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

Annual Report 2017

Allianz

The concept behind this report revolves around the importance Allianz places on its greatest asset; its clients, and their investment in them.

We're

IN vested in you

We're dedicated towards covering you in every aspect of your life

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.

We take great pride in all we do; from understanding your insurance requirements to translating them into innovative and affordable products and services. In adopting a customer-centric, eco-conscious and "digital by default" approach, we are paving the way for a more socially inclusive world for everyone, everywhere.

Ingenious technological innovation, inspired solutions and our inherent ability to think globally yet act locally have been crucial to our impressive financial performance in the period under review. In addition to our numerous accolades, Allianz is the first and only Non Life insurance company in Sri Lanka to record underwriting profit in our second year of operation.

We are invested in our wide-spanning local and international customer base, our most valuable asset. You our customer are our lifeblood and retaining and strengthening the trust you have placed in us takes precedence over all else. Therefore, it goes without saying that we are invested in protecting you in every aspect of your life because we care about what matters to you.

Contents

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

We're

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We're building a culture of Inclusive Meritocracy which powers our people to perform to their optimum capabilities and celebrates their differences in gender, ethnicity, religion, age and education.

Financial Highlights

GROSS WRITTEN PREMIUM

LKR. 6.02 Bn
Non Life Insurance

LKR. 1.18 Bn
Life Insurance

INVESTMENT PORTFOLIO

LKR. 3.05 Bn
Non Life Insurance

LKR. 2.80 Bn
Life Insurance

NET PROFIT

LKR. 184 Mn
Non Life Insurance

LKR. 104 Mn
Life Insurance

Allianz at a Glance

	2017	Change from previous year	2016	Change from previous year	2015	Change from previous year	2014	Change from previous year	2013	Change from previous year
NON LIFE INSURANCE										
Income Statement										
Gross Written Premium (Rs. '000)	6,020,890	32%	4,576,123	30%	3,506,621	20%	2,923,611	39%	2,104,591	38%
Underwriting Profit / (Loss) after expenses (Rs. '000)	(163,940)	26.62%	(223,410)	-1649%	14,422	111%	(131,056)	-244%	90,931	-50%
Profit / (Loss) before tax (Rs. '000)	184,346	390%	37,635	-76%	159,055	1077%	13,518	-95%	249,228	-20%
Balance Sheet										
Total Assets (Rs. '000)	6,904,433	32%	5,211,062	27%	4,106,848	22%	3,363,034	23%	2,727,215	38%
Shareholders equity (Rs. '000)	1,574,375	62%	973,471	-1%	986,717	10%	896,867	2%	875,510	12%
Return on net assets (%)	8.42%	247%	2.43%	-78%	11.04%	-9%	12.15%	-45%	22.14%	-25%
Earning per share (Rs.)	1.63	247%	0.47	-78%	2.18	407%	0.43	-94%	7.75	-16%

	2017	Change from Previous year	2016	Change from Previous year	2015	Change from Previous year	2014	Change from Previous year	2013	Change from Previous year
LIFE INSURANCE										
Income Statement										
Gross Written Premium (Rs. '000)	1,178,817	13%	1,040,269	13%	919,144	12%	823,456	-1%	828,790	56%
Profit / (Loss) before tax (Rs. '000)	104,024	301%	25,959	94%	13,367	-81%	71,053	80%	39,527	-34%
Balance Sheet										
Total Assets (Rs. '000)	4,015,837	38%	2,907,569	49%	1,947,125	33%	1,467,970	36%	1,077,008	72%
Investments (Rs. '000)	2,796,318	45%	1,930,971	23%	1,569,538	32%	1,186,394	31%	908,592	74%
Shareholders' Equity (Rs. '000)	883,746	82%	486,186	-21%	615,715	13%	545,347	108%	261,958	69%

About Allianz

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Allianz Lanka's 'firsts' redefined industry benchmarks

The FIRST Non Life Insurance Company to exceed Rs. 1 billion Gross Written Premium (GWP) in less than 5 years of operation.

The FIRST Non Life Insurance Company in Sri Lanka to record an underwriting profit in the second year of operation.

The FIRST Life Insurance company in Sri Lanka to record Rs. 100 million Gross Written Premium within the first year of operation.

The FIRST Life Insurance company in Sri Lanka to achieve Rs. 500 million in premium income within the first four years of operation.

The FIRST Insurance company in Sri Lanka to comply with the statutory requirement of having two separate legal entities for Life and Non Life insurance business.

World's No. 1

- in property/casualty insurance
- in credit insurance
- in travel insurance

World's No. 2

- in active asset management

World's No. 3

- in life and health insurance

World's LARGEST

- insurer in terms of market capitalisation

World's most ETHICAL Insurer

- awarded by the Ethisphere Institute

INSURER of the Majority

- of Global 500 companies

LEADER

- in space insurance

LEADING strategic partner

- in space insurance

Allianz Insurance Lanka Ltd. and Allianz Life Insurance Lanka Ltd. are known together as Allianz Lanka, and are fully- owned subsidiaries of Allianz SE, a global leader in integrated financial services.

Allianz is the second largest insurer in the world and is ranked #21 among the world's 2,000 largest companies (2017 Forbes Global 2000). The Group is also Europe's largest insurer by market capitalisation.

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).

Protecting people and property for 125+ years

Allianz celebrated 125 years in business in 2015. This gives us a century-and-a-quarter of experience and expertise in designing a range of insurance and asset management solutions that cater to the changing needs of our over 86 million retail and corporate customers in more than 80 countries. Our products protect their lives and livelihoods and safeguard their properties and funds.

Our presence is on every continent and we insure many of the world's largest and architecturally significant structures. In Asia alone, Malaysia's Petronas Twin Towers, one of the world's tallest buildings, is under our care, as is 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.

Financial Strength

Allianz SE is among the world's largest asset managers and has total assets under management in 2017 amounting to €1,960 billion. We rank among the world's Top Ten insurance companies in terms of revenue, and enjoy one of the world's strongest solvency ratios of 229 % in 2017. We have one of the world's best credit ratings among international insurers as well.

Indicators of our financial strength (as at 31 December 2017)

Market capitalisation of € 84 billion

Third party assets under management of € 1448 billion

Total Revenues of € 126 billion

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

About Allianz contd.

Insurance Operations

As the global No.1 in Property-Casualty Insurance in addition to Credit Insurance, we also rank among the Top Five in Life/Health insurance.

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

Consolidating our Leadership Position in 2017

The Allianz Brand

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

For the seventh consecutive year, Allianz secured a place in the Interbrand ranking of the 100 most valuable brands in the world. Which placed Allianz in the # 49 slot among the world's 100 strongest brands in 2017 and increased the brand value to $ 10,059 billion, a rise of 6% over the previous year. This is the seventh consecutive year during which Allianz climbed the Interbrand ranking, having begun in 2010 at a value of $ 4.9 billion. Allianz's growth momentum in 2017 emulates brands such as Google, SAP and Gucci. The focus of the 2017 ranking was on companies that concentrate on customer orientation, employee engagement and new digital technologies.

Ratings on Financial Strength

Allianz continued to maintain stability and dominance in the market with excellent financial strength ratings given by premier global rating agencies in 2017 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 meeting the challenges of climate change, support the transition to renewable energy, and endorse the de-carbonisation 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 Roles in Business

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 CO_2 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.

Best Global Brands 2017

About Allianz contd.

Our Corporate Responsibility Strategy

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

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.

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.

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. We have launched a number of initiatives in support of this strategy.

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.

The Allianz Group has been a long standing member of the FTSE4Good Index series, since 2001. In the 2016 assessment, we were ranked in the top 3% of our sector.

Focus on Digitalisation

Even as cybersecurity dominates the minds of risk experts globally, digitalisation 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. The Group plans to spend $743 million annually on digitising our business as digitisation requires continuous investment to improve the customer experience.

The company is also pursuing a digital agenda for the mobility, health, property and cyber security sectors, and investing in start-up companies.

Thought Leadership

Allianz CEO Oliver Bäte 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 our business, like road safety and the Formula 1 grand prix, or in helping people re-enter life after an accident through support of Paralympic sports. The Allianz Junior Football Camp, the Allianz Golf Camp and the Junior Music Camp in partnership with the Lang International Music Foundation, are projects designed to foster youth in developing countries and promote inter-cultural exchange.

As the Official Global Partner of Formula 1 racing and insurer of over 50 million cars worldwide, Allianz uses the fusion of speed technology and performance of Formula 1 racing to drive our 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.

Paralympics 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. 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, have 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 our 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. In 2017, Company's revenue reached Rs. 6,021 million, the highest in its history, up 32% over the previous year's figures. The Life company recorded Rs. 1,179 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 operation
- The first Non Life insurance company to record an underwriting profit in the second year of operation
- The first Life insurance company to make Rs. 100,000,000 (Rs. one hundred million) gross written premium within the first year of operation
- The first insurance operation to comply with the statutory requirement of having two separate legal entities for Life and Non Life business

About Allianz contd.

Our approach to sustainability is organised around the 5 key roles we play in our day-to-day business

As A Sustainable Insurer

As A Responsible Investor

As A Trusted Company

As An Attractive Employer

As A Committed Corporate Citizen

Having celebrated 125 years in business in 2015, Allianz has over 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. This has given us the expertise to set concrete projections and priorities in performance as well as corporate social responsibility initiatives for decades to come.

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, Shangri-La 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 multinational 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, we insure luxury islands - the Velaa Private Island, Cheval Blanc and Randheli.

Alternative Energy

Allianz Lanka has become the industry leader in alternative energy projects in Sri Lanka, 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 as cost effectively as possible.

About Allianz contd.

Employees

Allianz Lanka has a staff and advisor strength of 2017, which includes 599 employees in sales and non sales functions in the Non Life and Life businesses at our head office and 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 80: 20.

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 improve our service offerings to customers. We expended Rs. 8,553,402 in local and overseas training during 2017.

Our success as an employer of choice was recognised with the Best Employer Brand Award presented at the Sri Lanka Best Employer Brand Awards 2017 by the Employer Branding Institute, and the World HRD Congress Asia.

Branches

We have a network of 58 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 in 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 has 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 when on holiday.

We invest 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.allianz.lk

Our success as an employer of choice was recognised with the Best Employer Brand Award presented at the Sri Lanka Best Employer Brand Awards 2017 by the Employer Branding Institute, and the World HRD Congress Asia.

Sustainability Award

'Best Sustainable Insurance Company of the Year 2016'

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 reputational 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 give 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.

In recognition of our commitment to sustainability, we were adjudged 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 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 in the years to come, 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. We have crossed borders, oceans, continents, to stand by you and support you and will be at your side to fortify you against the vagaries of fortune.

About Allianz contd.

The many global and local accolades bestowed upon us are to your credit. In prioritising what matters to you, we have positioned ourselves for further growth opportunities that arise from digitalisation - fuelled changes in the industry.

BEST SUSTAINABLE INSURANCE COMPANY OF THE YEAR IN SOUTH ASIA 2016

BEST CEO OF THE YEAR & BEST EMPLOYER BRAND OF THE YEAR AT SRI LANKA BEST EMPLOYER BRAND AWARDS 2017
Organised by the Employer Branding Institute and the World HRD Congress together with CHRO - Asia

We're

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We've leveraged new digital technologies and new distribution channels to meet the changing expectations of our customers and use different hybrid interfaces that combine personal contact and purely digital communication.

Review of the Managing Director

It has been another challenging year, fraught with extreme weather events, a weakening rupee and rising inflation that followed the macroeconomic stabilisation measures taken by the government to mitigate the spill-over effects of the adverse weather on the economy, all of which took their toll on profit margins throughout the local industry.

Weathering the storms of adversity has, however, been a key strength of your Company, and I am pleased to say that despite external ambiguities, Allianz Lanka continued its growth trajectory this year too. Both companies, Life and Non Life, posted robust growth of 13% and 17% respectively, which are on par with industry growth figures.

Your Company continued to maintain efficiencies across-the-board by practicing good operational management based on sound underlying business fundamentals. The outcomes of these positives allowed several noteworthy strides in functional enhancements during the year of review, which further consolidated our strengths and reinforced brand equity.

Performance of Allianz Insurance Sri Lanka

Your Non Life Company, which has been posting a noteworthy performance from inception, recorded an increase in GWP of over Rs. 1.4 billion this year too, which is a growth of 32% over last year's GWP figure of Rs. 4.5 billion. Net profit for the year was Rs. 133 million, a highly commendable increase of 459% from Rs. 23 million in 2016.

All lines in Non Life business reported solid performance. The Motor segment achieved the highest growth once again, with the retail segment also expanding substantially. Ventures into new business channels proved lucrative as well. A key new business channel, the agency channel, was initiated during the period and the pilot project is already underway. We will be focusing on developing this channel further since we have high expectations of its profitability into the future.

In line with this growth and expansion, we also looked into our long-term profitability which we use as a measure of our business efficiency and success. We maintained a gratifying combined ratio of 109%.

Review of the Managing Director contd.

Performance of Allianz Life Insurance Lanka Limited

The Life business, which has been growing at a slower pace over the past two years, picked up speed when changes were made to distribution channels. This resulted in a substantial increase in GWP which grew by 13% over the last year. Net profit tripled to Rs. 104 million over the previous year's profit of Rs. 25.9 million. The Life Fund also grew by 30% to Rs. 2,848 millions by the end of the year.

This notable performance was the result of far-thinking investment strategies introduced across the business, coupled with sound financial acumen. I am happy to state that we were able to declare a dividend of 8.5%, this year too. It is gratifying to note that the Life Company has consistently provided our esteemed policyholders with dividends since inception, even during indifferent years.

We developed two unique Life products during the year. The Allianz corporate pension plan provides the policyholder with the flexibility to choose the desired age of retirement and is already serving as a component of an attractive benefits package for attracting and retaining high-calibre talent. The Allianz *Suwasahana* medical policy allows customisation of the policy to the individual's health insurance needs based on age, affordability and composition of family.

Developing our people. People are the mainstay of a service organisation like ours. We have on board skilled and motivated staff who have been key contributors to our continued excellence and success. Our people are provided with local and global exposure to the latest and most innovative in insurance and technical know-how that enables them to stand head and shoulders above the competition. We also subscribe to the Allianz Asia Pacific Talent Pool, a global talent pool set up in our group of companies across the Asia Pacific, which grooms and develops future leaders for the company. These outstanding performers are given opportunities to participate in cross-functional projects and skills development activities organised by the exclusive Talent Forum.

We focus on developing a customer- centric entrepreneurial mindset in our people by encouraging a performance- oriented culture that fosters feedback. We recruit and develop those who have the 'courage to be different' and promote and reward 'those who dare' to circumvent the challenges of contemporary business with ethical business practices that build the trust and loyalty of all stakeholders. That is to say, we look beyond merely getting the business into the ways and means by which that business is procured.

The efficacy of our efforts carried out in 2017 as an employer of choice were reflected in the high scores obtained in the Work Well index, which identifies effective solutions and makes changes to the work environment that enable employees to realise their full potential.

Our Commitment to Communities

We have a structured approach to community development that supports a social development plan for engaging communities at various touchpoints in their lives. In line with this approach, your Company has introduced a number of programmes that meet local needs as well as contribute towards developing the rural areas in which we have an established presence.

Allianz Lanka joined hands with the National Council for Road Safety to deploy warning signs at all unprotected railway crossings around the island in support of efforts to combat the steady rise in the number of accidents at unprotected railway crossings.

We continued our *Sisu Diriya* scholarship scheme by providing two students who excelled in the Grade 5 examination with the opportunity to continue their higher education. Unlike the one-off payment awarded to Grade 5 scholarship winners by several other institutions, Allianz *Sisu Diriya* supports the winners with a monthly stipend upto their A/L examination.

Technology. Investment in technology was increased substantially this year. Technology is reshaping the contemporary insurance landscape and delivering new methods of service and better risk identification which are leading to more effective measures of risk mitigation. Buzzwords like "InsurTech" are fast gaining momentum and underpin a number of technological innovations that include mobile technology, artificial intelligence and robotisation and is effectively bringing down costs, increasing efficiencies and enhancing the service experience.

We count our technological capabilities as being a key competency and competitive advantage, and the enabler of our present growth and future success. Our competency in technology has given us the impetus to keep raising the bar on the customer experience by keeping us abreast of new and emerging technologies that address contemporary developments in customer demographics, behaviors and expectations. Equipped with this knowledge we are improving accessibility, simplifying information and accelerating speed of response, which is positively impacting our bottom line.

