163,522	46,250
Total liabilities		4,237,591	**3,120,131**
Total equity and liabilities		5,211,062	**4,106,848**

The above Statement of Financial Position is to be read in conjunction with the Notes to the Financial Statements.
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

17 February 2017

Statement of Profit or Loss and Other Comprehensive Income

(All amounts in Sri Lanka Rupees Thousands)

For the year ended 31 December	Notes	2016 Rs. '000	2015 Rs. '000
Gross written premium	20.1	4,576,123	3,506,621
Premiums ceded to reinsurers		(1,470,225)	(1,192,709)
Compulsory cession to NITF		(289,328)	(243,247)
Net written premium	20.2	2,816,570	2,070,665
Net change in reserve for unearned premium		(416,019)	(453,276)
Net earned premium		2,400,551	**1,617,389**
Other revenue			
Investment income	21	210,611	126,681
Other operating revenue	22	50,434	18,774
		261,045	**145,455**
Total net revenue		2,661,596	**1,762,844**
Net insurance benefits and claims paid	23	(1,968,095)	(1,373,897)
Gross change in contract liabilities		(557,722)	30,081
Change in contract liabilities ceded to reinsurers		711,090	173,962
Net benefits and claims		(1,814,727)	**(1,169,854)**
Underwriting and net acquisition costs	24	49,085	142,690
Other operating and administrative expenses	26	(858,319)	(576,625)
Other expenses		(809,234)	**(433,935)**
Profit before tax		37,635	159,055
Income tax expense	27	(13,933)	(50,122)
Profit for the year		23,702	**108,933**
Other comprehensive income			
Items that are or maybe reclassified to profit or loss			
Net change in fair value of available for sales financial assets		(31,195)	(8,934)
Net change in fair value of available for sales financial assets reclassified to profit or loss		(18,415)	(18,808)
Items that will not be reclassified to profit or loss			
Actuarial gain / (losses) on defined benefit obligations	18.1	(1,706)	822
Tax on other comprehensive income	27.3	14,368	7,837
Total other comprehensive income		(36,948)	(19,083)
Total comprehensive income for the year net of income tax		(13,246)	**89,850**
Earning per share			
- Basic	28	0.47	2.18

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

Statement of Changes in Equity

(All amounts in Sri Lanka Rupees Thousands)

	Stated Capital Rs. '000	Available for Sale Investments Reserve Rs. '000	Retained Earnings Rs. '000	Total Equity Rs. '000
Balance as at 1 January 2015	**500,000**	**6,749**	**390,118**	**896,867**
Net profit for the year	-	-	108,933	108,933
Other comprehensive income, net of tax				
- Net change in fair value	-	(8,934)	-	(8,934)
- Net amount reclassified to profit or loss	-	(18,808)	-	(18,808)
- Actuarial gains / (losses)	-	-	822	822
- Deferred tax on actuarial gain/(losses)	-	-	(230)	(230)
- Deferred tax on change in fair value	-	8,067	-	8,067
Total comprehensive income	500,000	(12,926)	499,643	986,717
Balance as at 31 December 2015	**500,000**	**(12,926)**	**499,643**	**986,717**
Net profit for the year	-	-	23,702	23,702
Other comprehensive income, net of tax				
- Net change in fair value	-	(31,195)	-	(31,195)
- Net amount reclassified to profit or loss	-	(18,415)	-	(18,415)
- Actuarial gains / (losses)	-	-	(1,706)	(1,706)
- Deferred tax on actuarial gain/(losses)	-	-	478	478
- Deferred tax on change in fair value	-	13,890	-	13,890
Total comprehensive income	500,000	(48,646)	522,117	973,471
Balance as at 31 December 2016	**500,000**	**(48,646)**	**522,117**	**973,471**

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

Statement of Cash flows
(All amounts in Sri Lanka Rupees Thousands)

For the year ended 31 December	2016 Rs. '000	2015 Rs. '000
Cash flow from operating activities		
Premium received from customers	4,538,840	3,175,726
Reinsurance premium paid	(1,695,785)	(1,472,839)
Claims paid	(3,682,599)	(1,535,573)
Reinsurance receipts in respects of claims	1,042,593	351,399
Cash paid to and behalf of employees	(343,676)	(210,009)
Operating cash payments	532,058	(105,179)
Cash inflow/ (outflow) from operating activities (note A)	391,431	203,525
Employees benefit paid	(294)	(96)
Net cash flow from operating activities	391,137	**203,429**
Cash flow from investing activities		
Acquisition of investments	(8,840,676)	(9,242,203)
Proceeds on disposal of investment	8,381,734	8,983,790
Acquisition of intangible assets	(38,255)	(21,419)
Acquisition of property and equipment	(52,610)	(45,753)
Interest income received	122,638	124,514
Net cash flow from investing activities	(427,169)	**(201,071)**
Net cash flow before financing activities	(36,032)	2,358
Cash flow from financing activities		
Dividends	-	-
Net cash flow from financing activities	-	-
Net increase/ (decrease) in cash and cash equivalents (note B)	(36,032)	**2,358**

Statement of Cash flows contd.

(All amounts in Sri Lanka Rupees Thousands)

For the year ended 31 December	2016 Rs. '000	2015 Rs. '000
Notes to cash flow statement		
A. Reconciliation of operating profit with cash flow from operating activities		
Profit before taxation	37,635	159,055
Depreciation charge for the year	53,445	40,136
Provision for employee benefits	3,899	4,835
Amortization of intangible assets	33,040	31,590
Interest and investment income	(210,611)	(107,873)
Provision for premium receivable	1,464	(4,866)
Increase in receivables	(481,139)	(545,048)
Increase in unearned premiums and deferred acquisition costs	442,773	495,178
Increase / (decrease) in claims provisions	548,832	(22,893)
Increase/ (decrease) in creditors and accruals	(37,906)	153,406
Cash inflow / (outflow) from operating activities	391,432	203,520
Employee benefit paid	(294)	(96)
Net cash inflow /(outflow) from operating activities	391,138	203,424
B. Net increase / (decrease) in cash and cash equivalents		
Cash in hand and at bank	121,294	40,054
Bank overdraft	(163,522)	(46,250)
Net cash and cash equivalents closing balance	(42,228)	(6,196)
Net cash and cash equivalents opening balance	(6,196)	(8,554)
Net increase / (decrease) in cash and cash equivalents	(36,032)	2,358

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. 46/10, Nawam Mawatha, Colombo 02, Sri Lanka.

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

The Company was incorporated on 20th January 2004 and commenced Non-Life insurance business in January 2005.

1.2. Principal activity and nature of operations

The Company is engaged in the business of underwriting Non-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. Statement of compliance

The Financial Statements of the Company which comprise the Statement of financial position, Statement of profit or loss and other comprehensive income, Statement of changes in equity, Statement of cash flow and notes thereto have been prepared in accordance with these 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 and the Regulation of Insurance Industry Act, No. 43 of 2000.

Date of authorization of issue

The Financial Statements of Allianz Insurance Lanka Ltd for the year ended 31 December 2016 was authorized for issue in accordance with a resolution of the Board of Directors on 17 February 2017.

2.2. Basis of measurement

The Financial Statements have been prepared on the historical cost basis and applied consistently with no adjustments being made for inflationary factors affecting the Financial Statements, except for the following;

- Available-for-sale financial assets are measured at fair value
- Long term Insurance fund has been measured at actuarially determined values
- Liability for defined benefit obligation is recognised at the present value of the defined benefit obligation

2.3. Functional and presentation currency

The Financial Statements are presented in Sri Lankan Rupees (LKR), 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
Unearned Premium	Note 17.1
Deferred Acquisition Cost	Note 12 and Note 17.2
Provision for Gross Outstanding Claims	Note 17.3
Provision for IBNR/IBNER	Note 17.4
Employee Benefits	Note 18
Deferred taxation	Note 27.2

2.4.1. Insurance contract liabilities- Non Life Insurance

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

2.4.2. Defined benefit obligation

The defined benefit obligation liability of the Company is based on the actuarial valuations carried out by independent actuarial specialist. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases and mortality rates. Due to the complexity of the valuation, the underlying assumptions and its long term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Details of the key assumptions used by the actuary in the estimates are contained in Note 18.2 to the financial statements.

2.4.3. Deferred tax assets/liabilities

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. The Company establishes provisions, based on reasonable estimate based on the tax laws and interpretations.

The Company has utilized such tax losses to recognize deferred tax asset and in the statement of financial position. The deferred tax asset is recognised in the financial statements as it is probable that the future taxable profits will be adequate to utilize the available tax losses fully in the foreseeable future. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and the level of future taxable profits.

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. Going concern

The Directors have made assessment of the Company's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on a going concern.

2.7. 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 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 retranslated 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 retranslation are recognised in the Statement profit or loss and other 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 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.

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 balances sheet date.

3.2. Intangible assets

3.2.1. Computer Software

3.2.2. 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 amortization and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Company is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortized over its useful life. Internally developed software is stated at capitalised cost less accumulated amortization and impairment.

3.2.3. Subsequent Expenditure

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

3.2.4. 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.

3.2.5. De-recognition

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

3.3. Property, Plant and Equipment

3.3.1. 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 cost of the asset can be measured reliably.

3.3.2. 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 labor, 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.

3.3.3. 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.

3.3.4. Repairs and maintenance

Repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the assets when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing assets will flow to the Company and the renovation replaces an identifiable part of the asset. Major renovations are depreciated during the remaining useful life of the related asset.

3.3.5. Depreciation

The Company provides depreciation from the date the assets are available for use up to the date of disposal, at the following rates on a straight-line basis over the periods appropriate to the estimated useful lives of the different types of assets.

The estimated useful lives for the current and comparative years are as follows:

Office equipment	3 years
Computer equipment	3 years
Furniture & Fittings	5 years
Motor vehicle	5 years

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate,at each reporting date.

3.3.6. De-recognition

The carrying amount of an item of property, plant and equipment is derecognised 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 derecognised.

When replacement costs are recognised in the carrying amount of an item of Property, Plant and Equipment, the remaining carrying amount of the replaced part is derecognised. Major inspection costs are capitalised. At each such capitalization, the remaining carrying amount of the previous cost of inspection is derecognised.

3.4. Leased assets

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.

3.4.1. Finance Leases

Finance leases that transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance charges are recognised in finance cost in the statement of Profit or Loss and comprehensive income.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

3.4.2. 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.

3.5. Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount.

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

3.6. Financial assets and financial liabilities

3.6.1. Non-derivative financial assets

3.6.1.1 Initial recognition and measurement

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

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

At inception a financial asset is classified into one of the following categories:

1. Available-for-sale (AFS);
2. Loans and receivables (L&R), as appropriate.

The Company determines the classification of its financial assets at initial recognition. The classification depends on the purpose for which the investments were acquired or originated (i.e. intention) and based on the Company's ability. Financial assets are classified as at fair value through profit or loss where the Company's investment strategy is to manage financial investments on a fair value basis. The available-for sale and held to maturity categories are used when the relevant liability (including shareholders' funds) is passively managed and/or carried at amortized cost.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace are recognised on the settlement date, i.e., the date that the Company receives/ settles money for the sale/purchase of the financial asset.

However, when it comes to investment in quoted equities and corporate debt, the transaction date (i.e. trade date) is used to recognise/derecognise the asset. The Company's existing types of financial assets and their classifications are shown in the table below.

3.6.1.2. Financial Asset Category

Financial Asset	Category
Treasury Bonds	Available for Sale
Treasury Bills	Available for Sale
Unit Trusts	Available for Sale
Listed Debentures	Available for Sale
Corporate Debt	Available for Sale
Term Deposits	Loans and Receivables

3.6.1.3. Subsequent measurement

3.6.1.3.1. Available-for-sale financial assets (AFS)

Available-for-sale financial investments include equity and debt securities (Government Securities and Corporate Debt). Equity investments classified as available-for-sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial assets are subsequently measured at fair value, with unrealized gains or losses recognised in Other Comprehensive Income (OCI) in the available-for-sale reserve.

Interest earned whilst holding available-for-sale investments is reported as 'Interest Income' using the EIR. Dividends earned whilst holding available-for-sale investments are recognised in the statement of comprehensive income as 'Investment Income' when the right of the payment has been established. When the asset is derecognised, the cumulative gain or loss is recognised in the Investment Income. If the asset is determined to be impaired, the cumulative loss is recognised in the statement of comprehensive income in the 'Investment Income' and removed from the available-for sale reserve.

The Company evaluates its available-for-sale financial assets to determine whether the ability and intention to sell them in the near term would still be appropriate. In the case where the Company is unable to trade these financial assets due to inactive markets and management's intention significantly changes to do so in the foreseeable future, the Company may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and management has the intention and ability to hold these assets for the foreseeable future or until maturity. The reclassification to held-to-maturity is permitted only when the entity has the ability and intention to hold the financial asset until maturity.

For a financial asset that is reclassified out of the available for- sale category, any previous gain or loss on that asset that has been recognised in equity is amortized to statement of comprehensive income over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired then the amount recorded in equity is reclassified to the statement of comprehensive income.

3.6.1.3.2. Loans and receivables - (L & R)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company also decided to classify quoted Corporate Debt under this category since there is no active market for these instruments even if such instruments are listed.

These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. After initial measurement, loans and receivables are measured at amortized cost, using the EIR, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium if any, on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in 'Investment Income' in the statement of comprehensive income. Gains and losses are recognised in the statement of comprehensive income when the investments are derecognised or impaired, as well as through the amortization process.

3.6.2. Non-derivative financial liabilities

The Company initially recognizes financial liabilities (including liabilities designated at fair value through profit or loss) on the trade date at which the Company becomes a party to the contractual provisions of the instrument. Financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

3.6.2.1. De-recognition

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

Any interest in transferred financial assets that qualify for de-recognition that is created or retained by the Company is recognised as a separate asset or liability in the statement of financial position. On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in statement of comprehensive income.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

3.6.2.2. Offsetting

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 set off the recognised amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.Income and expenses are presented on a net basis only when permitted under SLASs, or for gains and losses arising from a group of similar transactions such as in the Company's trading activity.

3.6.3. Amortised cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

3.6.4. Fair value measurement

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumption and other risks affecting the specific instrument.

Level 1 - Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - Fair value measurements using 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); and

Level 3 - Fair value measurements using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument, i.e. without modification or re-packaging, or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in statement of comprehensive income on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Instrument Category	Fair Value Basis	Fair Value Hierarchy
Government Securities		
Treasury Bonds	Valued using the market yield	Level 1
Treasury Bills	Valued using the market yield	Level 1
Repos/Overnight Repos	Carrying Value (Cost + Accrued Interest)	Level 2
Units Trusts		
Listed Units Trusts	Published Market Prices (VWA)	Level 1
Debentures		
Listed Debentures	Valued using the market yield	Level 1
Corporate Debt		
Listed instrument (Security)	Published Market Prices	Level 1
Fixed and Term Deposits		
Deposit < 1year	Cost plus interest	Level 2
Forex Deposits	Cost plus interest	Level 3

Any difference between the fair value at initial recognition and the amount that would be determined at that date using a valuation technique in a situation in which the valuation is dependent on unobservable parameters is not recognised in statement of comprehensive income immediately but is recognised over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

3.6.5. Identification and measurement of impairment

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

3.6.6 Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as a part of investment income in the statement of comprehensive income.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Investment Income' in the statement of comprehensive income.

The Company has not experienced any indication of impairment and thus no impairment losses were recognised during the financial year.

3.6.7. Available-for-sale financial investments (AFS)

For available-for-sale financial investments, the Company assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of debt instruments classified as available-for sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of comprehensive income.

Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The interest income is recorded as part of 'Investment Income'. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income.

3.7. Deferred acquisition costs (DAC)

Those direct and indirect costs incurred during the financial period arising from the writing or renewing of insurance contracts are deferred and amortized over the period in which the related revenues are earned. All other acquisition costs are recognised as an expense when incurred.

The DAC is applicable only to Non Life Insurance Contracts. In line with the available regulatory guidelines from the Insurance Board of Sri Lanka (IBSL), the DAC is calculated based on the 365 days basis.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the statement of comprehensive income. No such indication of impairment was experienced during the year. DAC is derecognised when the related contracts are either settled or disposed-off.