However, despite the advantages, the insurance industry lags behind other industries in the shift to new and emerging technologies. This has resulted in a dearth of innovation needed to generate the tools and insights for delivering highly customised solutions for improving customer satisfaction and expanding the customer base. Remaining on the cutting-edge of business amidst the relentless onslaughts of change dictates that we must make a quantum leap in adopting new digitalised business models by abandon old business models in favour of digitalised ones.

Allianz has responded to the urgent need for insurers to evolve to new technologies by leading the way to digitalisation. We are transforming into a digital-by-default insurer in accordance with our Renewal Agenda, the growth strategy designed to drive performance that meets the challenges of today and of the future. Digitalisation is accelerating our ability to respond to market needs by delivering exceptional personalised data-driven digital experiences to our customers.

The way forward. We will continue to grow organically while pursuing every opportunity to achieve the sustainable growth that enables us to climb to the apex of the industry in the foreseeable future. We will also continue to focus on further expanding our distribution channels and on developing Life and Non Life products customised to the needs of our clients. New technology will remain a major investment and we will harness the benefits of Allianz technology in the region.

The low insurance penetration in the country is a cause we propose to address in the coming years. The fact that the *per capita* income is now on the rise indicates the tremendous potential for the growth of insurance in the country. We will also introduce initiatives to capitalise on the growth prospects afforded by the booming construction sector.

We commend the Regulator's initiatives in promoting awareness of the need for insurance throughout the country, and will be taking steps to actively support and promote these initiatives in the near future.

Acknowledgements

We have concluded another successful year, and I wish to reiterate that our achievements were the outcome of the valuable contributions of each of our stakeholders whose support was essential to realising our aspirations. To our valued shareholders, our deep appreciation of your continued loyalty. To our customers and other business partners we value your confidence in us and are honoured that you have chosen to partner us in our journey of success. Please be assured that we will continue to surprise and delight you with new growth and innovations. To my Board of Directors, I thank you for your steady support and counsel, which have been a source of strength to me.

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 each and every member of my staff for your invaluable inputs over the years, and look forward to your continued sincerity and support that is essential in meeting the requirements of our rapidly expanding business in future years.

Surekha Alles
Managing Director Allianz Lanka

Directors' Profiles

Heinz Dollberg

Consultant,
Asia Pacific Region, Allianz SE

Heinz 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 to 2011. He was responsible for overseeing the control, market research and negotiations of M&A acquisitions.

Heinz joined Allianz 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 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 university of finance and economics in China, and of the Tongji University of Shanghai, in 2006. He read for a degree in law from the University of Freiburg, Germany.

Alan David Smee

**Regional Head of P&C,
Allianz APAC**

An international insurance executive with almost 30 years of practice. Alan has extensive work experience across European, Australian, and Asian markets. He has an in-depth knowledge of the full value chain of P&C. In his present capacity, Alan assists in M&A, strategy development and planning, and partners with Allianz entities to implement key value-chain improvements.

Alan has strong analytical skills combined with a 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 as well. He has written or co-written many articles, papers and presentations on a variety of insurance subjects.

Alan joined the Boards of Allianz Insurance Lanka Limited and Allianz Life Insurance Lanka Limited on 6 July 2015.

Directors' Profiles contd.

Surekha Alles

Managing 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 promoted to the position of 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.

She 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 and Director of the Insurance Association of Sri Lanka.

Surekha has been recognised with a host of awards, highlights which include, CEO of the year - 2017 awarded at the Sri Lanka Best Employer Brand Awards ceremony; Career Role Model of the year - 2016 awarded by Women in Management Sri Lanka; Silver award for Leadership excellence in Banking and Finance- 2015, awarded by Women in Management, and was also recognised during 2014 and 2015 as one of the 50 most powerful women in Sri Lanka in a survey organised by Echelon Magazine. Sri Lanka.

We're

IN spired

We build relationships based on trust, and provide our customers with the freedom to live their lives to the fullest, secure in the knowledge that we'll support them in their 'moment of truth' when they need us most.

Economic Overview

The Sri Lankan Economy

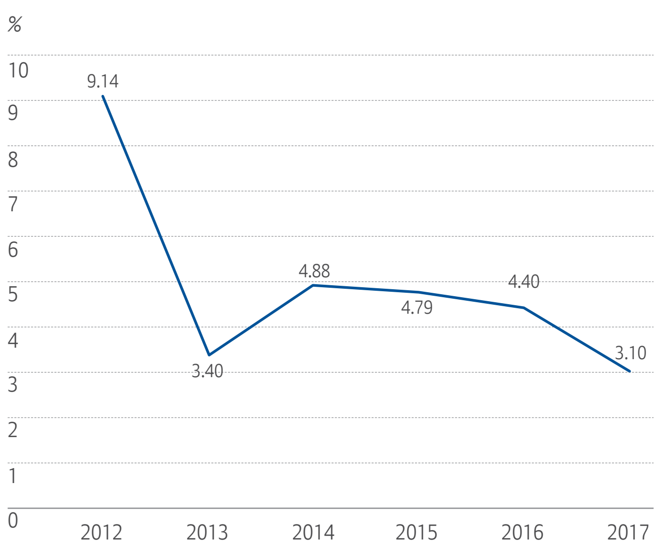
The Sri Lankan economy grew by 3.1% YoY during 2017 from a growth of 4.4%. during 2016. The slower growth in 2017 was driven by a weakened agriculture sector (0.8% negative growth), which was hurt by the unfavourable weather conditions marked by severe drought and heavy rainfall. Growth in services in 2017 was 3.2%. The industrial sector recorded a growth of 3.9%.

The main contributors to the decline in the agriculture sector, which accounted for 8% of GDP, were coconut cultivation, vegetable cultivation and the growing of cereals, which declined by 19.5%, 16.2% and 10.3% respectively. However, forestry and freshwater fishing recorded growth rates of 22.0% and 10.7% respectively, during the year of review.

The growth of the industrial sector, which accounted for 27% of GDP, came from mining, which grew by 5.9% while construction posted a growth increase of 3.1%. In addition, the manufacture of rubber products and metal products registered growths of 8.7% and 8.6% respectively.

The services sector, which is the largest contributor to GDP, accounted for a substantial 56% and grew by 3.2% in 2017. The sub-sectors of programming and broadcasting, telecommunications and financial services grew by 13.2%, 12.0% and 9.4% respectively.

Sri Lanka - GDP Growth



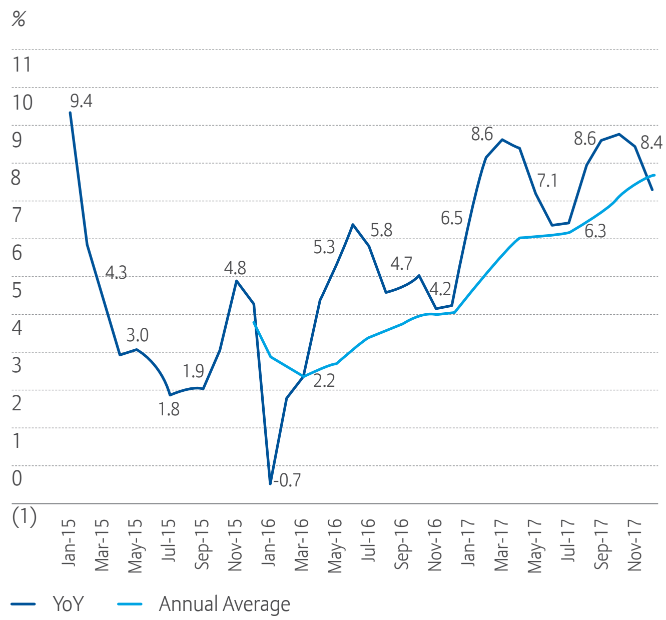
Source: Central Bank, Department of Census and Statistics

Inflation Rate

Inflation, as measured by the National Consumer Price Index (NCPI, Base: 2013= 100) decreased to 7.3% in December 2017, from 8.4% in November 2017. On an annual average basis, inflation was 7.7% in December 2017, up slightly from 7.5% the previous month.

NCPI Core inflation increased to 2.9% in December 2017 compared with 2.7% in November 2017. On an annual average basis, Core inflation stood at 4.9% in December 2017 compared with 5.1% in November 2017.

Inflation

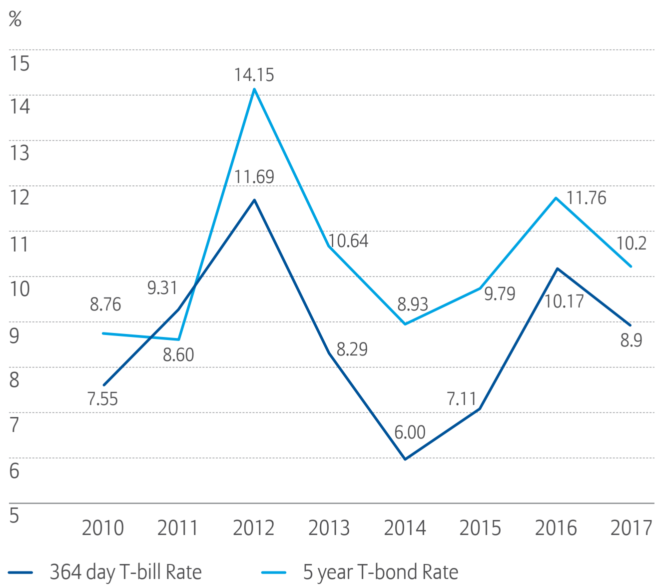


Source: Department of Census and Statistics

Interest Rates

Interest rates moved downwards during 2017, driven by the better macro outlook and increase in foreign reserves. Yield on 364-day treasury bills reduced to 8.9% at end-2017, from 10.17% at end-2016. Treasury bond yields (5 year) reduced by 156bps to 10.2% at end-2017 when compared to their performance in end- 2016.

T-bill and T-bond Rates

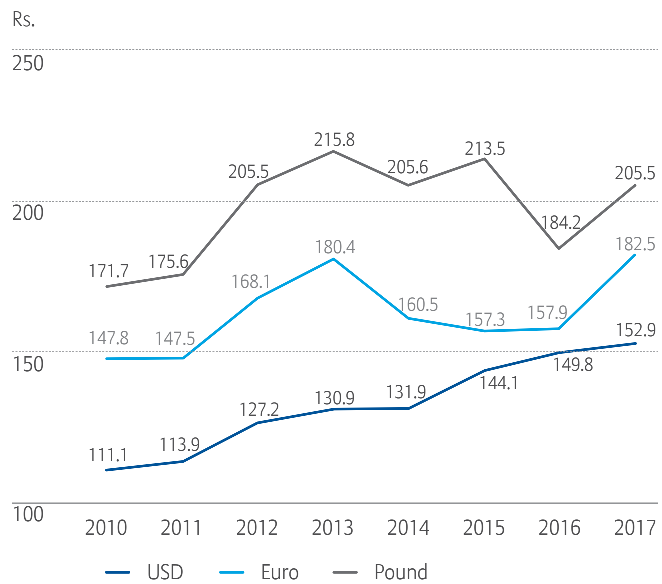


Source: Central Bank

Exchange Rate

The LKR depreciated marginally against the USD during 2017 by approximately 2% against the USD, and stood at 152.9 at end-2017, compared to 149.8 at the end of the preceding year. The LKR depreciated by 16% against the Euro and by 12% against the Sterling Pound during the year.

Foreign Exchange Rates



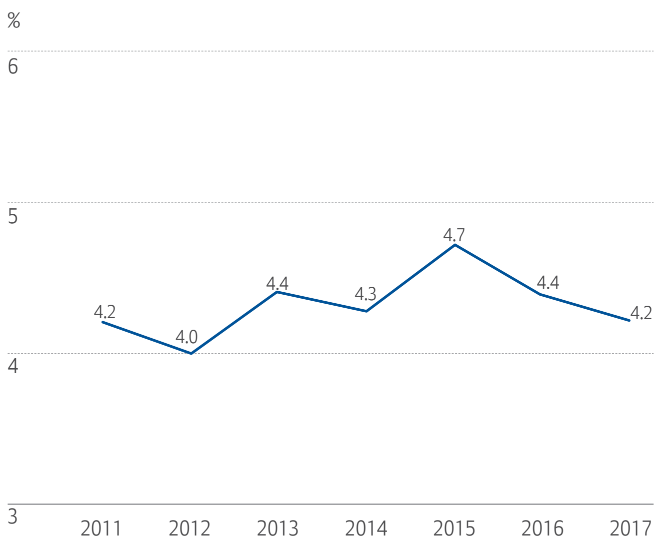
Source: Central Bank

Economic Overview contd.

Unemployment Rate

The unemployment rate declined to 4.2% at the end of 3Q 2017, from 4.4% at end- 2016. The labour force participation rate was 53.6% in that period.

Sri Lanka - Unemployment Rate



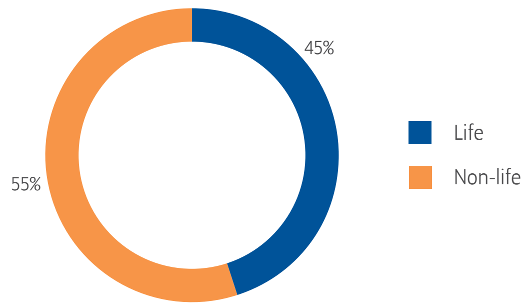
Equity Market

The All Share Price Index (ASPI) increased by 2.3% during 2017. Market sentiments improved during the year, with decreasing interest rates, a better fiscal outlook and higher foreign reserves that increased investor participation in the market. During 2017, a net foreign inflow of Rs. 17,600 million was registered, and market capitalisation amounted to Rs. 2,900 billion by year- end.

Insurance Industry

The Insurance industry recorded an increase in GWP of 14% during the current year. The total GWP for both Life and Non Life sectors came in at Rs. 160 billion in 2017 as against Rs. 140 billion in 2016. There were 29 Insurance companies operating in the country as at end- December 2017, of which three were composite insurers, 12 offered Life Insurance and 14 offered Non Life Insurance.

Life Vs Non-life

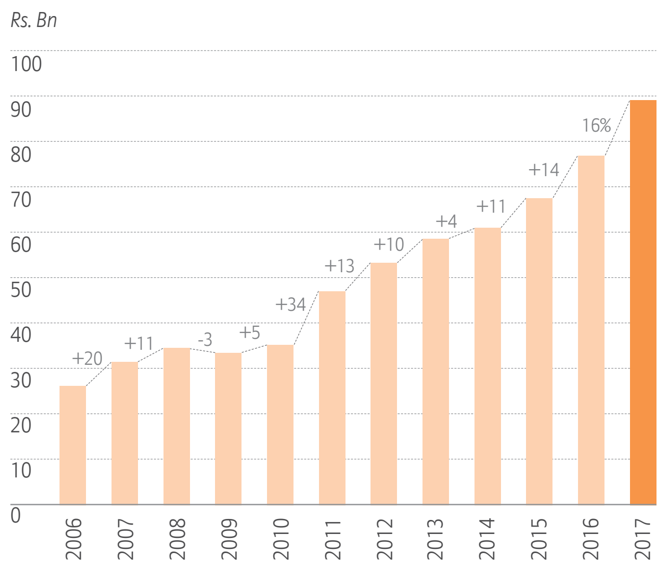


Source: Insurance Board of Sri Lanka

Non Life Insurance

During 2017, Non Life Insurance GWP grew by 16% to Rs 89 billion, from Rs. 77 billion in 2016. This sector continues to be dominated by motor Insurance, which accounted for 65% of GWP during 2017, a YoY growth of 14% (2016- 15%).

Non Life Insurance Industry GWP

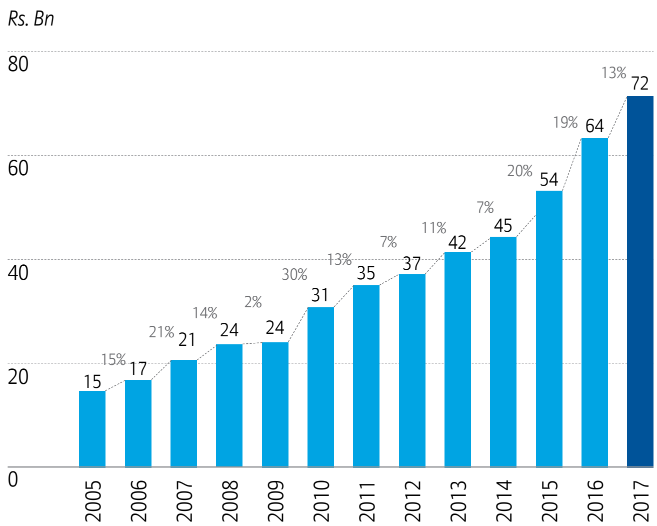


Source: Insurance Board of Sri Lanka

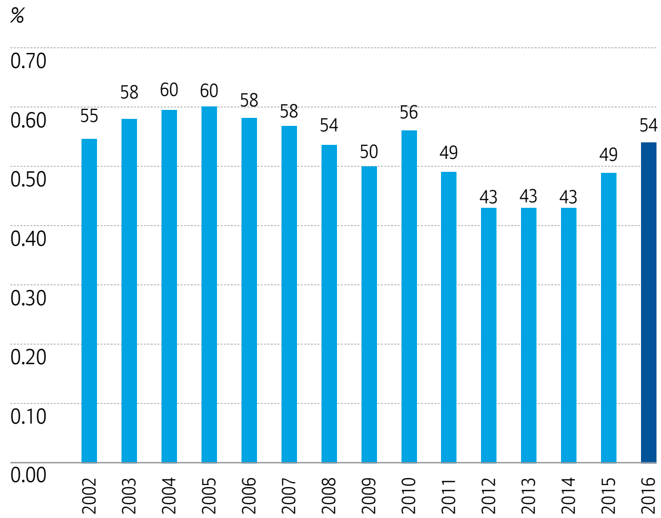
Life Insurance

During 2017, Life Insurance GWP grew by 13% to Rs 72 billion, from Rs 64 billion in 2016. Life Insurance penetration as measured by the ratio of GWP to GDP remains low at 0.54%, indicating strong growth potential.

Life Insurance Industry GWP



Life Insurance premium as a % of GDP



Regulatory Developments

IBSL changed its name from the Insurance Board of Sri Lanka to the Insurance Regulatory Commission (IRC).

The IRC plans to embark on developing and formalising 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.

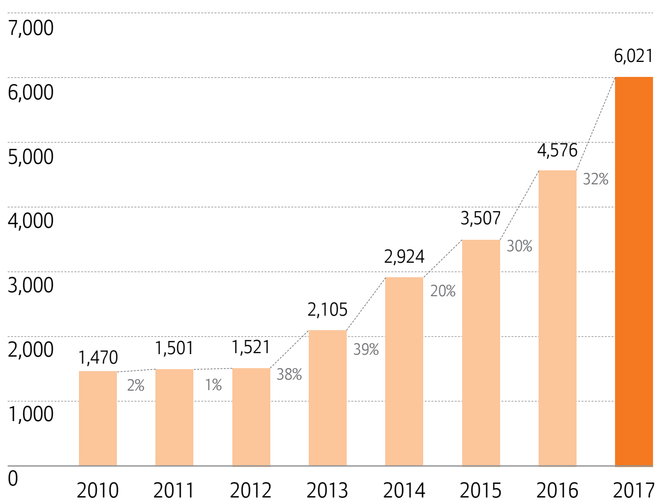
Financial Overview

NON LIFE INSURANCE

Gross Written Premium (GWP)

GWP of the Company grew by 32% to Rs. 6,020 million, exceeding the previous years growth of 30% and comfortably surpassing the industry growth of 15.53% YoY. Motor and Health businesses emerged as the two key growth drivers for this immense growth.

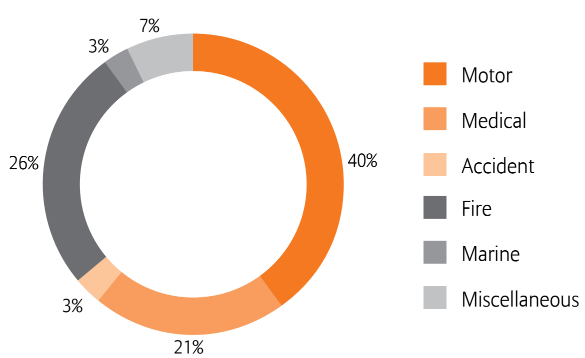
Rs. Mn



Premium by Class

Non-Motor Business again stands out as the main contributor to the GWP as it holds 60% of the total portfolio, recording 30% of YoY growth.

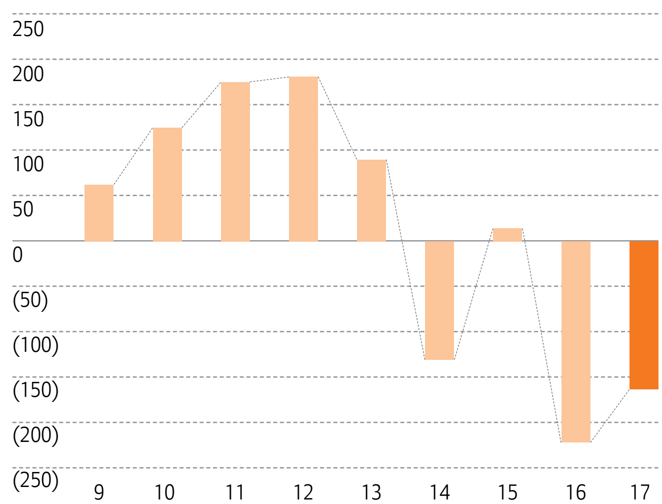
Motor business grew by 35% in the year under review which is far exceeding the industry growth rate of 15%. The growth is mainly driven by the expansion in the newly established agency channel.



Underwriting Results

The company recorded an underwriting loss of Rs.164 million in 2017, which is an of improvement of 27% from last year. This loss was mainly driven by the Fire and Health businesses due to the flood incurred in May and the large number of dengue claims reported in 2017. However, Company measures taken on the Motor business ensured an underwriting profit in the respective class.

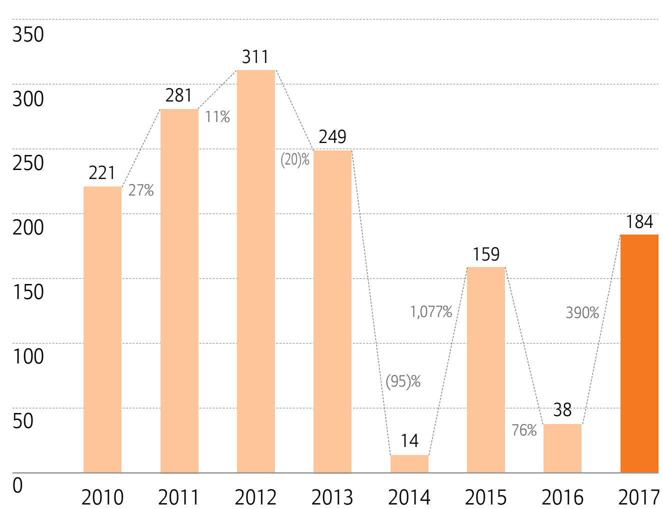
Underwriting results are an indication of the net result generated solely from Non Life Insurance business carried out during the year, before considering investment and any other income generated by a company in the same period.



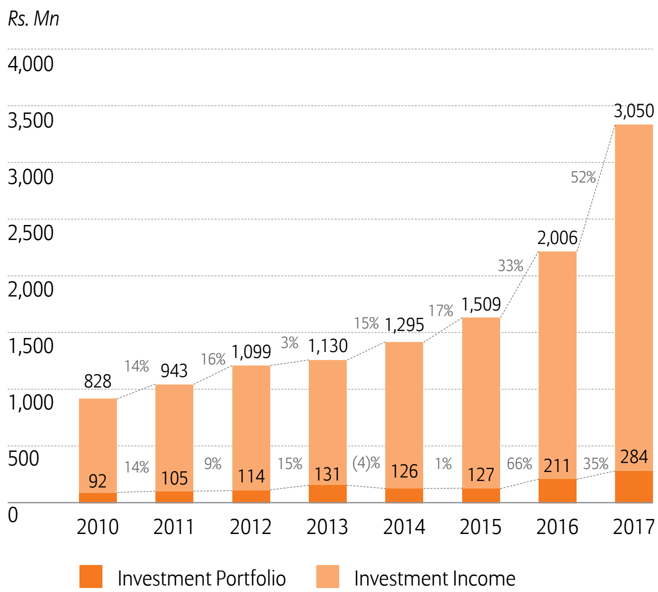
Profit Before Tax (PBT)

The Company recorded a profit before tax amounting to Rs.184 million during the year, which is a 390% positive growth over 2016 mainly as a result of the improvement in underwriting performance coupled with healthy investment returns in 2017.

Rs. Mn



Investment Portfolio



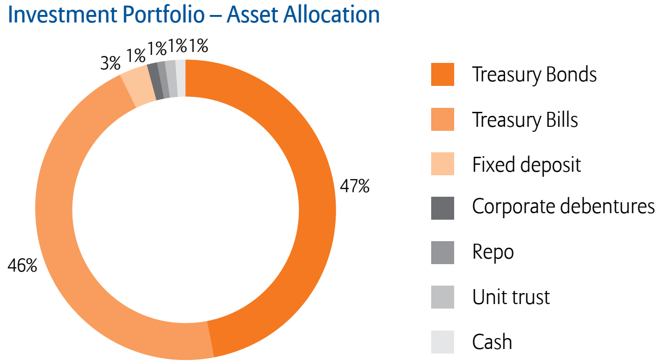
Investment income in 2017 was Rs. 284 million, an increase of 35% YoY. This healthy growth was driven by the upward revision of the policy rates in the first half of the year. The investment portfolio grew by 52% as the Company underwent a capital infusion in 2017. The majority of the Company's portfolio is held in government securities and fixed deposits in line with the Company's prudent risk strategy.

Investment Portfolio – Asset Allocation

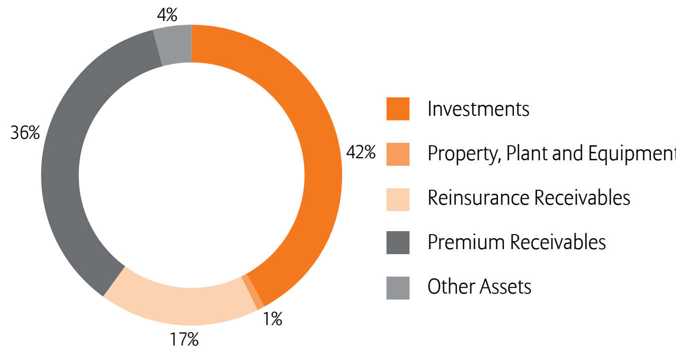
The Company's investment strategy is aligned with the guidelines set by the Allianz Group, which serves as the basis for investment decisions.

Given the unpredictable nature of the size and frequency of claims liability in the Non Life Insurance industry, the Company ensures that it maintains a highly liquid portfolio.

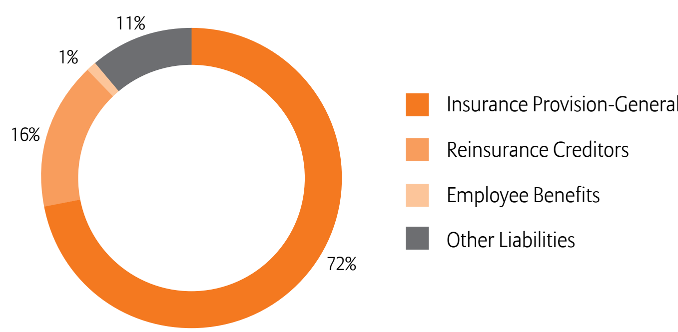
Investment Portfolio – Asset Allocation



Total Assets Composition

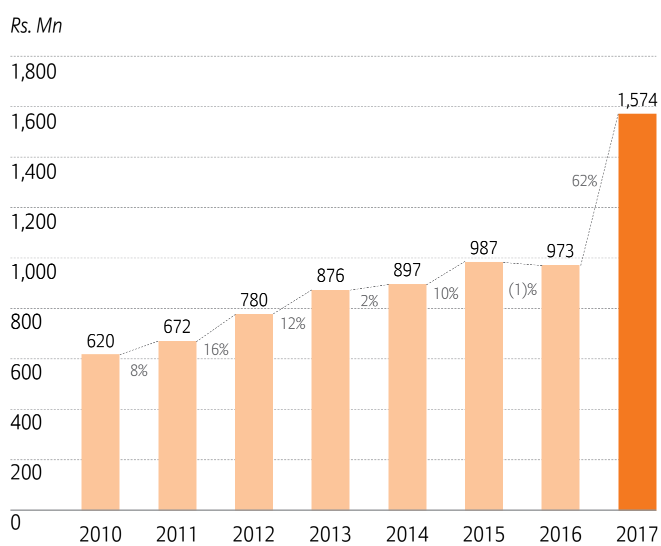


Liability Composition



Net Assets

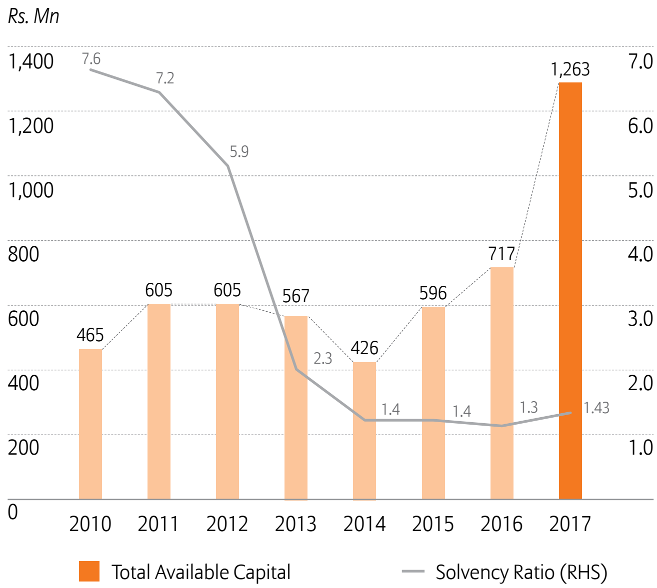
The net assets of the company grew by 62% from last year to Rs.1574 million. This is mainly due to the capital infusion that took place during the year of review.



Financial Overview contd.

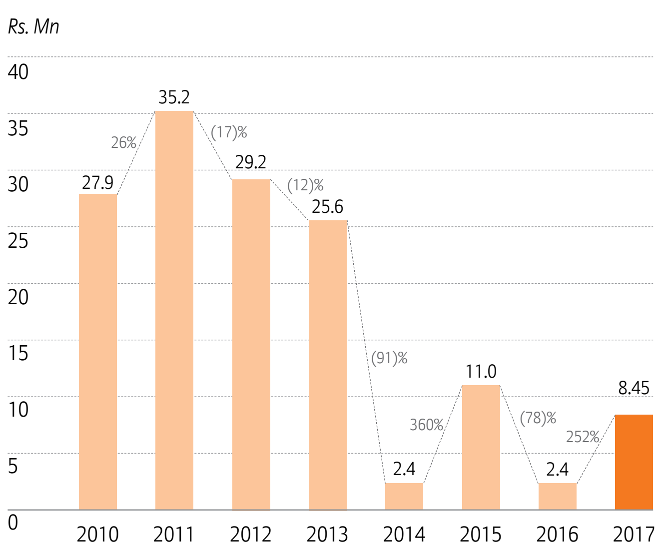
Solvency Margin

The Company's Capital Adequacy Ratio (CAR) by the end of 2017 stood at 1.53 which is comfortably above the regulatory minimum. In accordance with the regulator (IRCSL) requirements, the solvency margin calculation was replaced by the more emphasizing Capital Adequacy Ratio calculation in 2016.



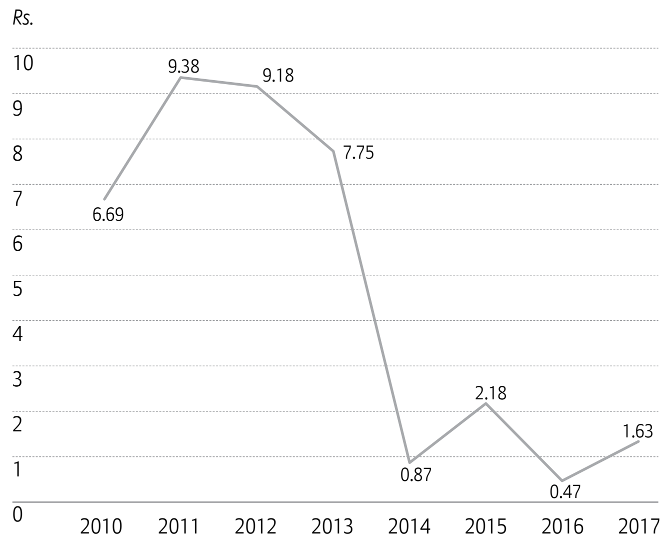
Return on Equity (ROE)

ROE increased to 8.4% in 2017 from 2.4% in 2016. This is largely due to the growth in investment income as well as the improvement in underwriting results. However, this is expected to grow further in the long term.