3.8. Reinsurance

The Company cedes insurance risk in the normal course of business to recognised reinsurers through formal reinsurance arrangements. Reinsurance assets include the balances due from reinsurance companies for paid and unpaid losses and loss adjustment expenses. 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 is recorded gross in the statement of financial position 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, if any is recorded in the statement of comprehensive income.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

3.9. Premium receivable

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration receivable. Collectability of premiums is reviewed on an ongoing basis.

According to the Premium Payment Warranty (PPW) directive issued by the Insurance Board of Sri Lanka (IBSL), all Non Life insurance policies are issued subject to PPW and are cancelled upon the expiry of 60 days if not settled except some selected customers where company has allowed extra period for settlements .

3.10. Cash and cash equivalents

Cash and Cash Equivalents comprise cash in hand, demand deposits and short-term highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

3.11. Stated capital

3.11.1. Ordinary share capital

Ordinary Shares are classified as equity.

3.12. Insurance contract liabilities

3.12.1 Insurance provision – Non Life insurance

Non Life Insurance contract liabilities include the outstanding claims provision including IBNR /IBNER and provision for unearned premiums.

The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these cannot be known with certainty at the reporting date.

The valuation of Unearned Premium Reserve is measured in accordance with guidelines of the Regulation of Insurance Industry Act, No. 43 of 2000 (i.e. based on the 365 days basis). The Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) claims reserve are actuarially computed. The liability is not discounted for the time value of money. No provision for equalization or catastrophe reserves is recognised. The liabilities are derecognised when the obligation to pay a claim expires, is discharged or is cancelled.

As required by the SLFRS 4- Insurance Contracts, the Company performed a Liability Adequacy Test (LAT) in respect of Non Life Insurance contract liabilities with the assistance of the external actuary.

3.13. Employee benefits

3.13.1 Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

3.13.2 Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an expense in profit and loss when incurred.

Employee Provident Fund (EPF)

All employees of the Company are member of the Employees' Provident Fund (EPF). The Company and employees contribute 12% and 8% respectively of the salary to EPF.

Employees Trust Fund (ETF)

All employees of the Company are members of the Employees' Trust Fund (ETF). The Company contributes 3% of the salary of each employee to ETF.

3.13.3. Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The liability recognised in the financial statements in respect of defined benefit plans is the present value of the defined benefit obligation as at the reporting date. The defined benefit obligation is calculated by a qualified actuary as at the reporting date using the Projected Unit Credit (PUC) method as recommended by LKAS 19 - 'Employee Benefits'. The actuarial valuation involves making assumptions about discount rate, salary increment rate and balance service period of employees. Due to the long-term nature of the plans such estimates are subject to significant uncertainty.

Under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service. The liability is not externally funded.

3.13.4. Actuarial gains and losses

All Actuarial gains or losses are recognised in statement Profit or Loss and of other comprehensive income.

3.14. Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3.15. Trade and other payables

Trade and other payables including related party payables are stated at their cost.

3.16. Revenue recognition

3.16.1 Insurance Premiums

3.16.1.1. Non Life insurance business

Gross written premiums - Non Life Insurance comprise the total premiums received /receivable for the whole period of cover provided by contracts entered into during the accounting period. Gross Written Premium is generally recognised is 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.

Rebates that form part of the premium rate, such as no claim rebates, are deducted from the gross premium. Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are calculated on 365 days basis in accordance with the Regulation of Insurance Industry Act, No. 43 of 2000. However, for those contracts for which the period of risk differs significantly from the contract period, premiums are earned over the period of risk in proportion to the amount of insurance protection provided. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums which is included under liabilities.

3.16.2 Reinsurance premiums

Gross reinsurance premiums on insurance contracts are recognised as an expense on the earlier of the date when premiums are payable or when the policy becomes effective. Reinsurance premiums are decided based on rates agreed with reinsurers. Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts (using 365 days basis in accordance with the Regulation of Insurance Industry Act, No. 43 of 2000).

3.16.3 Fees and commission income

Insurance contract policyholders are charged for policy administration services and other contract fees. These fees are recognised as revenue upon receipt or becoming due.

3.17. Interests

Interest income and expenses are recognised in statement of comprehensive income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts or payments through the expected life of the financial asset or liabilities (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liabilities. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

3.18. Dividends

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities. Dividends are presented in net trading income or net income from other financial instruments at fair value through profit or loss based on the underlying classification of the equity investment.

3.19. Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realized and unrealized fair value changes, interest, dividends and foreign exchange differences.

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.

3.20. Profit / Loss on Sale of Property, Plant and Equipment

Profit / Loss on Sale of property, plant and equipment is recognised in the period in which the sale occurs and is classified under other income.

3.21. Benefits, claims and expenses

3.21.1. Gross benefits and claims

3.21.1.1 Non Life insurance business

Non Life insurance claims include all claims occurring during the year, whether reported or not together with claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years. Claims outstanding are assessed by review of individual claim files and estimating changes in the ultimate cost of settling claims.

The provision in respect of Claims Incurred but Not Reported (IBNR) and Claims Incurred but Not Enough Reported (IBNER) is actuarially valued to ensure a more realistic estimation of the future liability based on the past experience and trends. Actuarial valuations are performed on a semi-annual basis. Whilst the Directors consider that the provisions for claims are fairly stated on the basis of information currently available, the ultimate liability will vary as a result of subsequent information and events. This may result in adjustments to the amounts provided. Such amounts are reflected in the financial statements for that period.

The methods used to estimate claims and the estimates made are reviewed regularly.

3.21.2 Reinsurance claims

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

3.22. Net deferred acquisition expenses

Acquisition expenses, representing commissions, which vary with and are directly related to the production of business, are deferred and amortized over the period in which the related written premiums are earned.

Reinsurance commission is also treated in the same manner within deferred acquisition costs.

3.23. Other expenses

Other expenses are recognised on accrual basis. All expenditure incurred in the running of the business and in maintaining the property, plant and equipment has been charged to the statement of comprehensive income.

3.24. Income tax expense

Income tax expense comprises current tax expense and deferred tax. Current tax expense and deferred taxes are recognised in statement of comprehensive income.

3.24.1. Current tax

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

Provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act, No. 10 of 2006 and the amendments thereto. Current income tax assets and liabilities also include adjustments for tax expected to be payable or recoverable in respect of previous periods. Current income tax relating to items recognised directly in equity or other comprehensive income is recognised in equity or other comprehensive income and not in the statement of comprehensive income.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions, where appropriate.

3.24.2. Deferred tax

Deferred taxation is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax base of assets and liabilities, which is the amount attributed to those assets and liabilities for tax purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount substantively enacted by the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences. As at the date of the statement of financial position, the Company has deferred tax liabilities arising from property plan and equipment only.

Deferred tax assets, including those related to temporary tax effects of income tax losses and credits available to be carried forward, are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be fully utilized. Deferred tax assets, if any, are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax relating to items recognised outside statement of comprehensive income, if any is recognised outside statement of comprehensive income. Deferred tax items are recognised in relation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

3.24.3. Premium income (GWP) and other sundry sales related taxes

Revenue, expenses and assets are recognised net of the amount of sales taxes and premium taxes except where the premium or sales tax incurred on the purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as a part of the cost of acquisition of the asset or as a part of the expense item, as applicable.

Outstanding net amounts of sales or premium tax recoverable from, or payable to, the taxation authority are included as a part of receivables or payables in the statement of financial position.

3.24.4 Economic service charge (ESC)

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

3.25. Capital commitments and contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote.

3.26. Events occurring after the reporting date

All material post Statement of Financial Position events have been considered and where appropriate, adjustments or disclosures have been made in the respective notes to the financial statements.

3.27. Earnings per share (EPS)

The Company presents basic Earnings per share (EPS) information for its ordinary shares. Basic EPS is calculated by dividing the statement of comprehensive income attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in accordance with Sri Lanka Accounting Standard (LKAS 33), Earnings per share.

3.28. Cash Flow statement

The Cash Flow Statement has been prepared using the Indirect Method of preparing Cash Flow in accordance with the Sri Lanka Accounting Standard (LKAS) 7, Cash Flow Statements.

Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalents include cash in-hand, balances with banks and short term deposits with banks.

3.29. Sri Lanka Accounting Standard – SLFRS 9 “Financial Instruments Classification and Measurement”

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

An entity shall apply this SLFRS to all items within the scope of LKAS 39 Financial Instruments: Recognition and Measurement. SLFRS 9 is effective for annual period beginning on or after 1 January 2018.

Standard issued but not yet adopted which may not have significant impact

The following new standards are not expected to have an impact on the Company's financial statements.

- SLFRS 14 Regulatory Deferral Accounts – effective from 01st January 2016
- SLFRS 15 Revenue from contracts with customers – effective from 1 January 2018.

4. 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.

4.1. 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.

4.1.1. 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 majority of the reinsurance is placed with Allianz Re, and with reinsurers with strong credit ratings approved by the Group.

4.1.2. 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 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.

4.1.3. 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 degree of the 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 analyzing 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 honor 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.

4.1.4. 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.

Company's Risk Management team assesses all foreseeable risks involved in its operations and they develop and implement action plan to control those identified operational risks. These action plans recommended by the team is to manage the operational risks in the following areas:

- Requirements for having appropriate segregation of duties, including the independent authorization 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
- Rraining and professional development
- Ethical and business standards
- Risk mitigation, including insurance where this is cost effective.

Further analysis of financial risk management is given in notes to the financial statements.

As at 31 December	Note	2016 Cost of investment Rs. '000	2016 Carrying value Rs. '000	2015 Cost of investment Rs. '000	2015 Carrying value Rs. '000

5 Financial Investments

	Note	Cost of investment 2016	Carrying value 2016	Cost of investment 2015	Carrying value 2015
Available for sale investments	5.1	1,861,763	1,843,515	1,389,228	1,399,882
Loans and receivables	5.2	159,439	162,454	104,196	108,782
Total financial investments		2,021,202	2,005,969	**1,493,424**	**1,508,664**

5.1 Available for sale investments

At fair value				
Treasury bonds	1,738,192	1,708,892	1,336,228	1,340,967
Treasury bills	90,571	94,959	-	-
Unit trust	20,000	23,479	40,000	41,065
Corporate debentures	13,000	16,185	13,000	17,850
	1,861,763	1,843,515	**1,389,228**	**1,399,882**

5.2 Loans and receivables

Fixed deposit	45,000	48,015	81,000	85,586
Repo	114,439	114,439	23,196	23,196
	159,439	162,454	**104,196**	**108,782**

6 Property, plant and equipment (PPE)

	Office equipment Rs. '000	Furniture and fittings Rs. '000	Computer equipment Rs. '000	Motor vehicles Rs. '000	Total Rs. '000
Cost					
Balance as at 1 January 2016	44,228	78,298	119,104	10,057	251,687
Additions during the year	4,879	12,265	35,466	-	52,610
Balance as at 31 December 2016	**49,107**	**90,563**	**154,570**	**10,057**	**304,297**
Depreciation and impairment losses					
Balance as at 1 January 2016	28,306	36,199	76,190	4,453	145,148
Depreciation charge for the year	9,973	14,155	27,318	1,999	53,445
Balance as at 31 December 2016	**38,279**	**50,354**	**103,508**	**6,452**	**198,593**
Carrying amount					
- As at 31 December 2016	10,828	40,209	51,062	3,605	105,704
- As at 31 December 2015	15,922	42,099	42,914	5,604	106,539

6.1 Acquisition of PPE during the year

During the year 2016, the Company had acquired PPE to the aggregate value of Rs. 52.6 Million (2015: 45.7 Million).

6.2 Fully depreciated PPE in use

As at 31 December 2016 the Company has fully depreciated assets amounting to Rs. 205 Million (2015: Rs. 83 Million)

6.3 PPE pledge as security

No PPE have been pledged as security as at the reporting date.

6.4 Permanent fall in value of PPE

There has been no permanent fall in the value of PPE which require a provision for impairment in the financial statements.

6.5 Title restriction on PPE

There were no restrictions existing on the title of PPE of the Company as at the reporting date.

As at 31 December	2016 Rs. '000	2015 Rs. '000
7 Intangible assets		
Computer software		
Costs		
Balance as at 1 January	147,986	126,567
Acquisition during the year	38,255	21,419
Balance as at 31 December	186,241	147,986
Amortisation		
Balance as at 1 January	110,007	78,417
Amortisation for the year	33,040	31,590
Balance as at 31 December	143,047	110,007
Carrying amount as at 31 December	43,194	37,979

7.1 During the financial year, the Company acquired intangible assets (Computer software) to the aggregate value of Rs. 38.3 mn (2015: Rs. 21.4 mn).

As at 31 December	2016 Rs. '000	2015 Rs. '000

8 Reinsurance receivables

Reinsurance receivable on outstanding claims (Note 8.1)	600,476	200,330
Reinsurance receivables on settled claims (Note 8.1)	443,559	409,062
	1,044,035	609,392

8.1 The above analyses the amounts due from reinsurers between receivables on account of outstanding claims (i.e. claims which have been reserved, but not paid to policyholders) and receivables on account of claims which have already been paid.

As at 31 December	2016 Rs. '000	2015 Rs. '000

9 Premium receivables

Premium receivables	1,595,188	1,557,905
Less: Impairment on premium receivables	(21,464)	(20,000)
Premium receivable net of provision	1,573,724	**1,537,905**

9.1 "Impairment losses on premium receivables"

The Board of Directors has assessed potential impairment loss of premium receivables as at 31 December 2016. Based on the assessment, adequate impairment provisions have been made in the financial statements as at the reporting date in respect of premium receivable.

As at 31 December	2016 Rs. '000	2015 Rs. '000

10 Other receivables

Other debtors and receivables	57,375	92,613
Staff loans and advances	483	1,154
	57,858	93,767

11 Amount due from related parties

Allianz Life Insurance Lanka Limited	498	-
	498	-

12 Insurance contract - deferred expenses

Reserve for deferred acquisition costs		
Balance as at 1 January	163,756	98,600
Transferred during the year - Commission expenses	10,666	46,903
Transferred during the year - Leasing commission	33,958	18,253
Balance as at 31 December	208,380	**163,756**

As at 31 December	2016 Rs. '000	2015 Rs. '000

13 Cash and cash equivalents

Cash in hand	7,488	4,536
Cash at bank	113,806	35,518
	121,294	40,054

	No of shares outstanding	Amount Rs. '000

14 Stated capital

Issued and fully as at 31 December	50,000,000	500,000

As at 31 December	2016 Rs. '000	2015 Rs. '000

15 Available for sale investment reserve

Balance as at 1 January	(12,926)	6,749
Net change in fair value of available for sale financial assets	(31,195)	(8,934)
Net change in fair value of available for sale financial assets reclassified to profit or loss	(18,415)	(18,808)
Deferred tax on change in fair value	13,890	8,067
Balance as at 31 December	(48,646)	(12,926)

16 Retained earnings

Balance as at 1 January	499,643	390,118
Profit for the year	23,702	108,933
Actuarial gains/(losses) on retirement benefit obligations	(1,706)	822
Deferred tax on actuarial gain/ (losses) on retained earnings	478	(230)
Balance as at 31 December	522,117	499,643

17 Insurance contract liabilities

Reserve for net unearned premium (note 17.1)	1,840,765	1,424,747
Reserve for deferred commission income (note 17.2)	234,052	207,297
Reserve for gross outstanding claims (note 17.3)	930,946	397,884
Reserve for IBNR (note 17.4)	71,922	56,152
	3,077,685	2,086,080

17.1 Reserve for net unearned premium

Reserve for unearned premium (note 17.1.1)	2,808,744	2,275,616
Reserve for unearned Reinsurance premium (note 17.1.2)	(967,979)	(850,869)
	1,840,765	1,424,747

As at 31 December	2016 Rs. '000	2015 Rs. '000

17.1.1 Reserve for unearned premium

Balance as at 1 January	2,275,616	1,681,475
Premiums written in the year	4,576,123	3,506,621
Premiums earned during the year	(4,042,995)	(2,912,480)
Balance as at 31 December	**2,808,744**	**2,275,616**

17.1.2 Reserve for unearned reinsurance premium

Balance as at 1 January	850,869	710,005
Premiums written in the year	1,759,553	1,435,956
Premiums earned during the year	(1,642,443)	(1,295,092)
Balance as at 31 December	**967,979**	**850,869**

17.2 Reserve for deferred commission income

Balance as at 1 January	207,297	165,397
Transfers during the year	26,755	41,900
Balance as at 31 December	**234,052**	**207,297**

17.3 Reserve for gross claims outstanding

Balance as at 1 January	397,884	418,770
Transfers during the year	3,109,107	1,567,663
Claims approved during the year	(2,576,045)	(1,588,549)
Balance as at 31 December	**930,946**	**397,884**

17.4 Reserve for IBNR/IBNER

Balance as at 1 January	56,152	58,159
Transfers during the year	15,770	(2,007)
Balance as at 31 December	**71,922**	**56,152**

17.5 Reconciliation between insurance liabilities and technical reserve

General insurance provision	2,869,306	1,922,324
Reinsurance receivables on claims outstanding	(600,476)	(200,330)
Technical reserve as at 31 December	**2,268,830**	**1,721,994**

Significant delays occur in the notification of claims and a substantial measure of experience and judgment is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty as of the reporting date. The reserves are determined based on the information currently available. However, it is inherent to the nature of the business written that the ultimate liability may vary as a result of subsequent developments.

The Non Life Insurance technical reserve of Rs. 2,269 million as at 31 December 2016 includes the provision of IBNR claims of Rs. 72 million that has been certified by independent consultants actuaries, NMG Consulting Singapore. According to the actuaries certificate dated 2nd February 2017 the IBNR reserve as at 31 December 2015 was Rs. 56 million.

17.6 Changes in assumption

The estimation technique used for the IBNR / IBNER reserve has not changed during the year.

17.7 Liability Adequacy Test (LAT)

A Liability Adequacy Test ("LAT") for Non Life Insurance contract liability was carried out by M/s NMG Consultants as at 31 December 2016 as required by SLFRS 4 - Insurance Contracts. When performing the LAT, the Company discounted all contractual cash flows and compared this amount with the carrying value of the liability. According to the Consultant Actuary's report, the Company adequately satisfies the LAT as at 31 December 2016. No additional provision was required against the LAT as at 31 December 2016.

As at 31 December	2016 Rs. '000	2015 Rs. '000
18 Employee benefits		
Balance as at 1 January	12,490	8,573
Current service cost	2,650	3,978
Interest cost	1,249	857
Actuarial (gain)/losses on defined benefit plan	1,706	(822)
Payments during the year	(294)	(96)
Balance as at 31 December	17,801	**12,490**

The provision for retirement benefits obligation for the year is based on the actuarial valuation carried out by professionally qualified actuaries Messrs. K.A Pandit Consultants & Actuaries (ISO 9001, 2008 Certified) as at 31 December 2016. The actuarial valuation is performed on an annual basis. The liability is not externally funded.

18.1 Movement in the present value of the defined benefit obligations

As at 31 December	2016 Rs.	2015 Rs.
Opening net liability	12,490	8,573
Expense recognized in profit or loss	3,899	4,835
Expense/(income) recognized in the other comprehensive income	1,706	(822)
Benefits paid	(294)	(96)
Closing net liability	17,801	**12,490**

18.2 Actuarial assumptions

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

As at 31 December		2016	2015
a)	Discount rate per annum	11%	10%
b)	Future salary increment rate per annum	11%	10%
c)	Normal retirement age	58 Years	55 Years
d)	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%
e)	Mortality table	Indian Assured lives Mortality (2006-2008) Ultimate	Indian Assured lives Mortality (2006-2008) Ultimate

The gratuity liability is not externally funded.

18.3 Sensitivity of assumptions employed in actuarial valuation

The sensitivity to reasonable possible change in the key assumptions employed with all other variables held constant in the employment benefit liability measurement is as follows.

	2016	
	1% Increase Rs. '000	1% Decrease Rs. '000
Discount rate	16,085	19,843
Salary escalation rate	19,824	16,071

As at 31 December	2016 Rs. '000	2015 Rs. '000
19 Other payables		
Other financial liabilities		
Agency commission payable	96,704	121,078
	96,704	121,078
Other non financial liabilities		
Government levies	103,963	116,203
Tax payable	7,601	31,525
Other creditors and accrued expenses	53,883	28,303
Amount due to related parties (Note 19.1)	-	4,155
	165,447	180,186
Total other payables	262,151	301,264

Notes to the Financial Statements contd.

As at 31 December	2016 Rs. '000	2015 Rs. '000
19.1 Amount due to related parties		
Allianz Life Insurance Lanka Ltd.	-	4,155
	-	4,155

For the year ended 31 December	2016 Rs. '000	2015 Rs. '000
20 Gross premiums on insurance contracts		
20.1 Gross written premium		
Accident	111,082	152,407
Fire	1,466,472	1,185,326
Marine	121,448	94,962
Medical	618,031	642,411
Miscellaneous	469,128	423,363
Motor	1,789,962	1,008,152
	4,576,123	3,506,621
Premium ceded to reinsurers	(1,470,225)	(1,192,709)
Compulsory cession to NITF	(289,328)	(243,247)
20.2 Net written premium	2,816,570	2,070,665

21 Investment income

Interest and investment income from available for sale investments (Note 21.1)	185,585	98,364
Interest income from loans and receivable investments (Note 21.2)	6,885	9,509
Net realised gain on available for sale investments	18,141	18,808
	210,611	126,681

21.1 Interest and investment income from available for sale investments

Treasury bonds	174,586	89,965
Treasury bills	8,024	3,393
Quoted debentures	2,210	3,338
Unit trust	765	1,668
	185,585	98,364

21.2 Interest income from loans and receivable investments

Term deposits	4,478	8,267
Repo investments	1,285	1,118
Other saving accounts and deposits	1,122	124
	6,885	9,509

For the year ended 31 December	2016 Rs. '000	2015 Rs. '000

22 Other operating revenue

Gain on foreign currency translation	9,970	5,396
Policy administration fee	28,798	10,002
Reversal of unclaimed premium due	9,020	3,003
Miscellaneous income	2,646	373
	50,434	18,774

23 Net insurance benefits and claims paid

Gross benefits and claims paid		
Accident	111,006	35,518
Fire	880,353	189,862
Marine	37,699	87,285
Medical	627,967	465,120
Miscellaneous	44,702	227,194
Motor	1,020,416	654,411
Gross claims incurred	2,722,143	1,659,390
Less: recoveries from salvage sales	(146,098)	(70,841)
Gross claims	2,576,045	1,588,549
Less: Reinsurance recoveries	(607,950)	(214,652)
Net insurance benefits and claims paid	1,968,095	1,373,897

24 Underwriting and net acquisition cost

Underwriting and policy acquisition cost	(383,827)	(279,915)
Reinsurance commission	449,001	417,602
Net decrease / (increase) in deferred acquisition expenses	(16,089)	5,003
	49,085	142,690

25 Net decrease / (increase) in deferred acquisition expenses

Commission cost	10,666	46,903
Commission income from reinsurers	(26,755)	(41,900)
	(16,089)	5,003

26 Operating and administration expenses

Staff expenses (Note 26.1)	347,575	214,845
Administration and establishment expenses	312,181	215,894
Selling expenses	99,009	64,053
Depreciation	53,445	40,138
Amortization	33,040	31,590
Nation building tax	13,069	10,105
	858,319	576,625

For the year ended 31 December	2016 Rs. '000	2015 Rs. '000
26.1 Staff expenses		
Wages and salaries	191,549	133,108
Contributions made to defined contribution plans (Note 26.1.1)	25,231	17,998
Provision for employee benefits (Note 18)	3,899	4,835
Staff welfare	5,371	6,944
Training expenses	2,889	1,057
Other costs	118,636	50,903
	347,575	214,845
26.1.1 Contributions made to defined contribution plans		
Employees provident fund	20,163	14,376
Employees trust fund	5,068	3,622
	25,231	17,998
26.1.2 Number of employees		
As at the end of the financial year	557	413

27 Income tax

Current tax		
Current period (Note 27.1)	37,797	29,024
Under/(over) provision in respect of previous years	(738)	2,501
Deemed dividend tax provision/(reversal)	4,120	-
Deferred tax expense		
Reversal and origination of temporary differences (Note 27.2)	(27,246)	18,597
	13,933	50,122
Total income tax provision/(reversal)	13,933	50,122

27.1 Current income tax expense

Accounting profit	37,635	159,055
Aggregate disallowed items	107,868	85,415
Aggregate allowable expenses	(86,010)	(84,996)
Aggregate exempt income	(210,611)	(104,405)
Taxable profit/(loss)	(151,118)	55,069
Taxable profit	-	55,069
Investment income	207,679	102,984
Loss claimed for the year - 35% of Statutory Income (Note 27.1.a)	(72,688)	(54,397)
Taxable Income	134,991	103,656
Statutory tax rate	28%	28%
Current income tax expense	37,797	29,024

For the year ended 31 December	2016 Rs. '000	2015 Rs. '000

Note 27.1.a - Tax loss carried forward

Tax loss brought forward	9,542	63,939
Tax loss incurred during the year	151,118	-
Tax loss claimed for the year	(72,688)	(54,397)
Tax loss carried forward	**87,972**	**9,542**

27.2 Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2016	2015	2016	2015	2016	2015
Property, plant and equipment	-	-	(4,137)	(5,332)	(4,137)	(5,332)
Employee benefits	4,984	3,497	-	-	4,984	3,497
Bad debt provision	6,010	5,600	-	-	6,010	5,600
Available for sale reserve	18,917	5,027	-	-	18,917	5,027
Tax loss carried forward	24,632	-	-	-	24,632	-
Net tax assets / (liabilities)	**54,543**	**14,124**	**(4,137)**	**(5,332)**	**50,406**	**8,792**
Reversal and (origination) of temporary differences					**(41,614)**	**(10,761)**

	2016		2015	
	Temporary Difference	Tax	Temporary Difference	Tax

27.3 Analysis of deferred tax assets / (liabilities)

Property, plant and equipment	(14,774)	(4,137)	(19,041)	(5,332)
Employee benefits	17,801	4,984	12,490	3,497
Bad debt provision	21,464	6,010	20,000	5,600
AFS reserve	(67,562)	18,917	17,952	5,027
Tax loss carried forward	(87,972)	24,632	-	-
	(131,043)	50,406	**31,401**	**8,792**

27.3 Analysis of deferred tax assets / (liabilities) Contd.

	Balance 1-Jan 2015	Recognised in profit or loss	Recognised in OCI	Balance 31-Dec 2015	Recognised in profit or loss	Recognised in OCI	Balance 31-Dec 2016
Movement in deferred tax balance during the year							
Property, plant and equipment	(3,847)	(1,486)	-	(5,333)	1,195	-	(4,138)
Employee benefits	2,400	1,327	(230)	3,497	1,009	478	4,984
Bad debt provision	6,962	(1,361)	-	5,601	410	-	6,011
AFS reserve	(3,040)	-	8,067	5,027	-	13,890	18,917
Tax loss carried forward	17,077	(17,077)	-	-	24,632	-	24,632
	19,552	**(18,597)**	**7,837**	**8,792**	**27,246**	**14,368**	**50,406**

28 Basic earnings per share

The calculation of basic earnings per share as at 31 December 2016 was based on the profit attributable to shareholders and weighted average number of ordinary shares outstanding for the year ended 31 December 2016.

For the year ended 31 December	2016	2015
Profit attributable to shareholders	23,702	108,933
No of shares as at 31 December	50,000,000	50,000,000
Basic earnings per share (Rs.)	**0.47**	**2.18**

29 Related party disclosures

29.1 Transactions with group companies

Company	Relationship	Nature of Transaction	Transaction amount	Balance as at 31-Dec-16
Allianz SE	Group Company	Reinsurance arrangement	(146,297)	(36,855)
Allianz Life Insurance Lanka Ltd	Group Company	Reimbursable Expenses (net of reimbursements)	4,653	498

29.2 Transactions with key management personnel

The key management personnel includes the Board of Directors. The Chief Executive Officer is also a director and such remuneration is not disclosed as this is a 100% held subsidiary of Allianz SE of Munich, Germany and the shareholders have approved the said remuneration for the role of Chief Executive Officer and no director's fees are paid to any key management personnel. There were no other transactions with key management personnel for the year ended 31 December 2016.

30 Capital commitments

The Company does not have significant Capital Expenditure commitments as at the reporting date.

31 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.

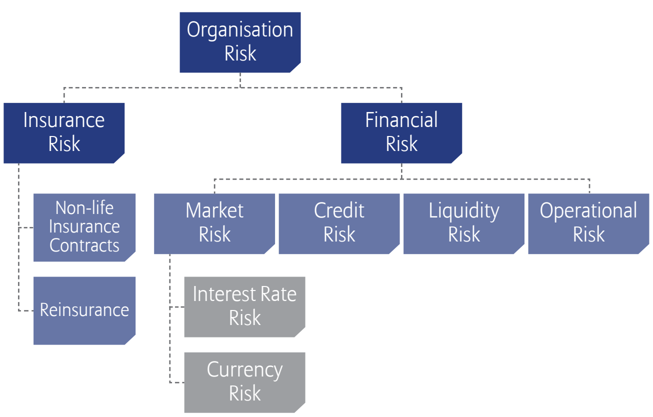
32 Events after the reporting date

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

33. 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 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

Being 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 minimization. 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 optimization 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 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.
- Determine management actions for non-compliance of risk owners to limits or the risk policy.
- Request, follow-up and assess contingency and action plans in case of (imminent) limit breaches. Review the risk management function's effectiveness and development in the context of regulatory and Allianz Group requirements.
- Report to the Allianz Asia Pacific Risk Management team on a quarterly basis and escalate material issues to the Board of Directors.

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 returnson capital employed meet the requirements of shareholder and policyholders.
- Financial flexibility by maintaining a strong liquidity position.
- Alignment of asset and liability profiles by minimizing 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 as per the regulatory requirements of the IBSL. The Company has a Stated Capital of Rs.500 Million and a Total Available Capital (TAC) exceeding - the current minimum Total Available Capital requirement of Rs. 500 Million.

b. Approach to capital management

The Company seeks to optimise the structure and sources of capital to ensure that it consistently maximizes 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 regulatory requirements of the IBSL as well as various other regulators such as Central Bank of Sri Lanka (CBSL), Department of Inland Revenue etc. The Company is also regulated by the Companies Act No. 07 of 2007.

The IBSL decided to implement a Risk Based Capital (RBC) framework in Sri Lanka to monitor insurance companies in the country, replacing the previous solvency regime. The RBC framework came into effect from January 2016. The Company has set up processes in place and ensured adherence to these requirements.

33.1. 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.

- Accident
- Fire
- Marine
- Medical
- Miscellaneous
- Motor

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 risk of inflation.

The above risk exposure is mitigated by the 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 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 over-run risk

The Company's underwriting process is governed by theby 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 60days validity period.
- Application of Four-Eye principle on underwriting process.
- 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 onthe sum assured.

c. Claims Risk

Some of the actions undertaken to mitigate claims risks is 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 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 type of contracts. This includes Unearned Premium, Insurance Contracts - Deferred Acquisition, Claims outstanding and IBNR / IBNER Reserves.

Refer note 17.3 and 17.4 to the financial statements, which shows the gross claim liability and the reinsurance component.

Following table summarizes the outstanding Claims position as at 31 December

	31 December 2016			31 December 2015		
Non-Life Insurance Claims Reserve.	Gross claims	Reinsurance	Net	Gross claims	Reinsurance	Net
Claims Outstanding	930,946	(600,476)	330470	397,884	(200,300)	197,584
IBNR/IBNER Reserve	255,802	(183,880)	71,922	255,911	(199,759)	56,152
Total	1,186,748	(784,356)	402,392	653,795	(400,059)	253,736

Key Assumptions for valuation of liabilities

i) Loss Development factors – is based on weighted averages except where,
   - the weighted average is contrary to a trend in the recent years
   - payments in particular years clearly out of lines relative to those in other years

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

iii) Weightings – Having used a variety of valuation methodologies, applied different weights 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 arrangement for the latest financial year.