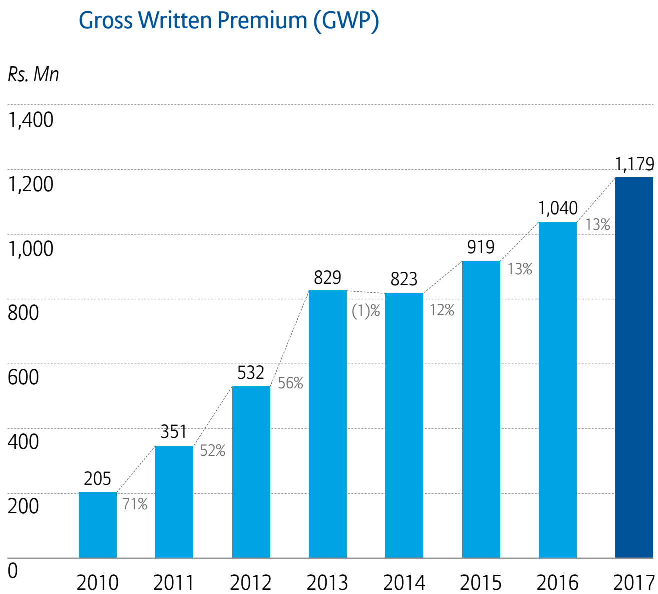
Earning per Share (EPS)

The EPS increased to Rs.1.63 in 2017, from 0.47 in 2016 as a result of the improvement in both underwriting results and investment income.



LIFE INSURANCE

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



2017 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. The period 2013 to 2014 saw 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 13%, which was a clear indicator of progress with stability in the market.

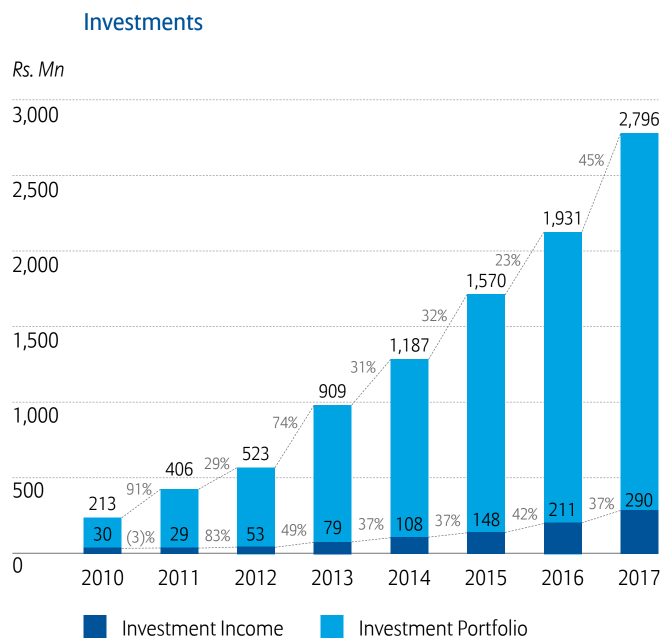
The GWP composition further illustrates the Company's success in maintaining its position of trust in customers' minds - more than 65% of GWP was from renewal premiums in addition to 30% of GWP contributed from FY premiums or new business achieved during the year. Renewal premium has increased by 20% and Group Premium has increased 41% YoY.

	LKR Mn	%
FYP	351	30%
Single Premium	37	3%
Group Premium	24	2%
Renewal Premium	767	65%
Total GWP	1,179	100%

The Allianz Life Insurance core product, Universal Life, represents 85% of the total GWP, while Unit Link had a 12% weightage in the product mix in 2017.

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 45% over the last year, with funds mainly sourced from GWP growth. This enabled the Company to grow its interest income by 38% during the year. The Company maximises its financial investments in order to increase interest income and uses the best maturity mix with the majority of investments made in government securities.



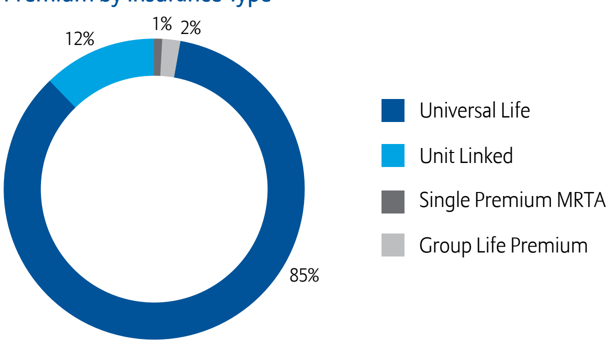
Investment Portfolio- Asset Allocation

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 5% investment in fixed deposits in highly rated licensed commercial

Financial Overview contd.

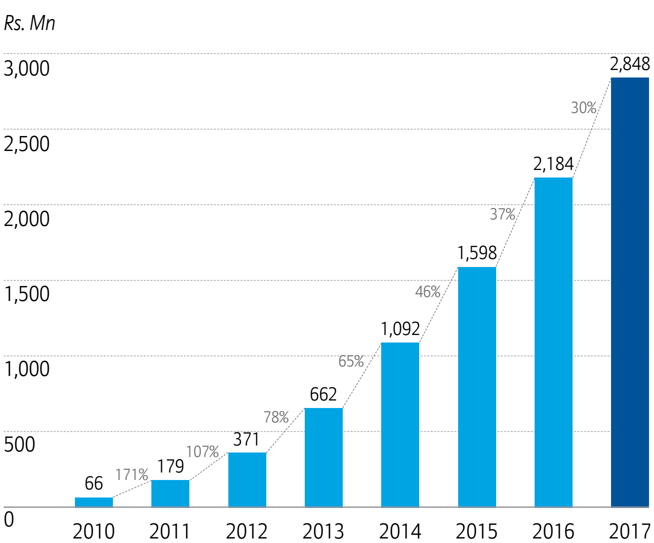
banks, which provide secure returns. The Allianz Life Fund did not invest in speculative instruments such as equities, which are highly volatile in nature and pose significant risk. The Company decided on the best asset mix to maximise returns while maintaining an optimum risk level and meeting its liquidity requirements.

Premium by Insurance Type

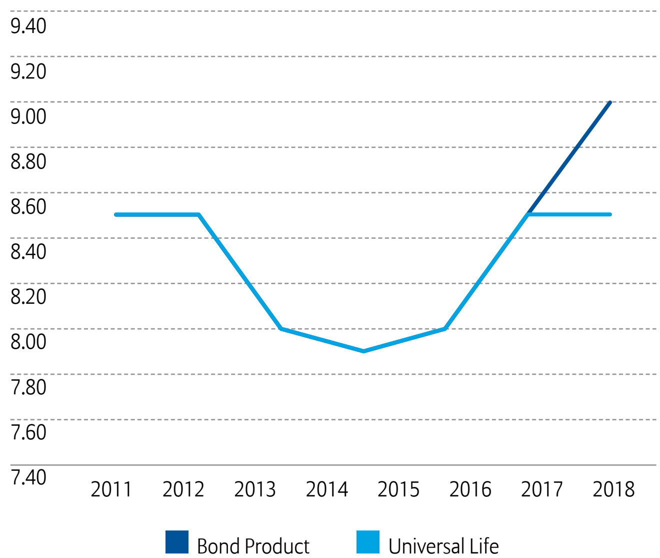


Life Fund Growth

In 2017, the Company's Life Fund reached Rs. 2.8 billion, which is a growth of 30% compared to the previous year and an annual compound growth rate of 71% 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.



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 45% over the last year, with funds mainly sourced from GWP growth. This enabled the Company to grow its interest income by 38% during the year. The Company maximises its financial investments in order to increase interest income and uses the best maturity mix with the majority of investments made in government securities.



Allianz declared a crediting rate of 8.5% in 2017 for all the Universal Life policyholders and 9% for Allianz bond product holders. 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%.

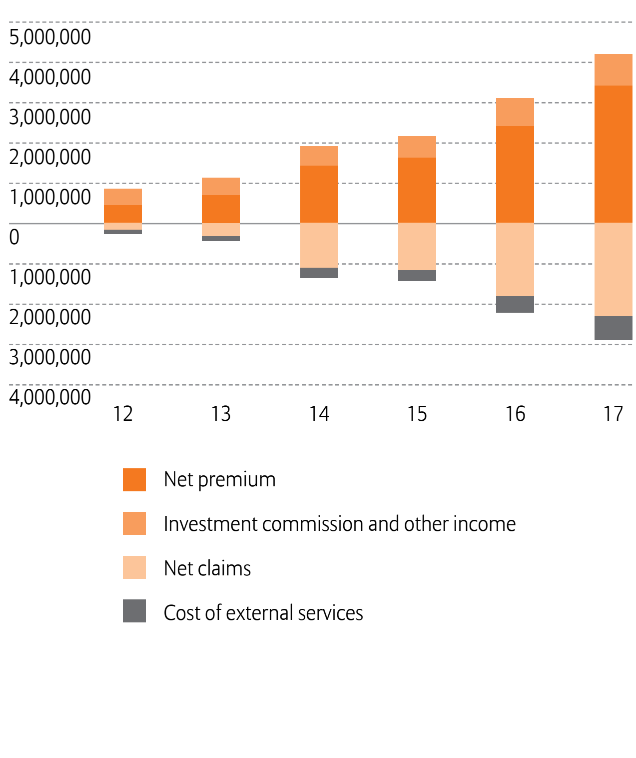
Statement of Value Added

NON LIFE INSURANCE

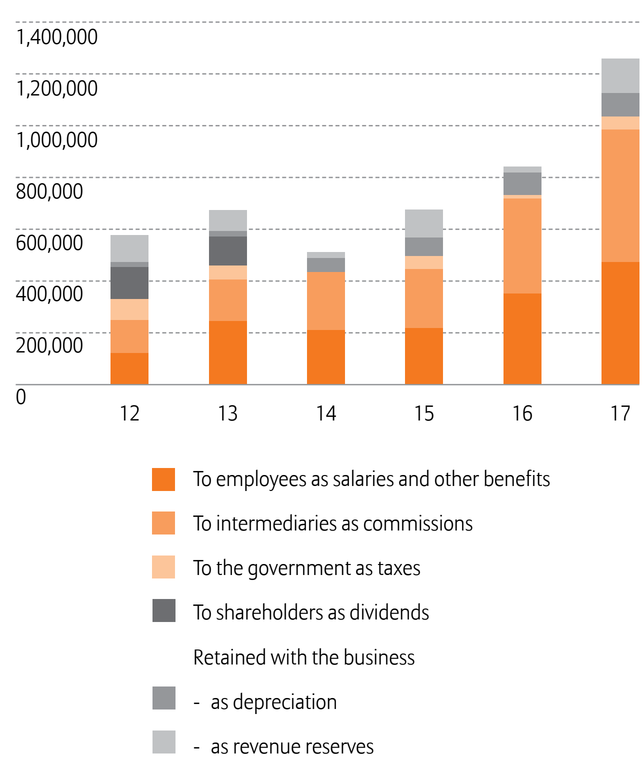
Value Addition	2017 Rs.'000	2016 Rs.'000	2015 Rs.'000	2014 Rs.'000	2013 Rs.'000	2012 Rs.'000
Net premium	3,413,816	2,400,551	1,617,389	1,421,992	684,309	435,561
Investment commission and other income	769,783	683,291	521,157	474,534	445,540	424,328
Net claims	(2,311,185)	(1,814,727)	(1,169,854)	(1,109,326)	(317,839)	(163,837)
Cost of external services	(612,104)	(424,259)	(290,052)	(274,238)	(134,664)	(116,399)
Total value added	1,260,310	844,856	678,640	512,962	677,346	579,653

Value Distribution	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
To employees as salaries and other benefits	470,100	37	347,575	41	214,845	32	207,365	40	241,366	36	117,508	20
To intermediaries as commissions	516,264	41	373,161	44	233,012	34	228,384	45	165,906	24	133,191	23
To the government as taxes	51,753	4	13,933	2	50,122	7	-	0	55,408	8	81,382	14
To shareholders as dividends	-	0	-	0	-	0	-	0	111,250	16	125,000	22
Retained with the business												
- as depreciation	89,600	7	86,485	10	71,728	11	55,565	11	21,417	3	18,109	3
- as revenue reserves	132,593	11	23,702	3	108,933	16	21,648	4	81,999	12	104,463	18
Total value distributed	1,260,310	100	844,856	100	678,640	100	512,962	100	677,346	100	579,653	100

Value Addition



Value Distribution



Statement of Value Added contd.

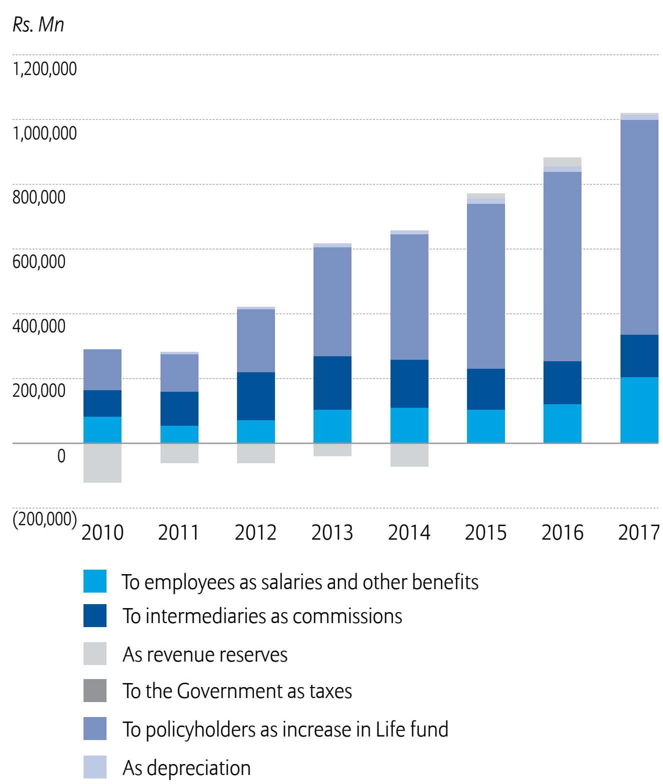
LIFE INSURANCE

Value Addition	2017 Rs.'000	2016 Rs.'000	2015 Rs.'000	2014 Rs.'000	2013 Rs.'000	2012 Rs.'000
Net premium	1,095,344	973,115	859,835	768,148	784,600	497,452
Investment and other income	290,111	210,507	148,000	125,236	78,931	52,753
Net claims and benefits	(115,188)	(86,648)	(52,493)	(38,562)	(23,316)	(15,877)
Cost of external services	(158,604)	(222,630)	(188,628)	(263,422)	(256,509)	(167,200)
Total value added	1,111,663	874,345	766,713	591,400	583,706	367,128

Value Distribution	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
To employees as salaries and other benefits	206,177	18.55	120,585	13.79	104,142	14	110,663	19	103,447	18	72,039	20
To intermediaries as commissions	130,392	11.73	130,863	14.97	129,688	17	150,816	26	167,881	29	150,136	41
To the government as taxes		-	-	-	-	-	-	-	-	-	-	-
To policyholders as increase in Life fund	663,854	59.72	586,504	67.08	506,222	66	384,958	65	335,881	58	191,674	51
Retained with the business		-	-	-		-		-		-		-
- as depreciation	7,217	0.65	10,434	1.19	13,294	2	16,016	3	16,024	3	12,867	4
- as revenue reserves	104,024	9.36	25,959	2.97	13,367	2	(71,053)	(12)	(39,527)	(7)	(59,587)	(16)
Total value distributed	1,111,663	100	874,345	100	766,713	100	591,400	100	583,706	100	367,129	99

Value Addition

Value Distribution



We're

IN vigorated

We kept our focus on the profit pulse, honed in on new strategies to boost growth, and are now well on the way to becoming a more agile, more responsive and even more profitable company.

Corporate Governance

A framework of rules, systems, processes and procedures that can be overseen, monitored or governed must be put in place to maintain a balance between the economic and social goals of an organisation. Good governance in an organisation underpins good conduct and the better judgment of those responsible for its administration, and promotes efficient use of resources.