33.1.2 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 of 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 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 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

33.2. Financial Risks

The Company is exposed to a range of financial risks through its;

- Financial assets
- Financial liabilities
- Reinsurance receivables and
- Insurance liabilities

In particular, the key financial risk is investment proceeds not being sufficient to fund the obligations arising from insurance contracts. The key risk categories are;

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

33.2.1. 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. 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 analyzing 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 honor 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.

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

	31 December 2016		31 December 2015	
	Amount in Foreign Currency '000	LKR Amount '000	Amount in Foreign Currency '000	LKR Amount '000
USD Assets	93.82	14,055	846.1	121,524
EURO Assets	5.25	831	50.2	7,908
MVR Assets	-	-	3.6	772
Total Foreign currency denominated assets	99.8	14,886		130,204
Impact on PBT				
5% strengthening of rupee*		14,141		123,694
5% weakening of rupee *		15,630		136,714
+/- % impact of PBT		2.08%		4.09%

33.2.2. 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 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 majority of the reinsurance is placed with Allianz Re, and with reinsurers with strong credit ratings approved by the Group.

Credit Risk Exposure on Assets

31 December 2016

Financial Instruments	Government Guaranteed Rs'000	A+ Rs'000	AA- Rs'000-	A- Rs'000-	Total Rs'000
Available for Sale					
Government securities	1,803,851	-	-	-	1,803,851
Unit Trust	-	-	-	23,479	23,479
Debenture	-	-	16,185	-	16,185
Loans and Receivables					
Fixed Deposit	-	48,015	-	-	48,015
REPO	114,439	-	-	-	114,439
Total	**1,918,290**	**48,015**	**16,185**	**23,479**	**2,005,969**

31 December 2015

Financial Instruments	Government Guaranteed Rs'000	A+ Rs'000	AA- Rs'000-	A- Rs'000-	Total Rs'000
Available for Sale					
Government securities	1,340,967	-	-	-	1,340,967
Unit Trust	-	-	-	41,065	41,065
Debenture	-	-	17,850	-	17,850
Loans and Receivables					
Fixed deposits	-	-	85,586	-	85,586
REPO	23,196	-	-	-	23,196
Total	**1,364,163**	**-**	**103,456**	**41,065**	**1,508,663**

**Ratings represent the local ratings given by Fitch Ratings Lanka Limited

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 2016	< 180 days Rs.000	180 to 365 days Rs.000	365 < days Rs.000	Total Rs.000
Reinsurance receivable				
- Non Life	303,431	17,615	5,247	326,293
Premium receivables				
- Non Life	1,353,011	220,713	-	1,573,724
Total	1,656,443	238,328	5,247	1,900,018
% Distribution	**87%**	**12%**	**1%**	**100%**

31 December 2015	< 180 days Rs.000	180 to 365 days Rs.000	365< days Rs.000	Total Rs.000
Reinsurance receivable				
- Non Life	396,692	5,333	7,037	409,062
Premium receivables				
- Non Life	1,490,319	36,474	11,112	1,537,905
Total	1,887,011	41,807	18,149	1946,967
% Distribution	**97%**	**2%**	**1%**	

33.2.3. 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 summarizes 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 2016

	Less than 1 year Rs'000	1-3 years Rs'000	More than 3 years Rs'000	No Maturity Rs'000	Carrying Value Rs'000
Available for sale					
Treasury bonds	743,900	395,738	569,254	-	1,708,892
Treasury bills	94,959	-	-	-	94,959
Debentures	-	16,185	-	-	16,185
Unit Trust	-	-	-	23,479	23,479
Loans and receivables	-	-	-		
Fixed deposits	21,141	-	26,874	-	48,015
REPO	114,439	-	-	-	114,439
Total	**974,439**	**411,923**	**596,128**	**23,479**	**2,005,969**
Liabilities					
Claims outstanding	930,946	-	-	-	930,946
Reinsurance creditors	716,432	-	-	-	716,432
Total	**1,647,378**	**-**	**-**	**-**	**1,647,378**

Maturity Analysis of Financial Assets and Liabilities 2015

	Less than 1 year Rs'000	1-3 years Rs'000	More than 3 years Rs'000	No Maturity Rs'000	Carrying Value Rs'000
Available for sale					
Treasury bonds	237,855	453,111	650,001	-	1,340,967
Treasury bills	-	-	-	-	-
Debentures	-	17,850	-	-	17,850
Unit Trust	-	-	-	41,065	41,065
Loans and receivables	-	-	-		
Fixed deposits	85,585	-	-	-	85,585
REPO	23,196	-	-	-	23,196
Total	**346,636**	**470,961**	**650,001**	**41,065**	**1,508,663**
Liabilities					
Claims outstanding	397,884	-	-	-	397,884
Reinsurance creditors	674,047	-	-	-	674,047
Total	**1,071,931**	**-**	**-**	**-**	**1,071,931**

33.2.4 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 operation and they develop and implement action plan to control those identified operational risk. These action plans recommended by the team is 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 Senior Manager Risk and Control and the Compliance Officer. The results of internal reviews are discussed frequently and necessary actions are taken.

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

33.3. Financial Assets and liabilities

33.3.1. 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 2016	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Fair Value Rs. '000
Available for Sale				
- Treasury bonds	1,708,892	-	-	1,708,892
- Treasury bills	-	-	-	94,959
- Debentures	-	16,185	-	16,185
- Unit trust	23,479	-	-	23,479
- Fixed deposit	-	-	48,015	48,015
- Repo	-	-	114,439	114,439
Total	**1,732,371**	**16,185**	**162,454**	**2,005,969**

As at 31 December 2015				
Available for Sale				
- Treasury bonds	1,340,967	-	-	1,340,967
- Treasury bills	-	-	-	-
- Debentures	-	17,850	-	17,850
- Unit trust	41,065	-	-	41,065
- Fixed deposit	-	-	85,586	85,586
- Repo	-	-	23,196	23,196
Total	**1,382,032**	**17,850**	**108,782**	**1,508,664**

Financial Statements
Allianz Life Insurance Lanka Ltd.

Directors' Report

The Board of Directors of Allianz Life Insurance Lanka Limited have pleasure in presenting the Annual Report on the affairs of the Company, together with the Audited Statement of Income, Other Comprehensive Income, Changes in Equity, Cash Flow Statement, Statement of Financial Position and the Auditor's Report for the financial year ended 31 December 2016. The Audited Financial Statements were approved by the Board of Directors on 10 March 2016.

Principal Activities of the Company

The principle activity of the Company is underwriting Life insurance business. Income is derived from underwriting and investment activities.

Vision, Mission and Corporate conduct

The Company's vision and mission are provided on page 4, In achieving its vision and mission all directors and employees conduct their activities to the highest level of ethical standards and with 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 insurance, banking and asset management services.

Review of Business Performance and Future Developments

The Business Review, which includes details of the Company's development and performance, is set out in the Financial Overview on page 26 to 27 The future developments of the Company are presented in the CEO's Review on page 46 to 48 These reports, together with the Audited Financial Statements, reflect the state of affairs of the Company.

Financial Statements

The Company's Financial Statements duly signed by the directors, together with the accounting policies and the notices thereto of the Company, are provided on page 120 of the Annual Report.

These Financial Statements and notes thereto give a true and fair view of the Company's financial position as at 31 December 2016 and of its performance for the year ended on that date, and comply with the requirements of the Sri Lanka Accounting Standards and the Companies Act. No 07 of 2007.

Significant Accounting Policies

The significant Accounting policies adopted in the preparation of these Financial Statements are presented in Note No 03 to the Financial Statements. The Company has recognised deferred Acquisition Assets during the year under review for fair presentation of the financials. Other than this, there have been no changes in the accounting policies adopted by the Company during the year under review.

Going Concern

The Board has conducted the necessary review 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 ensuring 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 going concern.

Corporate Governance

The Board of Directors is committed to maintain an effective corporate governance structure and processes and best practices on corporate governance. Systems and procedures are in place to ensure that corporate governance is adequate and practiced. The Company has 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, financial position earnings, budgeting and achievement of objective, compliance issues and on the strategy and existing risk exposure.

Compliance with laws and regulations

To the best of the knowledge and belief of the Directors, the Company has not engaged in any activity contravening the existing laws and regulations of the country.

The sustained success of the Company is based on trust, respect and the responsible, integrity – enriched behavior of its 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.

Risk Management and Internal Control System

The Board considers risk management and internal controls as being integral to the management of the Company and business processes.

The Allianz Group has put in place a comprehensive framework that ensures risks are properly identified, analysed and evaluated. A continuous review of the risks faced by the Company is done by the Risk Management Committee (RiCo). The Company's comprehensive risk management framework is given in the Risk Management note on page 34 of the Annual report

The Board is satisfied with the effectiveness of the system of internal controls and risk management that were in place during the year under review up to the date of approval of the Annual Report and the Financial Statements.

Turnover/Gross Written Premium (GWP)

The total turnover of the Company is identified as gross written premium which was Rs. 1040 million for 2016 (Rs. 919 million in 2015).

The detailed analysis of the gross written premium of the Company was disclosed in Note No 19 of the Financial Statement.

Investments

Details of the investments held by the Company are disclosed in Note No 04 to the Financial Statements.

Property, Plant and Equipment

Details of plants and equipment are given in Note No 05 to the Financial Statements.

Solvency

The Statement of Solvency for Life Insurance has been prepared in accordance with the Solvency Margin (Risk Based Capital) of Life Insurance Rules 2015 amended by the Extraordinary Gazette No 1945/19 of December 15, 2015 and is disclosed below.

The Company is well capitalised and is comfortably meeting its internal and regulatory solvency targets as at 31 December 2016.

For the year ended 31 December	2016 Rs. '000
Total Available Capital (TAC)	897,438
Risk-based Capital Requirement (RCR)	297,902
Risk-based Capital Adequacy Ratio (CAR)	3.01

Employment Policy

As a people business, our principle 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 , and 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. 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. This 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

In compliance with the Companies Act No 07 of 2007, the Financial Statements reflects 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 2016 was Rs. 739.62 million.

Directorate

The Board consists of three members, and the information on the Directors of the Company is available in the Directors' profiles on page 19.

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

- Heinz Dollberg
- Surekha Alles
- Alan David Smee

Directors' Remuneration and Other Benefits

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

Directors' Interest in Contracts with the Company

None of the Directors had any interests in contracts, either directly or indirectly, with the Company other than as disclosed in "Notes to the Financial Statements" in Note No 28.

Events after the Reporting Date

There were no material events that occurred after the reporting date that require adjustment to disclosure in the Financial Statements, other than those disclosed in Note No 31 to the Financial Statements.

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 Financial Statements for the year ended 31 December 2016 have been audited by 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.

As far as the Directors are aware, the Auditors do not have any other relationship with the Company. Neither do the Auditors have any interest in contracts with the Company.

Heinz Dollberg
Director

Surekha Alles
Director

Secretaries to the Company
N& N Agents and Secretaries (Pvt) Limited

10 March 2017

Actuary's Report - Life

To the shareholders of Allianz Life Insurance Lanka Limited.

We have conducted a liability valuation for the business as at 31 December 2016. The liability valuation has been determined in accordance with internationally accepted actuarial principles.

I hereby certify that, in my opinion,

1. Reasonable steps have been taken to ensure that data used for the actuarial valuation of the liabilities of the Long Term Insurance Fund is complete and accurate.

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

3. 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.

4. The company has credited appropriate investment income to the Policyholder. The crediting rate declared for 2016 is 8.5%.

5. The total actuarial liabilities of the Long Term Insurance Fund as included in the audited accounts as at 31 December 2016 are matched by corresponding admissible assets whose values exceed the total liabilities.

6. The company is capable of meeting all liabilities to policyholders, as well as meeting the statutory Risk Based Capital (RBC) requirements under the Regulation of Insurance Industry Act No. 43 of 2000. The Capital Adequacy Ratio (CAR) of the company as at 31 December 2016 is 301% compared to the regulatory minimum of 120%.

Malaka Mihindukulasuriya
Head of Actuarial , Allianz Life Insurance Lanka Ltd.
10 March 2017

Independent Auditors' Report

KPMG
(Chartered Accountants)
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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, 2016,and the statement of profit or loss and other comprehensive income, changes in equity and statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Board's Responsibility for the Financial Statements

The Board of Directors ("Board") is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2016, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we state the following:

a) The basis of opinion and scope and limitations of the audit are as stated above

b) In our opinion:
   - We have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company,
   - The financial statements of the Company give a true and fair view of its financial position as at December 31, 2016, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards, and
   - The financial statements of the Company comply with the requirements of Section 151 of the Companies Act No. 07 of 2007.

As required by Section 47(2) of the Regulation of Insurance Industry Act, No.43 of 2000, as far as appears from our examination, the accounting records of the Company have been maintained in the manner required by the rules issued by the Insurance Board of Sri Lanka, so as to clearly indicate the true and fair view of the financial position of the Company.

KPMG

CHARTERED ACCOUNTANTS
Colombo

10 March 2017

Statement of Financial Position

As at 31 December	Note	2016 Rs. '000	Restated 2015 Rs. '000	Restated 2014 Rs. '000
Assets				
Financial investments	4	1,930,971	1,569,538	1,186,394
Property, plant and equipment	5	8,533	14,736	24,045
Intangible assets	6	2,230	705	1,209
Unit linked investments	7	255,593	184,518	111,449
Deferred acquisition cost	8	512,550	401,308	316,583
Reinsurance receivables		41,577	28,133	37,680
Other receivables	9	125,869	97,188	82,220
Amounts due from related parties	10	-	4,170	-
Cash and cash equivalents	11	30,246	48,136	24,973
Total Assets		2,907,569	2,348,432	1,784,553
Equity and liabilities				
Equity				
Stated capital	12	739,624	739,624	592,624
Other reserves	13	(182,254)	(25,940)	65,037
Retained earnings	14	(71,184)	(97,969)	(112,314)
Total equity		486,186	615,715	545,347
Liabilities				
Insurance contract liabilities - Life	15	2,184,464	1,597,959	1,091,736
Reinsurance payables		58,275	39,502	43,868
Other payables	16	171,888	90,508	92,022
Amounts due to related parties	17	483	-	7,600
Employee benefit obligations	18	6,273	4,748	3,980
		2,421,383	1,732,718	1,239,207
Total equity and liabilities		2,907,569	2,348,432	1,784,553

The above Statement of Financial Position is to be read in conjunction with the Notes to the Financial Statements.
These Financial Statements have been prepared in accordance with the Companies Act No 07 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

10 March 2017

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December	Note	2016 Rs. '000	Restated 2015 Rs. '000
Gross written premium	19	1,040,269	919,144
Premium ceded to reinsurers		(67,154)	(59,309)
Net written premium		973,115	859,834
Other revenue			
Income from investments	20	207,495	134,667
Other income	21	3,012	13,333
		210,507	148,000
Total net revenue		1,183,622	1,007,835
Benefits and claims			
Gross insurance claims and benefits		(108,928)	(73,840)
Claims ceded to reinsurers		22,280	21,347
Net insurance benefits and claims	22	(86,648)	(52,493)
Net income less benefits and claims		1,096,974	955,341
Expenses			
Underwriting and net acquisition commission costs	23	(133,837)	(134,241)
Other operating, administrative and selling expenses	24	(468,449)	(363,893)
Changes in deferred acquisition cost	8	111,242	84,725
Total expenses		(491,044)	(413,409)
Increase in insurance contract liabilities - Life fund	15.2	(579,971)	(504,042)
Profit before taxation		25,959	37,891
Income tax expense	25	-	(24,523)
Profit for the year		25,959	**13,367**
Profit per Share (Rs.)	26	0.44	0.21
Other comprehensive income			
Profit for the year		25,959	13,367
Items that will not be classified to profit or loss			
Net change in fair value of available for sale financial assets		(156,256)	(115,335)
"Net change in fair value of available for sale financial assets reclassified to profit or loss"		(58)	(165)
Tax on other comprehensive income		-	(24,523)
Items that are or may be reclassified to profit or loss			
Actuarial gain / (losses) on defined benefit obligations		826	978
Total comprehensive income for the year, net of tax		(129,529)	**(125,678)**

The above Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the Notes to the Financial Statements.