The core principles, systems and processes necessary to ensure effective management and good governance within Allianz Lanka Limited and Allianz Life Insurance Lanka Limited, known together as Allianz Lanka, are set out forthwith, and have been outlined in the Allianz Lanka Governance and Control Policy. This policy is adopted within the Group guidelines and is subject to local laws and regulations.

Allianz Lanka is led by parent company Allianz SE and follows an adequate governance framework set by Allianz SE across the Group. Overall responsibility for Group steering lies with the Board of Management of Allianz SE, which in particular comprises definition of the Group's business strategy including the risk and investment strategy, as well as the Group's organisational structure.

The Allianz Group's business comprises four business segments - Property & Casualty, Life & Health, Asset Management, and Corporate & Other. The business segments are typically structured according to geographical responsibilities and/or as global lines of business. Other structures are feasible, for example, broker markets. Within each business segment, business is conducted by operating entities (OE). An OE, understood as a relevant management entity, may encompass one or more legal entities.

As mentioned earlier, Allianz Lanka comprises two fully-owned (100% share capital) companies of Allianz SE, and its business segments are steered via an integrated management and control process between the Group and Allianz Lanka. The business strategy of the Group will be operationalised into Allianz Lanka's business-specific strategies, using an institutionalised management dialogue process (strategic and planning dialogue). These specific strategies lead to the three-year business plan.

Business performance will be monitored through monthly reviews of key financial and operational metrics using the operating profit as the main financial performance indicator across all business segments of the Group. The steering of new business is operationalised through the Return on Risk Capital (RoRC) measure. The risk strategy determines the framework for the internal control system at both Group and Company level.

The Allianz Lanka Board of Management is governed by the Company's Articles of Association (Articles) formulated under the Companies Act No. 7 of 2007 and the management rights are devolved on the Board of Directors of the Company. The current composition of Allianz Lanka is three (03) Directors comprising two Non Executive Directors and one Executive Director who holds the position of Managing Director.

Allianz Lanka has full operational responsibility subject to the Allianz Group Operating Model and to the internal control system of the Company, which comprises elements related to any control activities. In addition, to the Risk Management Framework, controls have been established on financial reporting, IT, risk capital calculation, underwriting (including products and distribution) and investments, supplemented by management reports, with the objective of;

a. Safeguarding the Company's existence and business continuity
b. Creating a strong control environment, ensuring that all personnel are aware of the importance of internal controls and their role in the internal control system
c. Conducting control activities commensurate with the risks arising from activities and processes in Allianz Lanka
d. Providing the management with the relevant information for their decision- making processes
e. Ensuring compliance with applicable laws and regulations.

Furthermore, the Allianz Lanka operational model is structured on the three-lines- of defense model which is applied by allocating departments to each line of control based on the predominant control activity:

a. The first line of defense is performed in the business through the management of day-to-day activities, risk management and controls.
b. The second line of defense provides independent oversight and challenge of the day-to-day risk- taking and controls by the first line. These functions are structured as key functions and controlled by the Actuarial function, Legal and Compliance function, and Risk Management Function
c. The third line of defense controls by the internal Audit function provides independent assurance across the first and second lines. Its activities particularly include an independent assessment of the effectiveness and efficiency of the Internal Control System of the Company, including the activities exercised by the first and second lines, and reports are generated to the Board of Directors of Allianz Lanka.

Committee Framework

Allianz Lanka maintains a committee structure which is appropriate to its business size and segment comprising the following Committees:

a. Risk Committee

Members of the Risk committee are the Managing Director, Chief Financial Officer, Chief Risk Officer, AGM – Finance, Head of Compliance, Regional CRO, Allianz Asia Pacific Risk Management - Country Manager.

The Risk Committee meets regularly with the following mandate Pre-approving the Company's risk management policy, risk strategy/ appetite and carrying out reviews to ensure alignment with local regulatory and Allianz Group requirements.

- Monitoring the approved risk tolerance and exposures to individual risks.
- Determining management actions for non-compliance of risk owners to the limits of the risk policy.
- Request, follow-up and assess contingency and action plans in cases 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.

b. Compensation Committee

The Allianz Lanka compensation committee is made up of the Managing Director, Head of Human Resources and Chief Financial officer.

c. Investment Committee

Membership of the Allianz Lanka Investment Committee is the Managing Director, Chief Financial Officer, Chief Risk Officer, Investment officer, Regional Chief Risk Officer and the Country Manager of Allianz Investment Management, Singapore.

The Committee is responsible for the Company's investment philosophy and for approval of the Company's investment policy, and is monitored by Allianz Investment Management, Singapore.

d. Reputational Management Committee

The Allianz Lanka Reputational Committee comprises the Managing Director, Head of Market Management, Chief Financial Officer, Chief Risk Officer, General Managers- Sales and Distribution, Head of Human Resources and heads of technical divisions.

The aims of the standards of the committee are to;

a. Support the protection of the reputation of Allianz Lanka and the Allianz Group
b. Define processes, roles and responsibilities
c. Mitigate the impact of reputational risk events and enable coordinated communication (one voice) and crisis communication.
d. Support the fulfillment of legal and regulatory requirements for risk management, including the solvency margin as well as risk standards defined by local regulatory bodies.

e. Integrity Committee

Members are the Managing Director, Head of Compliance, heads of sales and distribution, heads of the Technical Department, Chief Risk Officer, Head of Human Resources and Chief Financial Officer.

This Committee is formalised to coordinate activities concerning integrity- related matters with focus on:

- Preventing and detecting of corruption and fraud
- Handling whistleblowing cases, customer complaints and reporting
- Ensuring compliance with applicable laws, regulations, other requirements and Group compliance frameworks
- Agreeing on compliance plans, reviews, risk assessments, statistical information and compliance- related trends.

Corporate Governance contd.

f. **Procurement Committee**

The Allianz Lanka procurement committee comprises the Head of Risk, CFO, AGM Finance (Both Life and Non Life) a member of the Asdministration Department and the Head of Compliance.

Policy Framework

Allianz Lanka, in line with Allianz Group corporate rules, has implemented the following policy framework defined by Allianz SE:

a. Allianz Code of Conduct – for employees and sales agents

b. Allianz policies:

- Governance and control policy
- Risk policy
- Capital management policy
- Compliance policy
- Anti-corruption policy
- Anti-fraud policy
- Gift and entertainment policy
- Anti-money laundering policy
- Employee speak up policy
- Data privacy policy
- Anti-trust policy
- Allianz sanction list
- Outsourcing policy
- Audit policy
- Accounting and reporting policy
- Fit and proper policy

c. Allianz Standards

The Allianz Standard for Property and Casualty Underwriting outlines Group-wide rules on which exposures may not be written or are subjected to upfront approvals, either locally and/or by the Group.

The standard for controls for Life, Health and Pension products contains a dedicated Group Product Strategy and design principles which must be considered when developing new Life and Health products. These standards are implemented by the Allianz Lanka Product Development Committee.

Allianz Lanka has established specific policies and procedures relating to others, the new product development process, sales practices and client onboarding. These minimum requirements are implemented as Allianz Asset Management Global Compliance Standards.

Sales compliance minimum standards are implemented to maintain integrity in the product origination and sales processes (e.g. internal distribution steering and informing / advising the customer) and for underwriting governance.

d. Allianz functional rules

These include directives, guidelines, guidance and instructions on functional applications and technical guidance.

Risk Management

Every business strategy entails risk. A company that takes no risks will be unsuccessful in generating the returns required by its shareholders. However, the difference between a company that takes risks successfully and a company that fails when taking risks is, more often than not, the way in which the risks are understood and managed. A company with no strategic foresight may take excessive risks or even lack awareness of the risks it is taking.

A company with strategic foresight engages in conscious, controlled risk-taking activity, preferably in areas in which it enjoys a competitive advantage. These areas usually arise from a superior knowledge of the market based on detailed studies of policyholder behavior and mortality, volatility and trends in capital markets, superior underwriting skills and more. The more known about the specific risks taken by the company, the greater the insight into the interaction between these risks, so the more precise will be the forecasts of anticipated losses and estimation of the capital needed to avoid untoward consequences. Such risk foresight will, ultimately, reduce the capital requirement and increase returns on equity when compared to businesses that encounter the same levels of risk but lack the foresight to estimate the impact of these risks.

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 has always been a core competency of Allianz. Risk management is an integral part of Allianz Lanka's management and control system as well, 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 optimisation of key performance measures through consistently considering risk-return implications.

Allianz Lanka'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 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 tests in order to identify the most sensitive factors affecting solvency and to determine internal thresholds. Again, the AZAP Risk Management team receives a monthly report on this. For local regulatory purposes, solvency is reported on a quarterly basis to the IRCSL (Insurance Regulatory Commission of Sri Lanka).

Qualitative risk assessment: Key risks, including main operational risks on governance and culture, capital and limits, reporting and model coverage as well as 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 Allianz 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 include 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 cases 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 AZAP Risk Management team on a quarterly basis and escalate material issues to the Board of Directors.
- Promote the Allianz risk culture and develop the risk management talent for the Company.

Risk Management contd.

The RiCo held two meetings during 2017, where the main item on the agenda was an update by the Chief Risk Officer (CRO) on the Company's main 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.

Main risks

The main 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 and the value of Insurance liabilities. 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 realign 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, in accordance with 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 Allianz 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 movements in the USD-LKR as a portion of premium income and also because a part of the reinsurance payments are in USD. This risk is managed by way of a direct hedge whereby USD inflows are matched with outflows and the excess converted at an exchange rate deemed favourable at the time.

Liquidity Risk is the risk of the Company not being able to meet short-term or future payment obligations, and 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 using cashflow projections. In addition, predetermined minimum buffers are maintained in terms of liquidity tiers to ensure the availability of funds to meet unforeseen obligations.

Underwriting Risk - the Non Life Insurance business is 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 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 and morbidity risks. Mortality, disability and morbidity risks are risks associated with the unexpected increase in the occurrence of death, disability or medical claims on our Life and health insurance products.

Profitability calculations are based on several parameters like historical loss information, assumptions on inflation or on mortality and morbidity. Therefore, the realised parameters can differ from the ones used for the calculations, which will eventually impact the profitability of the Company. 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 developments that clearly define roles and responsibilities and approval structures are in place to mitigate mis-pricing 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.

Operational Risk remains a top priority for the Allianz Group as well as for 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, 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 and reviewed, and mitigation actions are 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 or existing or new transaction or product could 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 impact.

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.

The CRO attended the Allianz Asia Pacific CRO Conference held in Thailand at which the priorities for 2018 were discussed and agreed on.

The regional CRO, Joerg Biebel, visited Allianz Lanka and attended the 4Q17 RiCo meeting in person. The highlight of the visit was a comprehensive assessment of the risk function along with one- on-one meetings with the senior management.

Priorities for 2018

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 continue to set internal thresholds on earnings volatility
- To further strengthen internal control systems with greater focus on model risk management
- Full integration of the risk framework following the acquisition of Janashakthi General Insurance

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. This is 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 the independent oversight functions such as Risk, Compliance and Legal.

Risk Management contd.

The main risks faced and mitigated during 2017 are as follows.

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 were made in systems and processes.
Solvency requirements	Solvency at the end of December was 143%, above the regulatory threshold. During the year, we received a capital infusion of € 2.5 million and this is expected to provide a comfortable buffer to support the projected growth of the Company during 2018 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 measures 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 were made in systems and processes.

Compliance at Allianz Lanka

Ultimate responsibility for adherence to the requirements, not only for laws and regulations but also for industry codes and principals of good governance coupled with ethical standards, lies with the Board of Management of any entity. To demonstrate commitment to such a culture of good governance, every entity needs to embed compliance commitment among all stakeholders. It is necessary and vital to implement internal policies and procedural guidelines to help all stakeholders understand the compliance obligations of the entity.

Allianz Lanka, too, believes in building a culture that encourages ethical conduct and compliance with laws, regulations and ethical standards and procedures, and has nurtured within the Company a compliance environment that implements regulatory requirements and incorporates best practices of compliance standards in line with Allianz Group requirements. This establishes core principles regarding the key responsibilities, organisational framework and reporting and monitoring duties of a compliance function within the Company.

Compliance within the Company is in line with risk and plays a major role in recognising and managing risk in day-to-day business operations, which ensures a culture that will deliver trust and confidence to all stakeholders of the Company.

The Allianz Lanka compliance function is responsible for promoting and establishing a culture of compliance within the Company. The Compliance Policy focuses on the tasks for the compliance function and its implementation within the Company. The compliance function acts as an integral part of the "Three-Lines-of-Defense" concept and is a key function within the Internal Control System. Its main objectives are:

1. Developing compliance policies and ensuring due implementation.
2. 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.
3. 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.
4. Evaluating and monitoring compliance risks and possible impacts on legal or regulatory sanctions, significant financial losses, or loss of reputation that Allianz Lanka may suffer as a result of not complying with laws, regulations and administrative provisions.
5. To support and exercise the compliance function in other departments necessary under this policy.
6. If compliance responsibilities are combined with other responsibilities, to prioritise fulfilment of the compliance function activities. Potential conflicts of interest arising from the combination must be managed in an appropriate manner.

The Allianz Lanka compliance function reports to the Managing Director, functional reporting lines exist up to Allianz Asia Pacific Compliance and ultimately up to the Group Chief Compliance Officer. The function has standing within the organisational structure that ensures maintenance of the necessary independence from the first line of defense with the right to communicate with any employee and access any information, records or data necessary to carry out its responsibilities to legal limits.

The Allianz Lanka Compliance function covers the following risk areas;

- Corruption
- Money laundering and terrorism financing
- Economic sanctions
- Sales compliance
- Regulatory compliance
- Anti trust compliance
- Fraud governance including internal fraud

Currently, the Allianz Lanka compliance function is assigned with the following additional risk areas but also allows deviation from the local allocation as and when necessary:

- Data privacy
- Foreign Account and Tax Compliance Act (FATCA).

The Allianz Lanka compliance function exercises a set of activities to achieve its objectives mainly by establishing and maintaining an adequate and effective compliance management system. This compliance management system comprises promoting a culture of integrity and compliance, providing compliance training, providing advise in advance, establishing and maintaining compliance principles and procedures, Investigations and employee reporting, interacting with regulatory authorities, monitoring and reporting etc.

In 2017, the focus was on data privacy. AZAP Compliance and Group Compliance headed by Ingrid Govan, teamed up with Allianz Lanka to conduct a workshop to formally introduce the APRP and bring a new level of data privacy awareness to employees in instances where the term 'data privacy' was not commonly used or completely understood. The goal of this onsite training was twofold; firstly, to provide the in depth- APRP workshop for department leaders/key personnel to prepare them to complete the IGQ and RAQ documents;

Compliance at Allianz Lanka contd.

secondly, to provide wide data privacy awareness training. The participants were actively engaged during the training and were made to think about and understand personal data – it's purpose, use and storage, who has access to the information and how the personal data is retained and destroyed. Most importantly, they learned the importance of data privacy, it's application to them personally as employees and consumers as well as users of social media sites such as Facebook, LinkedIn.

"Success of this onsite is due to the strong support of the top management of these OEs. The tone at the top is always key. I am thankful for their strong commitment", said Ingrid Goven.

During the latter part of the year, a workshop was conducted by the Group privacy team on privacy impact assessment training which gave all participants the opportunity to learn about an online tool that is used to conduct the Privacy Impact Assessment currently done manually.

Compliance Risk Assessment

On a regular basis, the compliance function shall identify documents and assess the compliance risk associated with Allianz' business activities. The compliance function has to support the risk management function in the Top Risk Assessment (TRA) and in the Risk and Control Self- Assessment within Allianz Lanka. To learn more about this, the compliance function attended a workshop conducted in Singapore. Risk assessment was completed for the year 2017 and the results were submitted to the Group after due evaluation by the Region.

International Anti Corruption Day

Allianz Lanka commemorated international Anti- Corruption day on 9 December 2017, which reinforced in the minds of employees the Company's strict prohibition on the offer, acceptance, payment or authorisation of any form of bribe. All staff are responsible for protecting the Allianz brand and should defend these standards of ethics.

In conjunction with International Anti-Corruption Day, a quiz on compliance was organised for all permanent employees, except staff of the Legal & Compliance department. The winners of the contest were later rewarded with valuable gifts by the Compliance department.

Compliance refreshment

Whilst conducting induction training programmes for new recruits, compliance refreshment trainings focusing on anti- fraud and anti money laundering were conducted among employees with the support of the Training department. A refresher compliance session for the senior management was conducted in the first quarter of the year, and equal importance was given to conducting refresher training on anti- money laundering for the underwriting staff and existing agency force. Compliance continued to be a key component in all training sessions conducted throughout the year.

Compliant Management System

The Compliant Management System (CMS) was upgraded and implemented with the assistance of the IT department to be in line with regulatory requirements on the compliant handling process, and the monitoring and following up of the complaints registered was carried out by the compliance function. At the monthly senior management meeting, an update on the Compliant Management System was presented to the senior management.

Allianz has zero tolerance for fraud and corruption and has in place a properly designed and effectively implemented compliance system that allows the Company to detect any compliance violations. Allianz policies, procedures and the minimum standards and guidelines are binding on all employees, the senior management and the Board of Directors worldwide. These policies, procedures and guidelines describe the way the Company should fulfill its compliance- related responsibilities, and express our values and internal protocols. Our compliance system reinforces awareness of these responsibilities in the day to day work of all our managers and employees. Important guidance drafted by the Group and the Region for Allianz Lanka has helped the Company focus on compliance priorities and ongoing developments in the Compliance System.

Compliance Focus in 2018

In 2018, Allianz Lanka will continue conducting refresher trainings on anti- money laundering and anti- fraud for all employees and senior managers in the hope of better fraud governance. Moreover, attention will be given to maintaining the Complaint Management System, and monitoring and following up on all complaints registered with the respective departments to update the senior management on CMS.

Furthermore, priority will be given to awareness programme on anti-money laundering and terrorism financing, anti-trust policies and data privacy conducted for exposed employees and managers.

Allianz Compliance will focus on giving prominence to continuing the data privacy renewal programme whilst continuing to give equal importance to the integrity campaign. The Company will be concentrating on conducting periodic reviews and audits and carrying out spot checks in all departments and branches.

We're

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As a world leader in financial services, we help build efficient and effective global insurance markets that are essential for the dynamic development and progress of economies around the world.

Allianz Moments

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

The year was another busy and productive one for Allianz Lanka as we expanded into more arenas of achievement and rewarded performance excellence at the workplace and on field.

We worked hard and play hard, having fun all the while, because we believe that striking the right work-life balance is essential for maintaining our physical health and well-being as well as for establishing amicable relationships, both professional and personal. A healthy work-life balance ultimately translates into enhanced performance on-the-job. We pursue top performance in sports as well because driving excellence in everything we do is part and parcel of our work ethic.

Dawn of a new year of opportunities and challenges

The dawn of the first working day of the New Year saw clergy from the four main religions of the country, converge at our head office in Glennie Street to invoke blessings on Company goals and aspirations for the forthcoming year.

The entire management and staff of the head office participated in the event, which concluded with everyone present enjoying a spread of traditional sweetmeats.

Similar new year celebrations were held at Allianz Lanka branches throughout the country.

Several operational areas and departments rolled out their annual plans at the commencement of the year.

Non Life Insurance strategic plan unfolded at the annual Sales Conference

The strategic business plan for the Non Life insurance distribution sales teams was unfolded at our Annual Sales Conference. The plan for 2017 themed 'Delighting customers through team' was shared by GM, Non Life, Dennis Hewagama. Outstanding performers in the various sales categories were also presented with awards.

Entrepreneur, sales coach and marketing educator,Yasas Hewage, delivered an inspiring speech that motivated the sales team. More than 300 field staff and senior management were present at the event which was graced by Allianz Lanka CEO Surekha Alles as chief guest.

Life unveils it's 2017 plan and recognises top performers

The Life division, unveiled their strategic business plan for 2017 at a parallel event. GM Sales and Distribution, Nihal Handunge,presented the plan worked around the theme of transformation and the journey towards reaching a target of Rs. 2 billion. Zonal managers shared their plans for their respective zones as well. The Best

Operation Support Assistant for the previous year, Madushi Maharage of the Wennappuwa branch,was also recognised and rewarded.

About 250 Life advisors, field management staff and the senior management of Allianz Lanka participated in the event.

BDU holds sales conference to unveil plans

The Business Development unit too held their annual planning cascade. GM BDU Mangala Bandarashared the strategic business plan for the year with his distribution sales teams, themed 'To be number 1'. More than 275 staff comprising advisors, field sales management and the senior management were present.

Marketing promotions and brand activation steers ahead with another new initiative

A new propaganda vehicle will drive the Allianz name to the most remote reaches of the island and meets a long- felt need, and started operations.

The vehicle is attention-getting and well branded with Allianz promotional material. It has been deployed to support ground activation and is the newest addition to the marketing communication initiatives of the Company's Marketing division.

Allianz Annual Awards 2017

The Company celebrated the achievements of the Allianz team at the much- awaited annual sales convention, Allianz Awards 2017, held at Cinnamon Lakeside Hotel. Head of Property and Casualty, Allianz Asia Pacific, Alan Smee, was chief guest of the evening and Allianz Lanka CEO Surekha Alles was guest of honour.

Held annually to nurture the international performance culture that Allianz is globally renowned for, the Allianz Awards recognised and rewardedthe individual successes, outstanding team effort and effective partnerships of 88 stellar performers.

Allianz Moments contd.

Vasugi Mohanaruban from the Thurunalveli branch, Salman Cassim from the Galle branch and Sameera Kaluperuma from the Colombo Metro branch were adjudged the overall best performers in the Life and Non Life companies and walked away with the grand Champion of Champions trophy.

The coveted Director's Award was won this year by Ruchera Perera, Senior Manager – Technical, Life. Upul Dissanayake, Assistant General Manager - Information Technology and Indika Kumarasinghe - Senior Manager - Information Technology were joint runners- up, for their unprecedented, unwavering support to achieve company goals by going beyond their day to day job roles.

The seven members of the Life team who qualified for membership of the prestigious Million Dollar Round Table (MDRT) of financial professional during the previous year, 2016, were also felicitated with special awards. Membership in the MDRT is the Life insurance industry's most sought- after achievement and seeks to establish best business practices and develop ethical and effective ways to increase client interest in financial products. The largest ever MDRT contingent represented the Company during 2016.

Rebuilding the lives of customers affected by the floods

Sri Lanka faced one of the worst floods in four decades during May this year, which caused extensive damage to lives and property around the island.

Standing by our promise to be with our policyholders during their moment of truth, the Company leveraged the resources of our widespread network to respond speedily to affected policyholders. Allianz Lanka teams around the country worked long hours, tirelessly processing all flood- related claims to provide our customers with much-needed compensation to help them return to normalcy as soon as possible.

Allianz Peduru party

The first- ever peduru party organised by the Company's Recreational Club took staff away from their busy work schedules to go native. Attendees arrived in national costumes and had an enjoyable time, dancing and singing to Sri Lankan music and helping themselves to spicy and delectable local food.

The event was held at the Women's International Hall, Colombo with more than 200 staff participating. CEO Mrs. Surekha Alles graced the event as Chief Guest.

This year's MDRT winner attends MDRT conference

Ushanthini Thayakaran from the Jaffna branch was honoured during 2017 with the much -coveted MDRT award, and attended the MDRT conference held in Orlando, USA, in June 2017.
Membership of the Million Dollar Round Table is a seal of excellence that assures the public that they are being served by the best in the business of Life Insurance solutions.

Taking the Allianz brand to the market

This was a sales promotion carried out by the Company's Business Development Unit in partnership with other Allianz Lanka channels to educate customers on the Non Life Insurance solutions available with Allianz. The promotion was held at the Marine Drive, Colombo, with the entire Colombo field sales staff and the Company's regional management actively participating.

Leaflets and other printed promotional materials on Allianz products were also distributed to customers and potential customers.

A sporting win on the insurance field

Allianz Lanka demonstrated our prowess in the sports sphere as well, with the winning of the Bowl Championship at the Six-A-Side Softball Cricket Tournament organised by the Sri Lanka Insurance Institute on 11 July.

The taste of success was made even sweeter when we were adjudged the Best Cheering Squad as well. The tournament was held at the Colombo Colts Cricket (CCC) grounds in Colombo, and 21 teams participated, which included a joint team from the Sri Lanka Insurance Brokers' Association.

Senior representatives of the industry also actively involved themselves in the event, which was a great success.
True to the spirit of sportsmanship, the athletes overcame their business rivalries to forge bonds and fraternised with one another.

The Bowl Champions, the Best Batsman, Best Bowler, and the Man of the Series, were awarded at the end of the -tournament.

Bowl Champions: Allianz Insurance, runners up - Ceylinco General
Plate Champions: SLIBA Stallions, runners up - Fairfirst Insurance
Cup Champions: Janashakthi General, runners up - Softlogic Life.

Members of the winning Allianz Soft Ball Cricket team are:
M.I Abdeen (Captain)
Tharindu Widanapathirana
Sidath Vimukthi
Dinesh Kanthan
Riyanzi Dickman
Chamara Sampath
Isanka De Silva
Premesh Perera

Reinforcing the Allianz Lanka name in the corporate world

Allianz Lanka was recognised as the "Best Employer Brand of the Year" in Sri Lanka at the 12th Employer Branding Awards Ceremony. The event was hosted by the Employer Branding Institute & World HRD Congress with CHRO Asia.

Also at this awards ceremony Allianz Lanka CEO, Surekha Alles was felicitated with the prestigious "CEO of the Year" Award for her leadership and commitment to the Company.

Yet another distinctive Allianz identity established in the business capital

Allianz Lanka further increased customer access to our world class services by opening another city office at No.251 Dharmapala Mawatha, Colombo 7. The new office will be serviced by an experienced team of sales, front office and underwriting professionals,and boasts of an impressive array of amenities that welcome customers and enable staff expedite processes.

CEO Surekha Alles commented at the inauguration, "our mission is to provide the people of Sri Lanka with the best insurance solutions to meet their unique needs, by increasing their access to our services we have succeeded in this front. This office is the latest in a long list of modern office spaces we have established across the island and has been specially designed to maximize the efficiency of the men and women working in it while providing them with a great working environment. As an organisation that cares about each individual, we take into account the needs of every stakeholder, both internal and external, when embarking on opening a new office."

Protecting lives through creating road safety awareness

A steady rise in the number of accidents at unprotected railway crossings prompted Allianz Lanka to step in to protect the lives of the people. The current year alone recorded 256 casualties and 180 deaths related to railway crossings.

The Company joined hands with the National Council for Road Safety to deploy warning signs at all unprotected railway crossings around the island. A set of three signs will be erected at intervals of 50 metres on either side of these crossings to warn drivers and pedestrians of the prospect of an oncoming train.

The first set of sign boards was commissioned at the Narahenpita Railway Station under the auspices of Hon. Minister of Transport and Civil Aviation, Nimal Siripala De Silva. Speaking at the event, the Minister expressed concern about the rising numbers of railroad accidents and commended Allianz Lanka and the National Council for Road Safety for this new initiative that would help save lives.

Allianz Moments contd.

"As a responsible insurer, we believe that we need to go beyond standing by our policyholders during trying times. We seek to collaborate with all relevant stakeholders and play an active role in raising awareness on how a bit of vigilance and a few simple precautions could help avoid untoward incidents. Inspired by the work of the National Council for Road Safety, we are delighted to partner with them on this initiative and will do our best to help protect the lives of our fellow countrymen," said Allianz Lanka Managing Director, Surekha Alles.

Dr. Sisira Kodagoda, Chairman, National Council for Road Safety said, "our council strives to create a safer road environment for all Sri Lankans. We are concerned about the rising incidence of railroad related accidents and have hence stepped up our efforts to make railroads safer, especially at crossings. We thank Allianz Lanka for offering their assistance to this endeavour. As a company that is in the business of protecting people, they share our concern for safety. Working together, we are deploying warning signs at unprotected railway crossings to alert road users and protect lives."

This is one of many Allianz Lanka programmes to promote road safety. Earlier this year, the Company set up several sign boards on all key roads leading in and out of Nuwara Eliya to warn drivers of accident prone zones and other dangers.

Mid Year Awards for top performers in the Life- North Central zone

The Mid Year awards of the Life North Central zone were held at Hotel Indora, Saragama. Star performers during the second quarter of the year were recognized. The main awards went to the Top 10 performers, Top 10 leaders, Top 03 Field Managers, Best Branch Development Manager, Best Team Leader, Best Advisor and the Best Branch was awarded at the event. The Badulla branch was awarded as the Best Branch.

General Manager - Sales & Distribution, Nihal Hadunge, other members of the senior management and over 150 members of the sales force of the Life Insurance division were present.

Building awareness of health and fitness among brokers

A Bancassurance event was held for Standard Chartered Bank priority customers at Cinnamon Lakeside, Colombo, on 12 September. The event was themed 'Total Fitness with Stress Management' and Guest speaker Dr AsangaWijerathne spoke on the importance of keeping fit to control stress.

The event built awareness on the importance of good health and fitness and was well attended with over 250 brokers participating.

Mid Year recognition for top Non Life Insurance performers

A colourful ceremony recognised the top performers of the Non Life Insurance division for the second quarter of the year. The event was graced by Managing Director. Surekha Alles as chief guest, General Manager, Sales & Distribution Dennis Hewagama and other members of the senior management and over 150 members of the Non Life Insurance sales force were present.

Dr. Asanga Wijerathne, specialist in human kinetics and sports, gave an informative lecture on the importance of fitness in mind, body and spirit for an effective work- life performance.

The winners of the Bangkok tour competition were also felicitated at this event. They are:

- Rasika Rohana Herath
- Nalin prabath Liyanage
- Chulaka Chandana Kumara Gunathilaka
- Mahesh Kumara Rajendran
- Sahan Wishmitha Meeruppa Gamage
- Randika Sandaruwan Peiris
- Chathura Madushanka
- Dedunu Nuwanthi Karunathilaka
- Randunu Tharaka Ihalahewa
- Renuka Malkanthi
- Sathsara Devinda De Silva

Insurance month promotions

Allianz Insurance Lanka carried out a successful awareness campaign in Ratnapura, joining hands with other leading insurance companies and industry groups in the country. September was declared the Insurance Month by IBSL (Insurance Board of Sri Lanka) and IASL (Insurance Association of Sri Lanka) with the aim of reminding the general public of the importance of Insurance as a safety net that assures them security and peace of mind.

Over 150 representatives from the industry were involved in the event at which the Allianz team explained to participants the importance of insurance and the objectives of declaring a national insurance month. After the brief morning session, all the insurance teams dispersed to the field to propagate the message of insurance to the masses.

Leaflets and other promotional materials were distributed to the public throughout the month of September to increase their interest in and awareness of, insurance.

Group Life Bancassurance MOU opens doors at Commercial Bank branches

Allianz Life Insurance signed a Group Life-Bancassurance MOU with the Commercial Bank. The agreement opens the doors of the Commercial Bank's 258 branches to Allianz Life operations.

First badminton tournament organised by the Recreation Club

The Company's first ever badminton tournament was organised by the Allianz recreation club and held at the Mercantile Business Association courts. Over 150 staff attended and either played in the tournament or cheered their colleagues to success.

WSO2 staff motivated to lead a better work-life balance

A motivational event on "How to lead a work life balance" was organized by the BDU and held for WSO2 staff, at the request of brokers. The event was conducted by Dr. Manoj Fernando, Senior Lecturer in Health Promotion at Rajarata University, Sri Lanka. Over 50 WSO2 staff participated and gained invaluable insights on regaining their power during unproductive periods in their work lives.
The event was also attended by GM BDU Mangala Bandara and other senior management of the Business Development Unit.

Life Foundation Awards and training session

The Life Foundation Awards ceremony and presentation was held at the Allianz City Office Auditorium. The winners received plaques, certificates and cash prizes.

This is a once- in- a- lifetime presentation in recognition of skilled and committed staff during in their first 12 months of insurance business at Allianz Life Insurance.

Financial services consultants must achieve 60 Life policies within their first year with the Company and maintain their retention rate at 95% on completion of their 13th month of service with the Company.

Allianz Moments contd.

Winners for 2017
Chamli Chathuranga – Wennappuwa Branch
Buddhi DinushkaEdirisinghe – Chilaw Branch
Mohamed Hisam – Matale Branch

Staff participate enthusiastically in Annual Sports Day

The annual sports day was held at the Bhuddadasa grounds in Battaramulla. Food , music and entertainment kept excitement and enthusiasm high throughout the day. More than 350 staff from branches around the country were present. Attendees showed great passion and talent for sports and participation in all games and events was high.

Apart from regular sports like cricket, the organisers added to the fun with exciting events that included selection of the staff member with the longest hair, biggest belly, best bald head.

Winners were given valuable awards by chief guest Allianz Lanka MD Surekha Alles and the senior management.