Statement of Changes in Equity

	Stated capital Rs. '000	Available-for-sale reserve Rs. '000	Restated Retained earnings Rs. '000	Total Rs. '000
Balance as at 31 December 2014	592,624	65,037	(428,897)	228,764
Impact of DAC accounting policy change (Note 33)	-	-	316,583	316,583
Balance as at 1 January 2015	592,624	65,037	(112,314)	545,347
Net profit / (loss) for the year	-	-	13,367	13,367
Other comprehensive income, net of tax				
- Net change in fair value	-	(115,335)	-	(115,335)
- Tax on other comprehensive income	-	24,523	-	24,523
- Net amount reclassified to profit or loss	-	(165)	-	(165)
- Actuarial gains / (losses)	-	-	978	978
Total comprehensive income	-	(90,977)	14,345	468,715
Issued during the year	147,000	-	-	147,000
Balance as at 31 December 2015	739,624	(25,940)	(97,969)	615,715
Net profit / (loss) for the year	-	-	25,959	25,959
Other comprehensive income, net of tax				
- Net change in fair value	-	(156,256)	-	(156,256)
- Tax on other comprehensive income	-	-	-	-
- Net amount reclassified to profit or loss	-	(58)	-	(58)
- Actuarial gains / (losses)	-	-	826	826
Total comprehensive income	-	(156,314)	26,785	(129,529)
Issued during the year	-	-	-	-
Balance as at 31 December 2016	**739,624**	**(182,254)**	**(71,184)**	**486,186**

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

Statement of Cash flows

For the year ended 31 December	Note	2016 Rs. '000	Restated 2015 Rs. '000
Cash flows from operating activities			
Premium received from customers		1,048,771	914,639
Reinsurance premium paid		(39,545)	(32,781)
Insurance benefits and claims paid		(100,371)	(69,067)
Cash paid to and on behalf of employees		(118,066)	(102,488)
Other operating cash flows		(585,156)	(393,355)
Cash flow from operating activities (Note A)		205,633	316,947
Retiring gratuity paid		(168)	(255)
Income tax paid		-	-
Net cash from operating activities		205,465	316,691
Cash flows from investing activities			
Purchase of liquid investments (Other than cash equivalents)		(683,255)	(700,024)
Proceeds on maturity of investments (Other than cash equivalents)		355,641	214,724
Interest received		174,248	118,125
Dividend received		309	1,031
Investment in unit linked investments	7	(64,541)	(70,904)
Acquisition of intangible assets		(3,335)	(141)
Acquisition of tangible property, plant and equipment		(2,422)	(3,340)
Net cash from investing activities		(223,355)	(440,528)
Cash flows from financing activities			
Issue of shares		-	147,000
Net cash from financing activities		-	147,000
Increase in cash and cash equivalents (Note B)		(17,890)	**23,163**

Notes to the Statement of Cash flows

A. Reconciliation of profit before tax with cash flows from operating activities			
Profit before tax		25,959	37,891
Depreciation and amortization		10,434	13,294
Provision for employee benefit obligation		2,519	2,002
Interest income		(207,128)	(133,635)
Dividend income		(309)	(1,031)
Increase in other receivables		(28,681)	(14,968)
Increase in reinsurance receivables/(payable)		5,328	5,181
Increase in insurance contract liabilities		586,505	506,223
Increase in other liabilities		(77,694)	(13,284)
Gratuity paid		(168)	(255)
Gain on disposal of unit trust		(58)	-
Deferred acquisition cost		(111,242)	(84,725)
Cash flows from operating activities		205,465	**316,691**
B. Increase in cash and cash equivalents			
Net cash and cash equivalents at the end of the year	11	30,246	48,136
Net cash and cash equivalents at the beginning of the year		48,136	24,973
Increase / (decrease) in cash and cash equivalents		(17,890)	**23,163**

The above Statement of Cash Flows is to be read in conjunction with the Accounting Policies and Notes to the Financial Statements.

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.46/10, Nawam Mawatha, 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 activities and nature of operations

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 profit or loss and other 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.07 of 2007.

2.2. Date of authorisation of issue

The Financial Statements of Allianz Life Insurance Lanka Limited, for the year ended 31 December 2016were authorized for issue in accordance with are solution of the Board of Directors on 10thMarch 2017.

2.3. Functional and presentation currency

The Financial Statements are presented in Sri Lanka Rupees, 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. Going concern

The Board believes that the Company and the Group have adequate resources to continue its operations in the foreseeable future by considering the financial positions and performance, cash flows and regulatory and statutory factors and adopts the going concern basis in preparing Financial Statements.

2.5. Use of estimates and judgments

The preparation of Financial Statements inconformity 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 recognized 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 recognized in the Financial Statements are included in the following notes;

Critical accounting estimate/judgment	Disclosure reference Note
Insurance provision – Life	15
Employee benefit obligations	18

2.5.1. Insurance contract liabilities- Life insurance

The valuation of the Long term insurance business as at 31 December 2016 was carried out based on the assumptions set out in Note No.15 to the Financial Statements.

2.5.2. Provisions and contingencies

The Company receives legal claims against it in the normal course of business. Management has made judgment as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depend on the due process in respective legal jurisdictions.

2.5.3. Deferred tax assets

Deferred tax assets are recognized in respect of tax losses to the extent that it is probable that future taxable profits will be available against which such tax losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

2.6. Materiality and aggregation

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

2.7. 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.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Foreign currency differences are generally recognized in profit or loss. Non-monetary items that are measured based on historical cost in a foreign currency are not translated.

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 a accounting policies for insurance contracts that were applied prior to the adoption of SLFRS.

3.1.1. 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.

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.

3.1.2. Unit Linked contracts

Unit-linked contracts are that do not meet the definition of insurance or investment contracts with discretionary participating features. For these Unit-Linked contracts, the liabilities are valued at current unit value, i.e. on the basis of the fair value of the financial investments backing those contracts at the reporting date together with Rights to future management fees.

3.2. Assets and liabilities and the basis of their valuation

3.2.1. Intangible assets

Software

Basis of recognition

An intangible asset is recognized 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 amortization and accumulated impairment losses.

Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in the Statement of profit or loss and other comprehensive income as incurred.

Amortisation

Amortization is recognised in the Statement of Profit or Loss and other 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 (03) 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-recognized 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 profit or loss and other comprehensive income when the item is de-recognized.

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 recognized 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 capitalized 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 recognized net within "other income/other expenses" in the Statement of profit or loss and other 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 profit or loss and other 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 profit or loss and other 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

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease. Where an option to terminate the lease at the option of lessee is available in the agreement, the payments are accounted on an accrual basis.

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-recognizes a financial asset when the contractual rights to the cash flow from the asset expire or it transfers the rights to receive the contractual cash flow 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 realize the asset and settle the liability simultaneously.

The Company has the following on-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 amortized cost using the effective interest method less any impairment losses.

Loans and receivables comprise of investments in fixed deposits with banks, repos, reinsurance receivables and premium 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 Available-for-sale reserve in equity. When an investment is de-recognised, the gain or loss accumulated inequity is reclassified to profit or loss.

Available-for-sale financial assets comprise of investments in debt securities and unit trusts. Debt securities in this category are those that are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

3.2.4.2. Non-derivative financial liabilities

The Company initially recognizes 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 classifies non-derivative financial liabilities into other financial liabilities category. 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.

Other financial liabilities comprise reinsurance payables, other liabilities and bank overdrafts.

Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents in the statement of cash flows.

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

Financial assets and liabilities s 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 on-derivative financial liabilities: reinsurance payables 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. Fair value measurement

SLFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transactions between market participants at the measurement date.
A Fair value measurement requires an entity to determine all the following;

1 the particular asset or liability that is the subject of the measurement

2 for a non-financial asset, the valuation premise that is appropriate for the measurement (consistently with its highest and best use).
3 the principal (or most advantageous) market for the asset or liability.
4 the valuation technique(s) appropriate for the measurement, considering the availability of data with which to develop inputs that represent the assumptions that market participants would use when pricing the asset or liability and the level of the fair value hierarchy within which the inputs are categorized.

Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement in both cases is the same—to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability).

When a price for an identical asset or liability is not observable, an entity measures fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. Because fair value is a market-based measurement, it is measured using the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk. As a result, an entity's intention to hold an asset or to settle or otherwise fulfill a liability is not relevant when measuring fair value.

When an asset is acquired or a liability is assumed in an exchange transaction for that asset or liability, the transaction price is the price paid to acquire the asset or received to assume the liability (an entry price). In contrast, the fair value of the asset or liability is the price that would be received to sell the asset or paid to transfer the liability (an exit price).

When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Determination of Fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumption and other risks affecting the specific instrument.

Level 1 - Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 - Fair value measurements using 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);and
Level 3 - Fair value measurements using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

Instrument category fair value basis fair value

Government Securities		
Treasury bonds	Valued using the market yield	Level 1
Treasury bills	Valued using the market yield	Level 1
Repos	Carrying value (Cost plus accrued interest)	Level 3
Investment in Units		
Investment in listed units	Published Market Prices (VWA)	Level 1
Corporate Debt		
Listed	Published Market Prices	Level 1 if the market is active, if not level 2
Fixed and Term Deposits		
Deposit > 1year	Cost plus interest	Level 3

3.2.4.4. 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 flow 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 assets 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 amortized 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 profit or loss and other 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 prorata 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 Deferred acquisition cost (DAC)

The Costs that vary and directly related to the acquisition of insurance contracts are deferred by recognizing a Deferred Acquisition Cost Asset. DAC generally consists of commissions, other sales related remunerations, underwriting expenses and policy issuance costs. At the inception of a policy, DAC is tested to ensure that it is recoverable over the life of the contracts. Subsequently, loss recognition tests performed at the end of each reporting period ensure that only the amount of DAC that is recoverable by future profits is carried on the balance sheet. For universal life-type and unit-linked life insurance contracts, DAC is generally amortized over the life of a book of contracts based on estimated gross profits (EGP). EGP is based on best estimate assumptions which are reviewed at the end of each reporting period; the effect of changes is recognized in the reporting period's profit or loss.

3.4 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 profit or loss and other comprehensive income.

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

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

3.5 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 profit of loss and other comprehensive income.

3.6 Other receivables

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

3.7 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.

3.8 Liabilities and Provisions

3.8.1 Insurance contract liabilities

3.8.1.1 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 s 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.

3.8.1.2 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 flow 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. To the extent that the test involves discounting of cash flow, 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.

3.8.2 Defined Benefit Plan

3.8.2.1 Defined Benefit Plan – Gratuity

Provision has been made for retirement gratuities from the first year of service for all employees in conformity with the LKAS19. 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.

3.8.2.2 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 of1980 covering all employees, are recognized 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.

3.8.3 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.

3.9 Revenue recognition

3.9.1 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 recognize profits over the estimated life of the policies.

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

3.9.2 Reinsurance premiums

Gross reinsurance premiums on Life and investment contracts are recognized 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.

3.9.3 Reinsurance Commission Income

Reinsurance commission income on outwards reinsurance contracts are recognized as revenue when receivable.

3.9.4 Investment income

Interest income is recognized in the Statement of Profit or Loss and other 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 recognized as an adjustment to the effective interest rate of the instrument.

3.9.5 Dividend income

Dividend income is recognized when the company’s right to receive the payment is established.

3.9.6 Realized gains and losses

Realized gains and losses recorded in the Statement of Profit or Loss and other 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 amortized cost and are recorded on the occurrence of the sale transaction.

3.9.7 Other income

Other income is recognized on an accrual basis.

3.10 Benefits, claims and expenses recognition

3.10.1 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 recognized 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.

3.10.2 Reinsurance claims

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

3.11 Expenditure recognition

a) Expenses are recognized in the Statement of Profit or Loss and other 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 Profit or Loss and other comprehensive income in arriving at the profit for the year.

b) For the purpose of presentation of the Statement of Profit or Loss and other 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.

3.12 Taxation

3.12.1 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.

3.12.2 Deferred taxation

Deferred tax is recognized 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 recognized only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3.13 Earnings per share (EPS)

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

3.14 Stated capital

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

3.15 Statement of Cash Flow

The Statement of cash flow has been prepared using the direct method. Interest received, interest paid and dividend received are classified as operating cash flow 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 No.29 to the Financial Statements. Commitments are disclosed in Note No. 28to 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.30 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 in the Notes to the financial statements (Note No. 33).

Risk management framework

The management has the overall responsibility for the establishment and oversight of the Company's risk management frame work. 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 cashflow. Some of the specific actions by the Company to mitigate the liquidity risk are shown below;

- Cash outflow 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
c. Operational 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 interestrate-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 flow 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 Lanka Rupees and Reinsurance Payments also made on the basis of Sri Lanka Rupee values. Hence, its exposure to foreign exchange risk is minimal.

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 risks involved in its operations and develop and implement action plan to control those identified operational risks. These action plans recommended by the team are to manage operational risks 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;
- Raining and professional development;
- Ethical and business standards; and
- Risk mitigation including insurance where this is cost effective.

3.20 New accounting standards issued but not effective as at the reporting date

- SLFRS 9 Financial Instruments - effective for annual periods beginning on or after 01st January 2018

  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 flow.

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

- SLFRS 15 Revenue from contracts with customers – effective from 1 January 2018.

  SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance.

  The company is assessing the potential impact on its financial statements resulting from the application of these standards.

	2016 Face value Rs. '000	2016 Cost of investment Rs. '000	2016 Carrying value Rs. '000	2015 Face value Rs. '000	2015 Cost of investment Rs. '000	2015 Carrying value Rs. '000

4 Financial investments

	2016 Face value Rs. '000	2016 Cost of investment Rs. '000	2016 Carrying value Rs. '000	2015 Face value Rs. '000	2015 Cost of investment Rs. '000	2015 Carrying value Rs. '000
Available-for-sale financial assets (Note 4.1)	1,902,465	1,899,799	1,781,378	1,353,086	1,367,457	1,393,837
Loans and receivables (Note 4.2)	110,118	110,118	149,593	149,832	149,832	175,701
	2,012,583	**2,009,917**	**1,930,971**	**1,502,918**	**1,517,289**	**1,569,538**

4.1 Available-for-sale financial assets

	2016 Face value Rs. '000	2016 Cost of investment Rs. '000	2016 Carrying value Rs. '000	2015 Face value Rs. '000	2015 Cost of investment Rs. '000	2015 Carrying value Rs. '000
Treasury bonds	1,864,673	1,862,909	1,738,405	1,257,294	1,273,679	1,293,606
Treasury bills	-	-	-	50,000	48,888	49,940
Quoted debentures	17,792	16,890	19,494	17,791	16,890	20,972
Unit trusts	20,000	20,000	23,479	28,000	28,000	29,319
	1,902,465	**1,899,799**	**1,781,378**	**1,353,086**	**1,367,457**	**1,393,837**

4.2 Loans and receivables

	2016 Face value Rs. '000	2016 Cost of investment Rs. '000	2016 Carrying value Rs. '000	2015 Face value Rs. '000	2015 Cost of investment Rs. '000	2015 Carrying value Rs. '000
Repo/Call deposits	20,118	20,118	20,118	16,700	16,700	16,700
Term deposits	90,000	90,000	129,475	133,132	133,132	159,001
	110,118	**110,118**	**149,593**	**149,832**	**149,832**	**175,701**

5 Property, plant and equipment

	"Computer equipment" Rs. '000	"Office equipment" Rs. '000	"Furniture and fittings" Rs. '000	Total Rs. '000
Cost				
Balance as at 1 January 2016	21,403	25,218	37,249	83,870
Additions during the year	479	618	1,325	2,422
Balance as at 31 December 2016	21,882	25,836	38,574	86,292
Accumulated depreciation				
Balance as at 1 January 2016	17,931	21,570	29,633	69,135
Charge for the year	2,333	2,914	3,377	8,624
Balance as at 31 December 2016	20,264	24,485	33,011	77,759
Carrying amount				
Balance as at 31 December 2016	1,618	1,351	5,563	8,533
Balance as at 31 December 2015	3,472	3,648	7,616	14,736

5.1 Title restriction on property, plant and equipment

There are no restrictions that existed on the title of the property, plant and equipment of the Company as at the reporting date.