Group Life workshop for brokers

Over 30 brokers attended a workshop organised by the Group Life division and held at the Allianz city office auditorium. Overall feedback from the participants was positive, they said the workshop enabled them to gain a substantial amount of knowledge on Allianz products and services.

MDRT top performance take their pledges

The top performers of Allianz Life Insurance, who attained the high levels of achievement required by the prestigious MDRT association of financial professionals, pledged their commitment to complete the MDRT requirements by 31 December 2017. This was the culmination of a series of training programmes and took place at the Town Hall Training Centre.

Making history with the opening of the first virtual branch

In step with global thinking, the Company opened its first virtual office in Horana, which marked another milestone in the Sri Lankan Insurance industry. The new branch expands the Company's distribution capacities to provide better services to customers. Virtual insurance agencies run with limited capital and staff, and help consumers find the perfect insurance policies in minutes. Addressing the gathering, GM - Agency Development, Mangala Bandara said the new approach would provide the local insurance industry with a completely new experience. He emphasised that the strategy would enable Allianz Insurance Lanka to access untapped potential markets while developing the grass roots level entrepreneurial culture in the country. Team Manager-Business Promotions, Supun Chanaka, is the first individual to initiate the Allianz virtual office concept.

Career Fair to recruit achievers

This event was held to promote Allianz Lanka as a potential employer and hosted by the Company at the ICBT Campus, Nugegoda on 7 December. Students were given the opportunity to network with the Insurance professionals and learn about job and internship prospects at Allianz Lanka.

Three Allianz representatives conducted Q & A sessions that provided the students with a background knowledge of the Company and the career opportunities available. Mock Interview sessions were also held to enable students to experience how real interviews were carried out. Over 50 students and potential job seekers attended the event and provided the Allianz Lanka staff with about 150 Curriculum Vitae.

BDU celebrates attainment of Rs. 1 billion in GWP

The Business Development Unit, one of the newest channels of the Company, achieved a noteworthy Rs. 1 billion in GWP. A ceremony was held to celebrate this achievement. MD Surekha Alles and the senior management cut a cake to mark the achievement. A branded wrist band was presented to all BDU staff as a token to remember the historic occasion.

Broker event on health and fitness

A Bancassurance event was held at Cinnamon Lakeside, Colombo for Allianz Lanka's brokers on the theme- "Total Fitness with Stress Management'. The event was held to build awareness of the importance of personal health, and was well attended with over 250 brokers attending.

Celebrating Christmas creatively

The Allianz team at the Head Office once again celebrated Christmas with creativity and teamwork. Carol singing and the annual floor decoration competition were highlights of the fun-filled event. Floors participating in the Carols competition were judged on carols sung based on melody, rhythm, and relevance to Christmas. The 1st Floor team was the winner and the Valiant Tower Life team was runner up.

Floors participating in the Christmas decoration competition were evaluated on the theme 'Eco-friendliness, Red and green and cost effectiveness'.The winners was the Valiant Tower LIFE team, the Ground Floor team was runner up.

Allianz Sustainability

The Company extended its flagship projects as well as introduced new initiatives during the year of review, in line with the holistic and responsible approach to corporate social responsibility adopted by the Allianz Group. This Group approach has been recognised over the years with high rankings in a number of international sustainability indices conferred by reputed rating organisations, which confirm Allianz's position as one of the world's foremost sustainable financial services providers.

Some of the highlights during the year include recognition as the No. 1 insurer in the world-renowned Dow Jones Sustainability Index 2017, recipient of the RobecoSAM Gold class Sustainability Leader 2017 award, inclusion since 2001 in the "FTSE4Good" index, as well as AAA ratings received from MSCI ESG Research.

Allianz Lanka too, has followed in the footsteps of our august parent and been recognised as the 'Best Sustainable Insurance Company of the Year' and the 'Best Sustainable Company of the Year South Asia' by regional awarding organisations.

The Company is committed to promoting the well-being of people and the planet in all areas of business, especially in the regions in which the Company has an established presence.

MY FINANCE COACH (MFC)

Improving the financial literacy of youth

This innovative programme did a fresh set of rounds in provincial schools islandwide during the year, and once again brought to the forefront the volunteering spirit of Allianz Lanka staff. Highlights in the year included conducting of the MFC programme at Anuruddha Central College, Wennappuwa, on 27 January 2017. The programme was well received, with more than 70 A/Level students from the commerce, science, art and mathematics streams of the school participating. The programme was conducted by Regional Manager of the Kalutara Region - Sanath Weerasinghe, Senior Executive of Market Management - Rienzie De Silva, Branch-in-Charge of Wennappuwa - Vinod Sameera and Junior Sales Executive Kasun Dewage.

Next on the list of schools was Kalutara Maha Vidyalaya conducted on 28 June, which had more than 150 enthusiastic participants. Sanath Weerasinghe and Rienzie De Silva were again involved in conducting the programme and were joined by Manager Training Dulari Fernando and Executive, GI Sales Administration, Anushi Ishara. The programme was organised by the Kalutara Branch.

The young participants as well as teachers and parents expressed their appreciation of the programme's content and methods of instruction that promoted memory retention and practice. They confirmed the programme's efficacy in teaching smart financial management to youth on the threshold of life. The programme equips youth with the tools necessary to meet the challenges of prioritising their needs over wants as they enter a consumerist society and are called upon to make well thought out purchasing decisions.

This global CSR initiative was first introduced in Germany in 2010 by parent company Allianz SE. The programme was brought to Sri Lanka in November 2013 and recognised as a pioneering initiative. It was awarded in the Best Sustainability Project category by the prestigious National Chamber of Commerce (NCC).

Allianz Junior Football Camp (AJFC)

Helping talented young footballers achieve a winning mindset

The final interviews for selecting the participants in the Allianz Junior Football Camp were held at the Allianz Head Office on 1 July. Applications go through a careful screening process that comprises a series of interviews. Of the total of over 600 applications received, 500 young candidates were called for the first round of interviews held at 10 regional offices across the country, out of which 300 were selected for the next round. Of these 300 applicants, 30 were shortlisted at the head office interviews, based on the marks obtained for the written test as well as on their achievements and responses at the interviews held at regional level. The final shortlist of 30 candidates were interviewed and assessed by the senior management of Allianz Lanka out of which five were selected for the final round, based on their personality, attitude, communication skills, achievements and answers at the previous interviews.

Two talented young football players, Chamath Kodithuwakku from Nalanda College, Colombo, and Jehan Atapattu from St. Thomas' College, Mount Lavinia were the lucky finalists and participated in the Allianz Junior Football Camp 2017. Allianz hosted the 9th International Allianz Junior Football Asia in Bali, Indonesia from 31 July to 4 August, and in Munich, Germany from 17 to 22 August. Both youth participated in the Asia Camp in Bali, Indonesia and one will be provided with the opportunity to participate in the Munich Camp, based on their performance at the Asian camp.

Jehan also received the coveted Good Sportsmanship Award. This award provides him with the rare and much sought- after opportunity to undergo a week-long training in football at the prestigious Aspire Academy in Doha, Qatar. He competed with 48 other candidates from China, Malaysia, Indonesia, Laos, Philippines, Sri Lanka, Singapore and Thailand to win this privilege by displaying the qualities of good sportsmanship both on and off the field during his time with AJFC Asia. The selection committee was of the opinion that Jehan showed compassion, respect, love, enlightenment, balance, and joy during the camp, qualities that complemented his already exceptional football skills. These are also the qualities that promote the spirit of good sportsmanship which is the essence of the AJFC programme.

AJFC provides school- going football enthusiasts between 14 and 16 years of age with the opportunity of a lifetime to meet the stars of FC Bayern Munich, enhance their game through professional football practices with youth coaches of the club, and watch FC Bayern Munich play live in the Allianz Arena, an opportunity rarely afforded to even the most loyal football fans the world over.

Extending support for Paralympics in Sri Lanka

Allianz Lanka extended its support to the Sri Lankan Paralympic team by another two years. Allianz has been a partner of the International Paralympic Committee (IPC) since 2006 and became its first International Partner in 2011. Allianz Lanka has partnered with the Sri Lankan team since 2013, with financial and technical support for the para athletes. The new sponsorship agreement was signed at the Allianz Lanka Head Office in Colombo by Managing Director Allianz Lanka, Surekha Alles and President, National Paralympic Committee, U.R. Rodrigo, on 3 August. Priyantha Peiris (NPC), Brigadier Rajitha Ampemohotti (NPC) and the Allianz Lanka management were also present.

Commenting on the strong partnership, Surekha Alles said, "Allianz is committed to promoting inclusion, diversity, and excellence, both in the workplace and in the world of competitive sports. And through this partnership, we support the athletes' passion for what they do, their ambitions to achieve their goals and their remarkable ability to believe in themselves, which mirror Allianz's own values."

Protecting lives by creating awareness of unprotected railway crossings

The year saw Allianz Lanka redoubling efforts to increase road safety awareness among the general public by promoting safe travel by railway. On 4 August, the Company joined hands with the National Council for Road Safety to deploy warning signs at all unprotected railway crossings around the island. A set of three signs will be erected at intervals of 50 metres on either side of these crossings to warn drivers and pedestrians of the prospect of an oncoming train.

A steady rise in the number of accidents at unprotected railway crossings prompted Allianz Lanka to step in to protect the lives of the people. The current year alone recorded 256 casualties and 180 deaths related to accidents at railway crossings.

The first set of signboards was commissioned at the Narahenpita Railway Station in October 2017 and the second, at Pannipitiya the following month. The sign boards were commissioned at Narahenpita under the auspices of Minister of Transport and Civil Aviation, Nimal Siripala De Silva. Speaking at the event, the Minister expressed his concern about the rising numbers of accidents at

Allianz Sustainability contd.

railway crossings, and commended Allianz Lanka and the National Council for Road Safety for this initiative that would help save lives.

Allianz Lanka Managing Director, Surekha Alles responded, "As a responsible insurer, we believe that we need to go beyond standing by our policyholders during trying times. We must collaborate with all stakeholders and play an active role in raising awareness of how a little vigilance and a few simple precautions could help avoid untoward incidents. We are inspired by the work of the National Council for Road Safety and are gratified to partner with them on this initiative."

Chairman, National Council for Road Safety, Dr. Sisira Kodagoda said, "our Council strives to create a safer road environment for all Sri Lankans. We are concerned about the rising incidents of railroad-related accidents and have stepped up our efforts to make railroads safer, especially at crossings. We thank Allianz Lanka for offering their assistance. As a company that is in the business of protecting people, they share our concern for safety."

This is one of many Allianz Lanka programmes that promote road safety. Earlier this year, the Company set up several signboards on major roads leading in and out of Nuwara Eliya to warn drivers of accident- prone zones and other dangers on the road.

Rewarding Grade 5 exam excellence with Allianz *Sisu Diriya* scholarships

Allianz Lanka awarded scholarships under the *Sisu Diriya* scholarship programme to two students who excelled in the Grade 5 examination. The scholarship is awarded to the children of Allianz Life policyholders who demonstrate outstanding performance at the examination.

The scholarships were presented to Ananthieka Udayakumar who received the highest score in the Jaffna district and Theshani Hiranya who ranked second in the Badulla district, by Managing Director Surekha Alles who said, "At Allianz, we strive to give our policyholders and their loved ones the impetus to move forward in their business and personal endeavours, irrespective of what their goals might be. We understand the value of education in helping them succeed and created the Allianz Sisu Diriya scholarship in Sri Lanka. We commend Ananthieka and Theshani for their outstanding performance and are delighted to stand with them throughout their school lives by providing them with this scholarship."

The two young students will receive a monthly stipend from Grade 5 up until they sit for their A/L examination. This is the only scholarship programme that supports the winners throughout their school careers whereas most other scholarships provide one-off payments only.

The programme is being held for the third consecutive year and was initiated to mark Allianz SE's 125th anniversary in 2015.

Cutting Edge Technology

Allianz Lanka brings customer experience into the digital age with technology that is shaping the Company's future

The Internet of Things, artificial intelligence, Big Data, Blockcshain, digital transformation technologies, call it what you may, digitalisation is altering the landscape of the future at breakneck speed and has given the contemporary world a number of new buzzwords. The stage is set for the Age of Disruption and all forward-thinking companies are sprinting to star in the lead.

Digitalisation calls for the radical transformation of a business and a renewed focus on the entire customer experience. A major part of this transformation lies in re-aligning business models by integrating the digital strategy with the company's overall strategy and aligning people, processes and culture to focus on the organisation's long-term digital success.

Allianz has already established the foundation required for the digital transformation of the business. Digitalisation has been identified as one of the five pillars that build the Group's Renewal Agenda, the new business model that drives growth with strategies designed to leverage Group strengths to meet market challenges. The Renewal Agenda fully supports the Allianz goal of becoming a 'digital by default' business and facilitates creation of a strong digital infrastructure to cater to the exacting needs of the emerging millennial market.

The Group is now in the process of transforming its digital architecture and works on digital platforms that enable Allianz to deliver projects that are larger and more complex at a faster pace. These platforms have the capability to increase automation, improve consistency and hasten delivery of innovative software applications.

What exactly does digitalisation mean for a globally affiliated insurer like Allianz Lanka and how does it benefit customers?

"Digitalisation has been changing customer expectations and behavior dramatically," explains Allianz Lanka MD Surekha Alles, "Customers apply their experience with other sectors to insurance as well: if they are able to access the products and services of other industries via their mobile devices, they expect mobile access to insurance products and services. I am delighted to say that Allianz is meeting their expectations. Digitalisation is enabling Allianz Lanka, too, to provide a seamless customer experience, from getting a quote to obtaining the policy, right down to processing their claims. Digitalisation also gives us the competitive advantage by enabling us to do things better, faster, and cheaper than our competition."

Digitalisation is changing customer interfaces in the Company. Although it continues to offer its products in traditional ways, namely through agents, intermediaries and brokers, it is now increasingly offering them via digital platforms as well. Today, the company uses a range of hybrid interfaces which are a combination of personal contact and purely digital communication.

Several apps and software solutions were developed during the current year to take forward the Company's focus on digitalisation.

Robotisation

The year was a memorable one for Allianz Lanka with many milestones in the IT arena, robotisation was one such landmark achievement. The Robotic Process Automation (RPA) project was conceived inhouse and bot 'Harli' was developed by an in-house team of software developers. The bot is now functioning as a virtual assistant and is taking over the routine and tedious functions of

many operational areas. The bot emulates a human computer operator and is carrying out monotonous data entry functions, and is also active in other routine areas of business processes that include validations and execution of transactions. This frees employees to work on tasks that require their individuality and creativity that automation is unable to provide.

Robotisation of the Company is already showing positive results in terms of improved process improvements and enhanced efficiency and productivity.

Allianz 3D App Digital Garage App

This is another remarkable invention that enhances the customer experience and saves policyholders considerable time and effort by streamlining the entire claims process while making it completely paperless at the same time.

The app has been designed for the motor customer and is rewriting the rules of accident damage assessment in the local industry by enabling customers to assess the extent of the damage themselves with high accuracy. All they need do is photograph their vehicle using the app, mark the damaged area on its 3D image and share the images with Allianz for easy assessments and claim settlement. The information provided is then followed up by the Company's Claims department and an SMS update on the status of the application is sent to the policyholder. Once an agreement has been reached on the amount offered as settlement, the funds are transferred to the policyholder's bank account on the next working day.

"We continue to harness the power of technology to delight our customers. This mobile-based assessment application is set to transform Sri Lanka's motor insurance landscape, explained General Manager Sales and Distribution – P&C, Dennis Hewagama, "It eliminates the stressful wait for the assessor to arrive at the scene of the accident to evaluate the damage while the damaged vehicle obstructs the road. Having completed the simple process enabled by the app, the customer can immediately move the vehicle from the spot and continue with their daily activities."

The revolutionary app is co-branded with Solera Audatex, a global provider of claims solutions. Customers can download and install the Allianz 3D Solera App directly from the Apple App Store, the Google Play Store or from the Allianz Lanka website. Policyholders can also download the app through the SMS notification they receive at the time of making a claim with the Allianz Call Centre. The app is presently at the pilot stage and can be accessed only by private motorcar owners between 6a.m. to 6p.m. daily.

Enhancements have also been made to the claim solution with CLMDriveSafe which fast tracks claims settlement while integrating with other supporting platforms.