5.2 Acquisition of property, plant and equipment during the year

During the financial year, the Company acquired property, plant and equipment to the aggregate value of Rs. 2.42 million (2015- Rs. 3.34 million).

5.3 Capitalisation of borrowing costs

There were no capitalised borrowing costs relating to the acquisition of property, plant and equipment during the year (2015 - Nil).

5.4 Impairment of property, plant and equipment

The Board of Directors has assessed the potential impairment loss of property, plant and equipment as at 31 December 2016. Based on the assessment, no impairment provision is required to be made in the financial statements as at the reporting date in respect of property, plant and equipment.

5.5 Fully depreciated property, plant and equipment

The initial cost of fully depreciated property, plant and equipment which are still in use as at the reporting date is as follows;

As at 31 December	2016 Rs. '000	2015 Rs. '000
Computer equipment	16,061	4,571
Office equipment	20,138	12,731
Furniture and fittings	23,934	18,532
	60,133	35,833

	2016 Rs. '000	2015 Rs. '000
6 Intangible assets		
Acquisition cost		
Balance as at 1 January	6,459	6,318
Additions during the year	3,335	141
Balance as at 31 December	9,794	6,459
Accumulated amortisation		
Balance as at 1 January	5,754	5,109
Amortisation charge for the year	1,810	645
Balance as at 31 December	7,564	5,754
Carrying amount as at 31 December	**2,230**	**705**

6.1 Assessment of impairment of intangible assets

The Board of Directors has assessed the potential impairment loss of intangible assets as at 31 December 2016. Based on the assessment, no impairment provision is required to be made in the financial statements as at the reporting date in respect of intangible assets.

6.2 Title restriction on intangible assets

There are no restrictions that existed on the title of the intangible assets of the Company as at the reporting date.

6.3 Acquisition of intangible assets during the year

During the financial year, the Company acquired intangible assets to the aggregate value of Rs. 3.35 million (2015- Rs. 0.141million). Cash payment amounting to Rs. 3.335 million (2015- Rs. 0.141 million) were made during the year for purchase of Intangible Assets (computer software).

6.4 Capitalisation of borrowing costs

There were no capitalised borrowing costs relating to the acquisition of intangible assets during the year (2015 - Nil).

6.5 Fully amortised intangible assets in use

Intangible assets include fully amortised computer software which are in the use of normal business activities having gross carrying amounts of Rs. 5.5333 million.

7 Unit linked investments

	2016		2015	
	No. of units	Net asset value Rs. '000	No. of units	Net asset value Rs. '000
Growth fund	8,357,096	115,658	6,466,156	88,196
Balanced fund	6,116,483	83,056	4,582,698	60,596
Bond fund	4,594,993	56,040	3,058,584	35,726
Sharia Fund	73,627	839	-	-
	19,142,199	255,593	**14,107,438**	**184,518**

The above investments relate to the unit-linked life insurance contract liability of the company.

8 Deferred acquisition cost

	2016 Rs. '000	Restated 2015 Rs. '000	Restated 2014 Rs. '000
Balance as at 1 January	401,308	316,583	207,617
Deferred cost during the year	75,800	70,240	91,993
Interest unwinding on acquisition cost	37,713	28,597	19,810
Amortisation of deferred cost during the year	(2,271)	(14,112)	(2,837)
Deferred asset as at 31 December	512,550	401,308	**316,583**

Pursuant to Allianz Life Insurance Lanka Limited adopting a new accounting policy relating to deferred acquisition costs the financial statements for the year ended 31 December 2014 and 31 December 2015 of the company have been restated. Therefore, costs that vary and directly relate to the acquisition of insurance contracts are deferred by recognising a Deferred Acquisition Cost (DAC) asset.

	2016 Rs. '000	2015 Rs. '000
9 Other receivables		
Other debtors and receivables	108,926	82,864
Receivable from policyholders	16,943	14,324
	125,869	**97,188**
10 Amounts due from related parties		
Allianz Insurance Lanka Limited	-	4,170
	-	**4,170**
11 Cash and cash equivalents		
Cash at bank	12,607	24,694
Cash in hand	17,639	23,442
	30,246	**48,136**
12 Stated Capital		
Balance as at 1 January	739,624	592,624
Issued during the year	-	147,000
Balance as at 31 December (fully paid up 73,962,400 ordinary shares)	739,624	**739,624**
13 Other reserve		
Available for sale reserve		
Balance as at 1 January	(25,940)	65,037
Net change in fair value of available for sale financial assets	(156,256)	(90,812)
Net change in fair value of available for sale financial assets reclassified to profit or loss	(58)	(165)
Balance as at 31 December	(182,254)	**(25,940)**
13.1 Net gain/(loss) on AFS during the year (Net of tax)		
Mark-to-market net gains/(losses) on AFS investments during the year	(156,256)	(115,335)
Tax on change in fair value of AFS investments	-	24,523
Net change in fair value of AFS assets during the year	(156,256)	**(90,812)**

	2016	Restated 2015	Restated 2014
14 Retained earnings			
Balance as at 1 January	(97,969)	(112,314)	(150,505)
Net profit for the year	25,959	13,367	37,913
Actuarial gain / (losses) on defined benefit obligations	826	978	278
Balance as at 31 December	(71,184)	(97,969)	**(112,314)**

15 Insurance contract liabilities - Life

"The valuation of the long term insurance business as at 31 December 2016, was carried out by Mr. Malaka Mihindukulasuriya as a member of the Institute and Faculty of actuaries (IFoA) UK, for and on behalf of Allianz Life Insurance Lanka Ltd. In accordance with the Actuarial Report, the reserve for the year amounted to Rs. 2,184,464 (LKR '000).

Liability adequacy test

In the opinion of the actuary, the liability value is sufficient to meet future benefits and expenses. Hence, no provision was made for premium deficiency."

	2016	2015
Actuarial assumptions		
Mortality table used	80% of A67/70	A67/70
Interest rate for Universal Life and Unit Linked	IBSL Risk Free Yield curve	5.00%
Interest rate for Decreasing Term Insurance	IBSL Risk Free Yield curve	6.50%
Crediting rating	8.50%	8.00%

The company used 80% of A67/70 standard mortality table as the best estimate mortality assumption in the 2016 valuation. This is a change from the 2015 valuation where A67/70 table was used as mortality assumption. The change was implemented in parallel with the introduction of RBC regulations in 2016 where the best estimate assumptions should be used for liability calculations. As the Company does not have sufficient mortality data to carry out a comprehensive mortality study, the 2016 assumption was derived by reviewing all the available data sources (E.g: Reinsurance rates, Market rates, Available claim ratios, etc.).

	2016 Rs. '000	2015 Rs. '000
15.1 Movement in insurance contract liabilities - Life		
Universal life/Conventional life insurance		
Balance as at 1 January	1,413,441	980,303
Increase in the life fund	515,430	433,138
Balance as at 31 December	1,928,871	1,413,441
Unit-linked life insurance contracts		
Balance as at 1 January	184,518	111,433
Increase in the life fund	64,541	70,904
Gains/(losses) on unit linked investments	6,534	2,181
Balance as at 31 December	255,593	184,518
	2,184,464	1,597,959
15.2 Recognised in profit or loss		
Increase in conventional life insurance fund	515,430	433,138
Increase in unit-linked life insurance contracts	64,541	70,904
Increase in insurance contract liabilities - Life	579,971	504,042

	2016 Rs. '000	2015 Rs. '000

16 Other payables

	2016 Rs. '000	2015 Rs. '000
Commission payable	15,999	8,883
Claims payable (Note 16.1)	23,997	15,440
Premium in deposit	50,756	39,635
Others creditors and accrued expenses	81,136	26,550
	171,888	90,508

16.1 Movement of claims payables

	2016 Rs. '000	2015 Rs. '000
Balance as at 1 January	15,440	10,667
Claims approved during the year	108,928	73,840
Claims paid during the year	(58,430)	(48,987)
Surrenders during the year	(41,941)	(20,080)
Balance as at 31 December	23,997	15,440

17 Amounts due to related parties

	2016 Rs. '000	2015 Rs. '000
Allianz Insurance Lanka Limited	483	-
	483	-

18 Employee benefit obligations

	2016 Rs. '000	2015 Rs. '000
Defined benefit obligation as at 1 January	4,748	3,980
Current service cost	2,094	1,715
Interest for the year	425	286
Actuarial (gains) / losses	(826)	(978)
Benefits paid by the plan during the year	(168)	(255)
Defined benefit obligation as at 31 December	6,273	4,748
Number of employees as at 31 December	89	87
Expense recognised in profit or loss		
Current service cost	2,094	1,715
Interest for the year	425	286
	2,519	2,002
Amounts recognized in other comprehensive income		
Actuarial (gain)/loss	(826)	(978)

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 the completion of five years of continued service.

	2016 Rs. '000	2015 Rs. '000

18.1 Principal Assumptions as at the reporting date

	2016	2015
Discount rate	11.00%	10.00%
Future salary increase	10.00%	10.00%

18.2 Sensitivity of assumptions employed in actuarial valuation

"The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the employment benefit liability measurement.

The sensitivity of the Statement of Profit or Loss and Other Comprehensive Income and Statement of Financial Position is the effect of the assumed changes in discount rate and salary increment rate on the profit or loss and employment benefit obligation for the year."

	Effect on charge to the Statement of Profit or Loss and other Comprehensive Income		Effect on employee benefit obligation	
	Increase Rs. '000	Decrease Rs. '000	Increase Rs. '000	Decrease Rs. '000
Discount rate (change by 1%)	(149)	154	148	(155)
Salary increment rate (change by 1%)	154	(152)	(155)	151

	2016 Rs. '000	2015 Rs. '000

19 Gross written premium

	2016	2015
Variable Universal Life	872,204	778,111
Unit linked	131,926	116,410
Decreasing term assurance	19,551	12,666
Group life	16,588	11,955
	1,040,269	919,144

20 Income from investments

	2016	2015
Available-for-sale financial assets (Note 20.1)	188,436	118,730
Loans and receivables (Note 20.2)	19,059	15,937
	207,495	134,667

20.1 Available-for-sale financial assets

	2016	2015
Treasury bonds	185,793	112,972
Treasury bills	114	2,152
Quoted debentures	2,162	2,575
Unit trusts	309	1,031
Gain on disposal of unit trust investment	58	-
	188,436	118,730

	2016 Rs. '000	2015 Rs. '000
20.2 Loans and receivables		
Term deposits	17,596	14,551
Repo/call deposits	1,463	1,385
	19,059	15,937

21 Other income

Interest from loan to staff and agents	86	106
Other income	2,926	13,228
	3,012	13,333

22 Insurance claims and benefits (net)

Life insurance claims death, disabilities and hospitalisation (Note 22.1)	108,928	73,840
Reinsurance recoveries	(22,280)	(21,347)
	86,648	52,493

22.1 Life insurance claims death, disabilities and hospitalisation

Death, disability and hospitalisation	62,914	53,848
Surrenders	41,941	19,196
Policy maturities	4,073	797
	108,928	73,840

23 Underwriting and net acquisition commission costs

Policy acquisition commission cost	130,863	129,688
Other insurance related cost	2,974	4,553
	133,837	134,241

24 Other operating, administrative and selling expenses

Staff expenses (Note 24.1)	120,585	104,490
Administration and establishment expenses	280,198	176,155
Selling expenses	57,232	69,954
Depreciation and amortisation (Note 5 and 6)	10,434	13,294
	468,449	363,893

24.1 Staff expenses

Staff salaries	66,864	53,747
Defined contribution plan cost- EPF, ETF (Note 24.2)	8,712	7,924
Provision for employee benefits (Note 18)	2,519	2,002
Staff welfare	4,931	3,444
Training expenses	2,901	548
Other costs	34,658	36,825
	120,585	104,490

	2016 Rs. '000	2015 Rs. '000

24.2 Contributions made to the Defined Contribution Plan

Employee Provident Fund	6,991	6,339
Employee Trust Fund	1,721	1,585
	8,712	7,924

25 Income tax expense

The Company is liable for income tax in terms of the Inland Revenue Act No 10 of 2006 and amendments thereto 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 2016 is Rs. 2,336,231,201 (2015-Rs.2,105,665,362) as the business continues to report tax losses.

	2016 Rs. '000	2015 Rs. '000

25.1 Current income tax expense

Profit (loss) before tax	25,959	37,891
Aggregate disallowed expenses	50,618	65,514
Aggregate exempt income	(307,143)	(416,746)
Taxable income/(loss)	(230,566)	(313,341)
Tax loss brought forward	(2,105,665)	(1,792,324)
Tax loss carried forward	(2,336,231)	(2,105,665)
Statutory tax rate	28%	28%
Current income tax expense	Nil	Nil

25.2 Unrecognised deferred tax asset

A deferred tax asset has not been recognised in respect of the following items as it is not probable that future taxable profits will be available against which the Company can utilise the benefits thereon.

	2016 Rs. '000	2015 Rs. '000
Deferred tax asset	706,932	598,179
Deferred tax liability	-	-
Net deferred tax asset/(liability)	706,932	598,179
Deferred tax asset		
Employee benefits	1,757	1,330
Carried forward tax losses	654,145	589,586
Available for sale reserve	51,031	7,263
	706,932	598,179

	2016 Rs. '000	2015 Rs. '000
25.3 The Company is entitled to the following notional tax and withholding tax credits in case of a future tax liability		
Notional tax credit and Withholding tax credit	65,395	45,205

26 Earnings per share

The earning per share is based on the Profit for the year attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue during the year.

	2016	Restated 2015
Net profit attributable to ordinary shareholders (Rs. '000)	25,959	13,367
Weighted average number of ordinary shares in issue	73,962,400	64,471,965
Earnings per share (Rs.)	0.35	0.21

There were no potentially dilutive ordinary shares outstanding at any time during the year, hence diluted earnings per share is equal to the basic earnings per share.

27 Related party transactions

The Company considers its Board of Directors as the key management personnel of the Company. During the year there were no transactions with key management personnel and their close family members which require disclosure as per LKAS 24- Related Party disclosures other than those disclosed below:

The Company has a related party relationship with its parent company and group companies as disclosed in the note 10 and 17. The following transactions were carried out with related parties during the year ended 31 December 2016.

Company	Relationship	Nature of transaction	Transaction value	Balance as at 31 December 2016	Balance as at 31 December 2015
Allianz SE	Parent	Reinsurance Agreement	1,699	(13,068)	(11,369)
		Management fee	42,789	(42,789)	-
Allianz Insurance Lanka Limited	Group company of Allianz SE	Reimbursable expenses (net)	(3,687)	(483)	4,170

28 Transactions with key management personnel

Key management personnel includes the Board of Directors. There was no remuneration or fees paid and there were no transactions with key management personnel for the year ended 31 December 2016.

29 Capital commitments

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

30 Contingent liabilities

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

31 Events after the reporting date

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

32 Litigations and claims

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

33 Accounting policy on deferral acquisition costs

Pursuant to Allianz Life Insurance Lanka Limited adopting a new accounting policy relating to deferred acquisition costs the financial statements for the year ended 31 December 2014 and 31 December 2015 of the company have been restated. The primary objective of the accounting policy change is to provide reliable and more relevant information about the effects of transactions on the entity's financial position, financial performance or cash flows.

Therefore, costs that vary and directly relate to the acquisition of insurance contracts are deferred by recognising a Deferred Acquisition Cost (DAC) asset.

The following information summerises the impact of the restatement on the Financial Statements.

Deferred Acquisition Cost (DAC) impact on the Balance Sheet as follows;

	Restated 2015 Rs. '000	Restated 2014 Rs. '000
DAC previously reported value	Nil	Nil
B/F DAC asset value	316,583	207,617
Deferred cost during the year	70,240	91,993
Interest unwinding on acquisition cost	28,597	19,810
Amortised cost during the year	(14,112)	(2,837)
Closing DAC asset value	401,308	316,583

Deferred Acquisition Cost (DAC) impact on the Profit and Loss accounts as follows;

	Restated 2015 Rs. '000	Restated 2014 Rs. '000
DAC impact on Profit or Loss account previously reported	Nil	Nil
Deferred cost during the year	70,240	91,993
Interest unwinding on acquisition cost	28,597	19,810
Amortised cost during the year	(14,112)	(2,837)
Total impact on Profit or Loss account	84,725	108,966

Deferred Acquisition Cost (DAC) impact on the retained earnings;

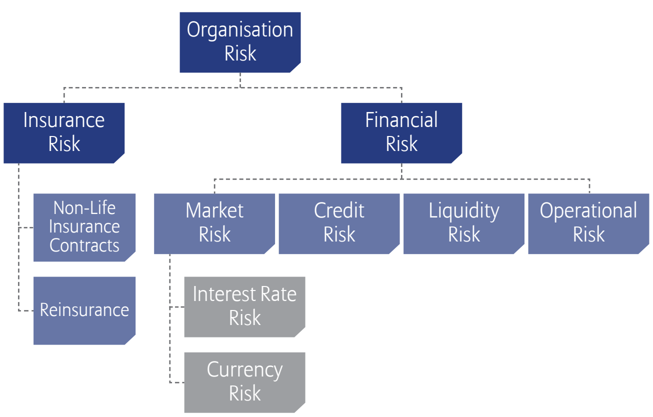
	Restated 2015 Rs. '000	Restated 2014 Rs. '000
Previously reported retained earnings balance	(499,277)	(428,897)
Total impact of recognition of DAC	401,308	316,583
Retained earnings at the year end	**(97,969)**	**(112,314)**

Those direct and indirect costs incurred during the financial period arising from the writing and renewing of insurance contracts are deferred to the extent that the costs are recoverable of future premiums. This DAC is amortised by using the profits generated from the margins of those contracts arising in the future. The DAC movement shown in the Profit or Loss account includes the DAC capitalisation, interest unwinding in DAC and DAC amortisation.

34. 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.
- Consistant 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 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 Risk Management Committee (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.
- Determine management actions for non-compliance of risk owners to limits or the risk policy.
- Request, follow-up and assess contingency and action plans in case of (imminent) limit breaches. Review the risk management function's effectiveness and development in the context of regulatory and Allianz Group requirements.
- Report to the Allianz Asia Pacific Risk Management team on a quarterly basis and escalate material issues to the Board of Directors.

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 shareholder and policyholders.
- Financial flexibility by maintaining a strong liquidity position.
- Alignment of asset and liability profiles by minimizing 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 minimize 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.739.6 Million,a Total Available Capital (TAC) of Rs. 897 million as per the Solvency Margin Rules (Risk Based Capital) of 2015. The minimum TAC requirement by the said rules is Rs. 500 million.

The Company's Capital Adequacy Ratio (CAR) is 301% compared to a minimum of 120% required by the above referred rules.

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

34.1 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.

34.1.1 Life insurance contract

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 plan, the Company offers single and regular products. Universal Life plan and Unit Link plan products have lump sum benefits payable on death, maturity or in some cases, permanent total disability. The Universal Life and Unit Linked plan acquire a surrender value upon completion of three years. The Company also had single premium product (MRTA) to protect the family from the burden of payment of the loan in the case of death of the loanee.

Unit Linked products have been designed to reduce the market and credit risks associated with traditional products. Under Unit Linked contracts those risks are largely passed on to the policyholder, although a portion of the Company's management fees are linked to the value of funds under management and hence are at risk if the fund values decrease. Unit Linked products carry mortality risk and market risk to the extent that there are guarantees built into the product design. Contracts may have minimum guaranteed death benefits where the sum at risk depends on the fair value of the underlying investments. For certain contracts these risks are mitigated by explicit mortality and morbidity charges.

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 being different from expected
Morbidity risk	Risk of loss arising due to policyholders' health experience being different from expected
Investment return risk	Risk of loss arising from actual returns being different from expected
Expense risk	Risk of loss arising from the expense experience being different from expected
Policyholder decision risk	Risk of loss arising due to policyholders' experiences (lapses and surrenders) being different from 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 Needs Analysis is conducted and a Risk Assessment is in place (for Unit-Linked product) to ensure that the most appropriate policy is sold.
- Input on terms and conditions and product pricing is obtained the from in-house Actuarial Team, appointed actuary, allianz asia pacific actuarial team, Chief Risk Officer and Local Compliance Officer to ensure new products are adequately priced.
- 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 in English, Sinhala and Tamil by the in-house training department to Insurance advisors.
- 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;

- In-house actuarial team carries out valuation of Life liabilities on an annual basis, which is approved by appointed actuary.
- 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 an 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.

Valuation of liabilities for the Long-term business is predominantly based on fund reserve, sterling reserves, reserves for claims incurred but not reported and unearned premium reserves.

- The 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 the insurance coverage after the valuation date.
- Reserves for claims incurred but not reported as of the valuation date are calculated based on the analysis of the claims payment patterns in the past (speed of settlement).
- Discounting rate is derived based on the IBSL guidelines provided under the Regulation of Insurance Industry Act No.43 of 2000 as amended by Act No. 27 of 2007 & Act No. 03 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.

The table below indicates the level of the respective variable that will trigger an adjustment and then indicates the liability adjustment required as a result of a further deterioration in the variable.

34.1.2. 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 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 Munich Re as its reinsurance providers. The following table shows the credit ratings of the reinsurance companies with whom the Company has arrangements;

	Rating		
Reinsurer	2016	2015	Rating Agency
Allianz SE	AA	AA	Standard & Poor's
Munich Re	AA-	AA-	Standard & Poor's

34.2. Financial risk

34.2.1. Credit risk

The tables below set out information about the credit quality of financial investments.

As at 31 December 2016

Financial Instrument	Government guaranteed Rs'000	AAA Rs. '000	AA+ Rs. '000	AA- Rs. '000	Unrated Rs. '000	Total Rs. '000
Available-for-sale						
Government securities	1,738,405	-	-	-	-	1,738,405
Unit trust	-	-	-	-	23,479	23,479
Debentures	-	-	-	19,494	-	19,494
Loans and receivables						
Term deposits	-	46,525	31,793	51,157	-	129,475
Repo	20,118	-	-	-	-	20,118
Total	**1,758,523**	**46,525**	**31,793**	**70,651**	**23,479**	**1,930,971**

As at 31 December 2015

Financial Instrument	Government guaranteed Rs'000	AAA Rs. '000	AA+ Rs. '000	AA- Rs. '000	Unrated Rs. '000	Total Rs. '000
Available-for-sale						
Government securities	1,343,546	-	-	-	-	1,343,546
Unit trust	-	-	-	-	29,319	29,319
Debentures	-	-	-	20,972	-	20,972
Loans and receivables						
Fixed deposits	-	74,237	38,880	45,884	-	`159,001
Repo	16,700	-	-	-	-	16,700
Total	1,360,246	74,237	38,869	66,867	29,319	1,569,538

**Ratings represent the local ratings given by Fitch Ratings Lanka Limited and/or Lanka Rating Agency Limited.

The table below set out 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 2016	< 180 days Rs. '000	180 to 365 days Rs. '000	365 < days Rs. '000	Total Rs. '000
Reinsurance receivable	41,578	-	-	41,578
Premium receivables	16,943	-	-	16,943
Total	**58,521**	**-**	**-**	**58,521**
% Distribution	**100%**			

31 December 2015	< 180 days Rs. '000	180 to 365 days Rs. '000	365 < days Rs. '000	Total Rs. '000
Reinsurance receivable	28,133	-	-	28,133
Premium receivables	14,324	-	-	14,324
Total	**42,457**	-	-	**42,457**
% Distribution	**100%**			

34.2.2. 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 are categorized into different tiers based on liquidity, and a minimum allocation to each tier has been specified in the Company's Investment Policy Statement.
- cash outflow identified in advance are matched through short-term deposits.

Maturity analysis of financial assets - 2016

	Less than1 year Rs. '000	1-3 years Rs. '000	More than 3 years Rs. '000	Carrying value Rs. '000
Available-for-sale				
Treasury bonds	75,258	212,806	1,450,342	1,738,405
Treasury bills	-	-	-	-
Unit Trust	-	-	23,479	23,479
Debentures	-	8,715	10,779	19,494
Loans and receivables				
Fixed deposits	-	101,725	27,749	129,475
Repo	20,118	20,118		
Total	95,376	323,246	1,512,349	1,930,971

Maturity analysis of financial assets - 2015

	Less than 1 year Rs. '000	1-3 years Rs. '000	More than 3 years Rs. '000	Carrying value Rs. '000
Available-for-sale				
Treasury bonds	43,575	102,568	1,147,463	1,293,606
Treasury bills	49,940	-	-	49,940
Unit Trust	-	-	29,319	29,319
Debentures	-	-	20,972	20,972
Loans and receivables				
Fixed deposits	133,431	-	25,570	159,001
Repo	16,700	-	-	16,700
Total	**243,646**	**102,568**	**1,223,324**	**1,569,538**

The maturity analysis of financial liabilities is not disclosed due to non-availability of maturity data.

34.2.3. 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 risks involved in its operation and develop and implement action plans to control identified operational risk. The action plans recommended by the team help manage the operational risk in the following areas:

- Requirements for having appropriate segregation of duties, including the independent authorization 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 is supported by the periodic reviews undertaken by the Senior Manager Risk & Control and Compliance Officer. The results of internal reviews are discussed frequently and necessary actions are 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.

34.3. Financial assets and liabilities

34.3.1. Fair value hierarchy for assets carried at fair value.

Assets and liabilities recorded at fair value in the Statement of Financial Position are measured and classified in accordance with a fair value hierarchy consisting of three "levels" based on the observability of inputs available in the marketplace used to measure the fair values as discussed below:

Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments. The Group measures the fair value of an instrument using active quoted prices or dealer price quotations (assets and positions are measured at a bid price; liabilities and short positions are measured at an asking price), without any deduction for transaction costs. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data, and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

As at 31 December 2016	Level 1	Level 2	Level 3	Total market value
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Available-for-sale				
- Treasury bonds	1,738,705	-	-	1,738,705
- Treasury bills	-	-	-	-
- Debentures	-	19,494	-	19,494
- Unit trust	23,479	-	-	23,479
Total	**1,761,884**	**19,494**	**-**	**1,781,378**

As at 31 December 2015	Level 1	Level 2	Level 3	Total market value
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Available-for-sale				
- Treasury bonds	1,293,606	-	-	1,293,606
- Treasury bills	49,940	-	-	49,940
- Debentures	-	20,972	-	20,972
- Unit trust	29,319	-	-	29,319
Total	**1,372,865**	**20,972**	**-**	**1,393,837**

34.3.2. Assets / liabilities not carried at fair value

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

	Carrying value (Rs. '000)	
	2016	2015
Loans and receivables		
Fixed deposit	129,475	159,001
Repo	20,118	16,700
Premium receivable	16,943	14,324
Reinsurance receivable	41,578	28,133
Total	**208,115**	**218,158**
Liabilities	58,275	39,502
Reinsurance liability	**58,275**	**39,502**

Ten Year Summary

ALLIANZ INSURANCE LANKA LTD

Statement of Income	2016 RS.'000	2015 RS.'000	2014 RS.'000	2013 RS.'000	2012 RS.'000	2011 RS.'000	2010 RS.'000	2009 RS.'000	2008 RS.'000	2007 RS.'000
Gross Written Premium	4,576,123	3,506,621	2,923,611	2,104,591	1,521,463	1,501,300	1,469,538	1,174,822	601,103	414,017
Net Earned Premium	2,400,551	1,617,389	1,421,992	684,309	435,561	336,747	293,436	265,074	115,236	52,771
Income from Investments and Other Income	261,045	145,455	144,574	158,297	127,498	105,454	95,379	95,709	45,640	21,199
Insurance Claims and Benefits (net)	(1,814,727)	(1,169,854)	(1,109,326)	(317,838)	(163,837)	(139,168)	(172,754)	(150,698)	(59,178)	(33,219)
Underwriting and Net Acquisition Cost/ Income (Including Reinsurance)	49,085	142,690	101,576	121,337	163,639	151,610	115,060	88,096	66,090	50,006
Expenses	(858,319)	(576,625)	(545,298)	(396,876)	(251,962)	(173,452)	(109,816)	(139,869)	(80,854)	(37,549)
Profit before Taxation	37,635	159,055	13,518	249,229	310,899	281,191	221,305	158,312	86,934	53,207
Income Tax Expenses	(13,933)	(50,122)	8,130	(55,408)	(81,382)	(46,594)	(53,996)	(38,646)	(14,190)	(3,669)
Net Profit for the year	**23,702**	**108,933**	**21,648**	**193,821**	**229,517**	**234,597**	**167,309**	**119,666**	**72,744**	**49,538**

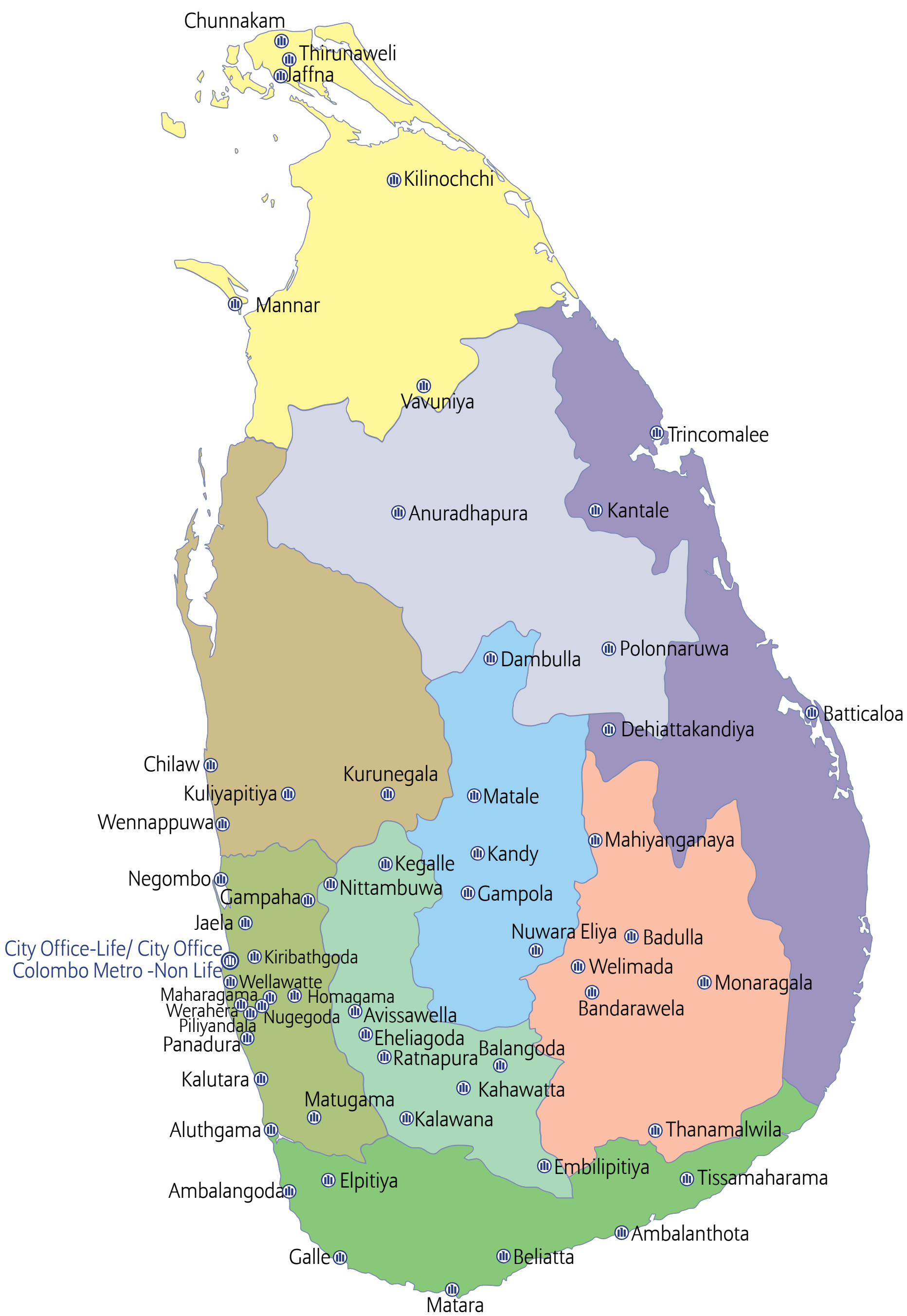
Balance Sheet	2016 RS.'000	2015 RS.'000	2014 RS.'000	2013 RS.'000	2012 RS.'000	2011 RS.'000	2010 RS.'000	2009 RS.'000	2008 RS.'000	2007 RS.'000
Assets										
Investments	2,005,969	1,508,664	1,294,635	1,129,579	1,098,551	943,206	828,458	656,207	347,368	151,914
Property, Plant and Equipment	105,704	106,539	100,924	63,563	34,999	19,020	26,330	31,988	22,963	2,287
Intangible Assets	43,194	37,979	48,150	46,884	24,870	10,122	11,233	19,453	9,802	-
Reinsurance Receivables	1,044,035	609,392	472,646	463,164	261,048	341,143	296,505	125,480	133,939	104,561
Premium Receivables	1,573,724	1,537,905	1,202,145	897,033	451,657	379,805	334,602	130,678	104,593	76,520
Other Assets	58,356	93,767	81,516	60,187	35,070	77,072	95,316	111,342	23,680	4,022
Insurance Contract - Deferred Expenses	208,380	163,756	98,600	86,797	56,764	44,819	36,324	43,477	27,858	
Deferred Tax Assets	50,406	8,792	19,553	8,906	7,616	5,060	3,183	7,124	2,884	3,273
Cash and Cash Equivalents	121,294	40,054	44,865	57,899	56,250	18,485	19,827	23,172	54,804	43,618
Total Assets	**5,211,062**	**4,106,848**	**3,363,034**	**2,814,013**	**2,026,825**	**1,838,732**	**1,651,778**	**1,148,921**	**727,891**	**386,195**
Liabilities and Shareholders' Equity										
Liabilities										
Insurance Provision-General	3,077,685	2,086,080	1,613,794	1,217,450	586,642	513,471	556,576	358,582	266,361	146,349
Reinsurance Creditors	716,432	674,046	574,178	451,752	469,908	535,829	336,200	240,657	86,537	88,505
Employee Benefits	17,801	12,490	8,573	8,169	5,890	4,112	4,899	2,856	966	567
Other Liabilities	262,151	301,264	216,202	198,155	168,117	91,037	105,524	107,535	46,881	28,954
Bank Overdraft	163,522	46,250	53,419	62,976	15,983	22,540	28,457	7,345	14,866	3,409
Total Liabilities	**4,237,591**	**3,120,130**	**2,466,166**	**1,938,502**	**1,246,540**	**1,166,989**	**1,031,656**	**716,975**	**415,611**	**267,784**
Shareholders' Equity										
Stated Capital	500,000	500,000	500,000	250,000	250,000	250,000	250,000	250,000	188,635	67,510
Revenue Reserves	522,117	499,643	390,118	616,707	534,706	430,243	349,446	181,946	123,645	50901
Fair Value Reserve	(48,646)	(12,926)	6,749	8,803	(4,421)	(8,500)	20,676	-	-	-
Total Shareholders' Equity	973,471	986,717	896,867	875,510	780,285	671,743	620,122	431,946	312,280	118,411
Total Liabilities and Shareholders' Equity	**5,211,062**	**4,106,848**	**3,363,033**	**2,814,013**	**2,026,825**	**1,838,732**	**1,651,778**	**1,148,921**	**727,891**	**386,195**

Nine Year Summary

ALLIANZ LIFE INSURANCE LANKA LTD

Statement of Income	2016	2015	2,014	2013	2012	2011	2010	2009	2008
	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000
Gross Written Premium	1,040,269	919,144	823,456	828,790	532,141	351,299	204,814	101,816	4,013
Net Earned Premium	973,115	859,835	768,148	784,600	497,452	329,558	192,569	94,322	3,840
Income from Investments and Other Income	210,507	148,000	107,950	78,931	52,753	31,087	30,092	33,819	22,331
Insurance Claims and Benefits	(86,648)	(52,493)	(38,562)	(23,316)	(15,877)	(12,612)	(5,715)	(3,283)	
Net Acquisition Cost	(133,837)	(134,241)	(154,947)	(170,131)	(152,276)	(111,814)	(81,149)	(48,014)	(1,849)
Increase in Life Insurance Provision	(579,971)	(504,042)	(367,672)	(335,881)	(191,674)	(112,933)	(58,289)	(7,317)	(684)
Changes in Differed Acquisition Cost	111,242	84,725	108,966	-	-	-	-	-	-
Expenses	(468,449)	(363,893)	(410,493)	(373,730)	(249,964)	(181,792)	(201,486)	(145,243)	(33,289)
Profit before Taxation	25,959	37,891	(95,576)	(39,527)	(59,587)	(58,506)	(123,978)	(75,716)	(9,651)
Income Tax Expenses	-	(24,523)	24,523	-	-	-	-	-	-
Net Profit for the Year	**25,959**	**13,367**	**37,913**	**(39,527)**	**(59,587)**	**(58,506)**	**(123,978)**	**(75,716)**	**(9,651)**
Balance Sheet									
Assets									
Investments Non Unit Linked	1,930,971	1,569,538	1,186,394	908,592	523,259	393,807	221,193	189,150	231,775
Investments Unit Linked	255,593	184,518	111,449	44,587	-	-	-	-	-
Property,Plant and Equipment	8,533	14,736	24,045	25,637	25,635	25,065	23,787	18,147	6,210
Deferred Acquisition cost	512,550	401,308	316,583	-	-	-	-	-	-
Intangible Assets	2,230	705	1,209	1,653	3,128	4,738	-	-	-
Reinsurance Receivables	41,577	28,133	37,680	15,988	13,389	10,710	3,108	2,376	-
Other Assets	125,869	97,188	82,220	59,335	37,722	34,936	43,358	57,981	19,238
Amounts Due from related parties	4,170	-	-	-	-	-	-	-	
Cash and Cash Equivalents	30,246	48,136	24,973	16,145	23,039	15,778	8,351	5,849	2,522
Total Assets	**2,907,569**	**2,348,433**	**1,784,553**	**1,071,937**	**626,172**	**485,034**	**299,797**	**273,503**	**259,745**
Liabilities and Shareholders' Equity									
Liabilities									
Insurance Provision-Non Unit Linked	1,928,871	1,413,441	980,303	662,191	370,897	179,223	66,290	8,001	684
Insurance Provision-Unit Linked	255,593	184,518	111,433	44,587	-	-	-	-	-
Reinsurance Creditors	58,275	39,502	43,868	22,646	18,277	10,645	7,252	5,098	937
Other Liabilities	171,888	90,508	92,022	77,237	75,856	69,803	65,481	93,179	17,776
Employee Benefits	6,273	4,748	3,980	3,318	1,602	1,254	820	508	-
Amounts due to related party	483	-	7,600	-	-	-	-	-	-
Bank Overdraft	-	-	-	4,436	2,629	1,865	2,085	-	
Total Liabilities	**2,421,383**	**1,732,718**	**1,239,206**	**809,979**	**471,068**	**263,554**	**141,711**	**108,871**	**19,397**
Shareholders' Equity									
Stated Capital	739,624	739,624	592,624	592,624	492,499	492,499	349,999	249,999	249,999
Revenue Reserves	(71,184)	(97,969)	(112,314)	(358,121)	(318,132)	(258,935)	(200,429)	(85,367)	(9,651)
Fair Value Reserve	(182,254)	(25,940)	65,037	27,456	(19,263)	(12,084)	-	-	-
Total Shareholders' Equity	486,186	615,716	545,347	261,958	155,104	221,480	158,086	164,632	240,348
Total Liabilities and Shareholders' Equity	**2,907,569**	**2,348,433**	**1,784,553**	**1,071,937**	**626,172**	**485,034**	**299,797**	**273,503**	**259,745**

Branch Network



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Fax: 034 2270416

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Senanayake Mawatha, Anuradhapura
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Fax: 091-2255894

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Ambalantota
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Fax: 055-2228699

Balangoda
135 1/1, Barnes Ratwatte Mawatha,
Balangoda
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Fax: 045-2289423

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Elpitiya
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Fax: 047-2261774

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Branch Network contd.

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Homagama
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Homagama
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Fax: 011-2895714

Ja-ela
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Fax: 011-2240421

Jaffna
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Kalawana
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Kalutara
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Kandy
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Fax: 081-2205153

Kanthale
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Kegalle
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Kilinochchi
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Fax: 021 - 2285443

Kiribathgoda
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Fax: 011-2907826

Kuliyapitiya
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Kuliyapitiya
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Fax: 037-2283470

Kurunegala
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Fax: 037-2230535

Maharagama
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Fax: 011-2088733

Mahiyanganaya
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Fax: 055-2258520

Mannar
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Fax: 023-2251631

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Fax: 034-2248372

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Fax: 055 2055448

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Fax: 033-2246143

Nugegoda
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Fax: 011-2828333

Nuwara Eliya
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Fax: 052 2224019

Panadura
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Saranapala Himi Mawatha, Piliyandala
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Fax: 011-2615821

Polonnaruwa
120, Baticaloa Road, Polonnaruwa
Tel: 027 - 2224100
Fax: 027-2227266

Ratnapura
144, Bandaranayake Mawatha, Ratnapura
Tel: 045 - 2230520
Fax: 045-2230521

Thanamalwila
No. 16, Tissa Road, Thanamalwila
Tel: 047 - 2285311
Fax: 047-2285312

Thirunelvelli
28,Palaly Road, Thirunelvelli
Tel: 021 - 2212380
Fax: 021-2212381

Tissamaharama
No.142/1,Hambantota Road,
Tissamaharama
Tel: 047 - 2239591
Fax: 047-2239592

Trincomalee
447/2, Dockyard Road, Trincomalee.
Tel: 026 - 2226255
Fax: 026-2226254

Vavuniya
No:45, 2nd Cross Street, Vauniya
Tel: 024 - 2225473
Fax: 024-2225523

Welimada
35/2, Welimada Road, Bandarawela
Tel: 057 - 2231214
Fax: 057 - 2231149

Wellawatte
527, Galle Road, Wellawatta
Tel: 011 - 2363148
Fax: 011-2363158

Wennappuwa
Victory Building, Chilaw Road, Wennappuwa
Tel: 031 - 2256261
Fax: 031-2256258

Werahera
61/2, 1st Floor, Katuwawala, Boralesgamuwa
Tel: 011 -2150930
Fax: 011-2150931

HEAD OFFICE
46/10, Nawam Mawatha, Colombo 02
Tel: 011-2300400
Fax: 011-2304404

Glossary of Insurance Terms

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

Acquisition Expenses
All expenses which vary with, and are primarily related to, the acquisition of new insurance contracts and the renewal of existing insurance contracts, e.g. commissions.

Actuary
An expert concerned with the application of probability and statistical theory to problems of insurance, investment, financial management and demography.

Administrative Expenses
Costs of an administrative nature including those arising from premium collection, portfolio administration, handling of bonuses and rebates, and inward and outward reinsurance including staff costs and depreciation provisions, in respect of property, plant and equipment.

Admissible Assets
Assets that may be included in determining an insurer's statutory solvency. Such assets are specified under the rules made by the Insurance Board of Sri Lanka under the Regulation of Insurance Industry Act No. 43 of 2000 and subsequent amendments thereto.

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 that reflects the profit or loss from providing insurance cover during that period, and any adjustments to the profit or loss of providing insurance cover during earlier accounting periods.

Annuity
A series of regular payments. They alsoinclude certain annuities where payments depend on the survival of an annuitant. A Life annuity is a contract that provides a regular payment, typically monthly, during the lifetime of the policyholder, or a fixed period if less. If the payments start at the outset of the contract, it is an immediate annuity. If they start at some point in the future, it is a deferred annuity.

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.

Cedant
A 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 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 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 Cost (DAC)- Non Life Insurance Business
Under the annual basis of accounting, acquisition costs relating to the unexpired period of risk of contracts in force at the balance sheet date, carried forward from one accounting period to subsequent accounting periods.

Glossary of Insurance Terms contd.

Deferred Acquisition Cost (DAC) - Life Insurance Business
The amount of an insurer's acquisition costs incurred as premium is written but earned and expensed over the term of the policy. The unearned portion is capitalised and recognised as an asset on the insurer's balance sheet.

Insurance Risk
Uncertainty over the likelihood of an insured event occurring, the quantum of the claim, or the time when the 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 thereto.

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 and subsequent amendments thereto.

Net Asset Value
The value of tangible and intangible assets of a company minus its liabilities. It reflects a company's fundamental value.

Net Combined Ratio- Non Life Insurance
Indicates the profitability of the insurer's operations by combining the net loss ratio with the net expense ratio. The combined ratio does not take into account investment income and other income.

Net Earned Premium
In the case of NonLife 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 insurers to relate income to acquisition and administrative expenses (e.g. commission, staff, selling and operating expenses).

Formula:

Reinsurance commission
(net of acquisition expenses)

and expenses excluding non-technical
Net earned Premium

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

Formula:

Net claims incurred
Net earned Premium

Non-Participating Business
Life insurance business where the policyholder is not entitled to a share of the company's profits and surplus, but 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).

Reinsurance
An arrangement whereby one party (the reinsurer) in consideration for a premium, agrees to indemnify another party (the cedant) against part or all of the liability assumed by the cedant 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 cedant (reinsured) from the reinsurer based on the net profit (as defined in the treaty) made by the reinsurer on the reinsurance treaty.

Retention
That part of the risk assumed which the insurer/reinsurer does not reinsure/retrocede, i.e. retained net by the ceding company for its own account.

Solvency- Non Life
The proportion of total available capitalto risk based capital required to be maintained by the insurer carrying on NonLife insurance business as defined in Solvency Margin (Risk Based Capital) rules 2015 under section 26 of the Regulation of Insurance Industry Act No. 43 of 2000 and subsequent amendments thereto.

Solvency- Life
The proportion of total available capital to risk based capital required to be maintained by the insurer carrying on long term insurance business as defined in Solvency Margin (Risk Based Capital) rules 2015 under section 26 of the Regulation of Insurance Industry Act No. 43 of 2000 and subsequent amendments thereto.

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 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 which an insurer is contractually entitled to receive from the insured in relation to contracts of insurance. Under the annual basis of accounting, these are premiums on contracts entered into during the accounting period and adjustments arising in the accounting period to premiums receivable in respect of contracts entered into in prior accounting periods.

Written Premium- Life Insurance Business
Premiums to which an 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 Lanka 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 Alan Smee	Heinz Dollberg Surekha Alles Alan Smee
Auditors	KPMG (Chartered Accountants), 32A, Sir Mohamed Macan Markar Mawatha, Colombo 3.	KPMG (Chartered Accountants), 32A, Sir Mohamed Macan Markar Mawatha, Colombo 3.
Consultant Actuaries	NMG Financial Services Consulting Pte Ltd 30 Hill Street, #03-02A, 179360, Singapore.	Li Chen Wei Allianz SE, Singapore Branch, 12, Marina View, # 14-01, Asia Squre Tower 2 Singapore 018961
Secretaries	N & N Agents and Secretaries (Pvt) Ltd M & N Building, No. 2, Deal Place, Colombo 3.	N & N Agents and Secretaries Pvt Ltd M & N Building, No. 2, Deal Place, Colombo 3.
Bankers	Citibank, N.A The Hongkong & Shanghai Banking Corporation Ltd Bank of Ceylon Sampath Bank PLC Commercial Bank of Ceylon PLC Nations Trust Bank PLC Peoples Bank National Development Bank PLC Seylan Bank PLC Standard Chartered Bank DFCC Bank PLC National Savings Bank	Deutsche Bank AG Standard Chartered Bank Commercial Bank of Ceylon PLC. Sampath Bank PLC National Development Bank PLC Bank of Ceylon Hatton National Bank Nations Trust Bank DFCC Vardhana Bank National Savings Bank Union Bank Of Colombo PLC Pan Asia Banking corporation Peoples Bank
Registered Office	No. 46/10 Nawam Mawatha, Colombo 2.	No. 3A/B, Valiant Tower, 46/7, Nawam Mawatha, Colombo 2.

Notes

Notes

www.allianz.lk

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