AUSYS Solution

The AUSYS automated underwriting platform for Life solutions was also developed and implemented during the year. AUSYS is linked with Epos (Electronic point of sale) which contains the digital application and digital signature and designed to support all the digital insurance applications of Allianz's 'digital advisors' who transact business on tablets and palm held devices. It uses a rule-based underwriting engine that integrates with several portals such as the Allianz Advisor Arena - the portal dedicated to Allianz agents – Health Portal dedicated to hospitals, Partner Portal dedicated to financial institutions and enables sharing of the supporting documents related to underwriting, covering the entire spectrum of the underwriting value chain. The software has substantially reduced the turnaround time for Life applications and made the customer experience both speedy and smooth. Its process workflow, documentation capturing and archiving functions have significantly improved the productivity and efficiency of underwriting operations and the service provided by the advisors as well.

"Development of this platform has focused our efforts on adopting disruptive technologies that provide true customer centricity inline with the company's Renewal Agenda," said Deputy General Manager – IT, Upul Dissanayake, "AUSYS has greatly improved the sales and underwriting assessment process and reduced the waiting period for an underwriting decision to be given, from one to two days to just a few seconds."

Since implementation of AUSYS, the Company has experienced expanded distribution, increased advisor productivity and enhanced administrative efficiency, all of which have enabled Allianz Lanka to expand its capabilities to accept nearly 70% more new business. The Company is currently working to enhance the features of AUSYS to include online policy delivery.

The Company has designed other apps as well. The My-Arena Mobile App is a mobile app developed for the sales force which has a unique voice- activated ability to capture data, and facilitates The dashboard for advisors to monitor their performance.

Unify Share is another new solution that promotes real- time document uploading to enable Ausys to complete the assessment automatically. It has multiple features that enable the sales team to serve customers on their own premises and classifies the document category.

Manual underwriting systems and processes have myriad shortcomings, which can negatively affect profitability. These include delays and possible errors in the event of straight approvals and large volumes of information provided for manual review, inconsistencies across underwriting decisions, and the inability to meet the real-time demands of millennials and mobile banking channels. Manual approaches also have limited access to data and resources.

On the other hand, an automated approach promotes higher profitability by increasing straight through processing, reducing decisioning time and expanding the productivity of the advisors.

The figure 1.2 below shows the complete digital sales model implemented

Figure 1
Epos is the point of sale module designed for insurance advisors. Portfolio management, offer generations, digital proposal, digital signature and online quotations are the main features of the module. The working environment is online and all transactions are in real time.

"One of our digital initiatives is the automation of our new business processes using electronic policy data sent directly by our advisors via Point of Sale ePOS," said Senior Manager – Life Ruchera Perera. "This information is then integrated with the Automated Underwriting System (AUSYS) that gives the decision automatically. Thereafter the application will be converted to a policy through our Policy Administration System."
Unify Share is a feature included in the My Arena mobile app for advisors and has many components such as a sales dashboard and an online need analysis application. Unify Share is also a key component of the mobile app that serves transaction underwriting, servicing and claims electronic documentation.

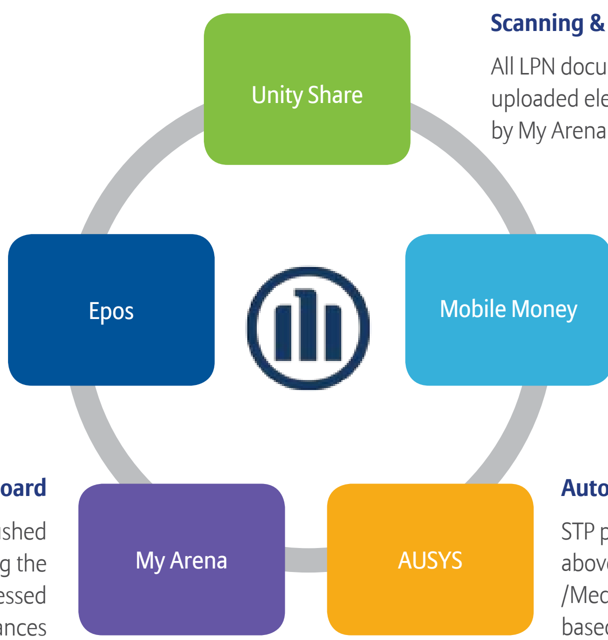
Mobile Money is also part of the digital process which enables advisors to collect premiums through payment facilities provided by leading mobile operators like Dialog who provide the services for EzCash and Mobitel who provide Mcash.

Ausys or the 'automated underwriting system' processes all digital applications as described earlier. The module is rule- based and is used in processing straight through underwriting decisions. The company is currently working on enhancing the services of AUSYS to process medical cases and also in increasing the adoption rates of tablets by the agents.

already mentioned about this.

DIGITAL ADVISOR SALES MODEL ALLIANZ SRI LANKA

Paperless Process



Scanning & Uploading

All LPN documents will be scanned and uploaded electronically via mobile supported by My Arena

Sales Interview

Starting from Needs Analysis to Electronic Point of Sale (Epos) which includes offering the digital application and Digital signature via Mobile

Payment Collection

Technology provided by the two leading mobile service providers where payment transaction occurs virtually with real-time updates

Dashboard

Real-time updates will be pushed to My Arena app regarding the status of the application processed including the dashboard for sales performances

Automated Underwriting

STP process carried out once the 3 criteria above are completed. System classifies NM /Medical cases separately and further rule based validations complete the analysis

Cutting Edge Technology contd.

EXTENDED DIGITAL SERVICE

Partner Portal

Portal designed for agents as well as for financial institutes to generate offers, confirming covers online linked to AUSYS.

AZ Partner Portal

Health Partner Portal

Allianz Health Partner Portal

Connects agents, hospitals. Doctors, Reinsurers and EVO to complete transactions which is synched to AUSYS

The portal that gives self subscribed services to customers connecting them with their policies where they will be allowed to manage the policies.

Allianz MS MYSPACE

assist america SMO PORTAL

Second Medical Opinion

A value added service to customers via Myspace.

Figure 2

Allianz Lanka provides a host of connected services that increase the user experience for clients as well as partners and substantially augments the value additions offered by the Company.

Allianz Partner Portal is a real- time platform that enables both the Company and financial institutions such as banks to work in tandem and is the only portal available in the industry. The portal enables these financial institutions to generate quotes for loan policies, confirm covers and manage loan policy portfolio. The portal also enables financial institutions to deliver unmatched client services by providing the fastest turnaround time in the market.

Health Partner Portal is another first of its kind which enables doctors, laboratories, hospitals, customers, advisors, reinsurers to work with the Company real-time on a single platform. Services provided include online appointments for customers to take medical tests, real- time uploads of medical results, review of the test results by the doctors with their recommendations, client admissions to hospitals, online review of medical bills and reports, confirmation on discharges and online case assessments by the reinsures. The portal is synched with Ausys where the assessment of the case will be reviewed

Allianz My Space – This portal is designed to enable all policyholders to access self- subscribed services. The portal allows customers to view their policies, make adjustments to policies, request for services and manage their policies whenever the need arises.

SMO Portal. The Second Medical Opinion portal goes as the “Allianz Virtual Doctor” and is another innovation introduced as a value addition to all Life policyholders. Policyholders can now get a Second Opinion on grave medical conditions such as diseases,illnesses or surgeries at no additional cost and can request an unlimited number of consultations with specialists in world-class medical institutions. The services will also not have any waiting periods, irrespective of the complexity of the medical issue which could even be a pre-existing health concern. The portal is unique in that it eliminates the need for customers to stand in a queue, pay consultation fees or waste time, money and effort in searching for suitable doctors.

The many innovative software solutions designed by the Company won Allianz Lanka outstanding performance recognition in the ET-Now BFSI Awards 2018, India. Upul Dissanayake – DGM, Information Technology, was recognised as the innovative leader of the year, and Allianz Insurance Lanka was adjudged Innovative General Insurer of the Year,

The ET- Now BFSI Awards recognise and reward the best performers, both professionals in financial institutions, for proactively adopting emerging global technologies to meet the rising challenges faced by the industry. The awards consider strategy, security, customer service and future technological challenges and innovations.

As the insurance industry becomes more competitive and moves faster, it has become imperative for insurers to speedily respond to customer demands and more effectively engage them at every touchpoint in their lives. Digitalisation is the answer and Allianz is in the vanguard of this transformation. Digitalisation is providing Allianz with a resilient, secure and efficient infrastructure backbone as well as ensuring new technologies and new channels that are being leveraged to design, distribute and service Allianz products.

Human Capital Report

Talent is recognised as being a key driver of innovation, growth, a business' ability to stay competitive.

As markets evolve and new and more complex risks and opportunities emerge, talent is recognised as being a key driver of innovation, growth and a business' ability to stay competitive. Substantial resources are now being expended to build the talent strategy that puts the best people in the right places that ensure organisational success.

The Allianz Approach

Allianz Lanka formulates our annual action plan in anticipation of the changing dynamics of recruitment and retention, and has in place a people strategy that follows the human resources strategy of our parent Allianz SE.

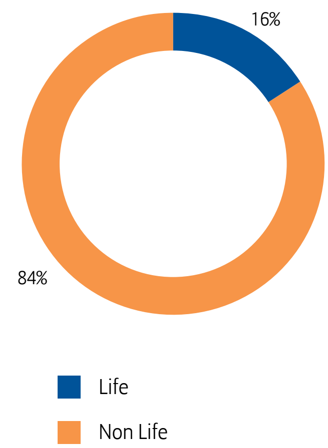
We partner our people to achieve sustainable success by equipping them with the resources that combine personal and professional development with business know-how. This equips them with the tools that ensure high performance and the ability to respond to fast-changing environments. Investing in our people has increased productivity, forged loyalty and improved quality, the benefits of which have accrued to the Company.

The Group promotes a diversity- based culture on the premise that ideas from varied backgrounds inspire the power to innovate. Allianz is committed to promoting gender equality and in 2017, women accounted for 23% of Allianz Board members, 28% of executive positions and 52% of the total workforce in Allianz offices worldwide. Allianz also ranked in the top 20 of 6,000 companies assessed in the Thomson Reuters Diversity & Inclusion Index in 2017.

Staff Composition and Movements

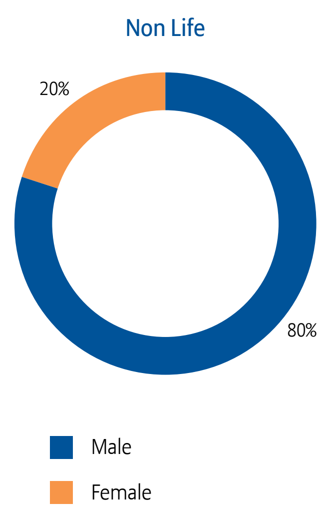
As at 31 December 2017, Allianz Insurance Lanka Ltd. had 503 employees and Allianz Life Insurance Lanka Ltd. had 96 employees.

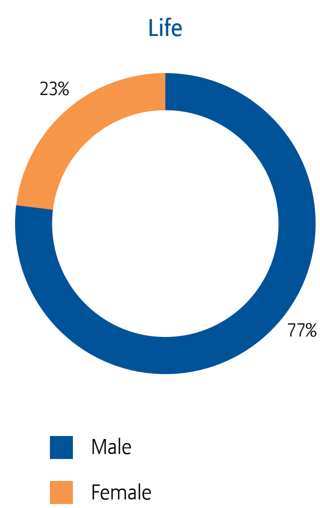
Staff Composition 2017



Male / Female Distribution

Description	Non Life	Life	Total
Male	400	74	474
Female	103	22	125
Total	503	96	599





Human Capital Report contd.

Company Wise

Description	Non Life	Life
Average Age	33.72	38.60
Average Tenure	2.64	2.76

Gender wise

Description	Non Life	Life
Average Tenure	2.64	2.76
Tenure Age Women	2.78	4.53
Tenure Age Men	2.60	2.23

Age Group

Age Group	Non Life Company		Life Company	
	Male	Female	Male	Female
<25	60	14	3	1
25-29	89	32	6	7
30-34	94	21	18	4
35-39	75	12	6	5
40-44	42	7	16	4
45-49	24	5	14	0
50-54	11	5	7	2
55-59	3	5	3	0
60-64	1	2	0	0
65>	1	0	0	0
Total	400	103	73	23

Attrition rate

	Non Life	Life
Average staff	531	92
Resignations only	170	57
Attrition rate	32.02%	61.96%

Human Resources Strategy

Allianz follows a corporate strategy initiative known as the 'Renewal Agenda' which identifies the Group's future direction and sets out the ways and means by which the Company would strengthen performance and progress organisational health. The Renewal Agenda builds on our strengths and fortifies our leadership position through focus on five fields of action, namely True Customer Centricity, Digital by Default, Technical Excellence, Growth Engines and Inclusive Meritocracy, which have been designed to serve our stakeholders more effectively.

The Group Human Resources Strategy defines a framework for Inclusive Meritocracy, which lays the cultural foundation for the success of the Renewal Agenda by reinforcing a culture in which people and performance matter. This is followed through by practicing the four people attributes, namely Customer and Market Excellence, Collaborate Leadership, Trust and Entrepreneurship, which have three target behaviours that benchmark each attribute. These attributes have been put in place to create a workforce that is agile, innovative and daring, and are used to measure the annual performance of all employees and obtain their feedback.

Allianz strives to live by the People Attributes believing that they hold the key to attaining the Group's ambition as an employer, namely, to shape Allianz into 'the HOME for those who DARE'. All recruitment, development, promotion and rewards are provided only to those who practice the People Attributes throughout their career with the Group. Allianz has also developed smarter ways of rewarding ideas and performance to encourage these attributes and make the Company a great place to work. Open communication, collaboration across borders and diversity of minds is fostered with leadership trainings, a feedback culture and career mobility programmes to enable this transformation.

An Allianz Global Initiative introduced the Employee Value Proposition (EVP) that showcases Allianz's strength as a recruiter and retainer of exceptional talent. A new global Performance Management system is also being introduced, and leadership will be established as a profession and emphasised throughout the employee's career.

Directors Award

'Entrepreneurship' that embraces innovation and a culture that allows decision-making without fear of retribution' – target behaviour in the 3rd People Attribute

This award subscribes to the Allianz strategy of recognising ideas and performance and follows the Allianz precept of encouraging innovation and daring. This much- coveted award is presented annually to non sales staff, in recognition of outstanding contributions that extend beyond their job descriptions. Any staff could nominate their colleagues for the award, many nominations were received in 2017.

The Directors Award is presented for achievements that exceed work expectations, as well as for demonstrating an exemplary work ethic and sales focus. The Directors Award 2016 was won by

Ruchera Perera – Senior Manager of the Life Technical Department for planning, implementing and branding the Digital Advisor Model which supports the Renewal Agenda lever of 'Digital by Default'. Over 35% of advisors presently use this platform. Ruchera has also made a key contribution to the Health Care partner portal which been completed, while the Client portal and the Auto underwriting projects are being developed. He also introduced the M Cash facility as a payment option and was involved in the Tab Training process which benefitted sales agents immensely.

In addition to his many innovations, Ruchera involved himself in organising the sports day for the Life team, held in 2016. He also supervised the Nugegoda branch Life operation in the absence of a Sales Head for 9 months during 2016, and drove the Life sales team to achieve their KPIs.

The year saw two joint runners-up for the award as well, one of whom was Upul Dissanayake – Assistant General Manager of the Information Technology department who introduced robotisation for automating manual processes that helped increase efficiency and productivity. Indika Kumarasinghe - Senior Manager of the Information Technology department, the other joint runner up, was recognised for his exceptional contribution towards improving the speed of DMS by adding new features, as well as for developing the shop insurance, online travel insurance and non motor easy quote systems.

Chamal Samarawickrama - Assistant Manager of the Re-Insurance department and Niroshana Ranaweera - Senior Executive of the Motor Underwriting department received appreciation awards.

Staff Engagement

'Collaborative Leadership' that develops people, provides feedback and cares for employee well-being – target behaviour in the 2nd People Attribute

The culture of Inclusive Meritocracy in which people and performance matter, is brought to the fore in this initiative. The company works on the premise that a strong leadership culture builds engaged employees and improves employee satisfaction, which in turn enhances employee performance and has a positive impact on the overall profitability of the Company.

Human Capital Report contd.

The Allianz Engagement Survey was introduced for the 11th consecutive year and has been an invaluable platform for voicing employee's opinions and speedily addressing areas of concern. The survey collects feedback annually from employees, managers and board members to measure their overall level of engagement throughout the Company. More than 125,000 employees throughout the Allianz Group were invited to participate in the survey recently concluded. Allianz Lanka had a staff participation of 79%.

The survey assesses three key areas which were evaluated on 12 sub-parameters:

1. Employee Engagement Index (EEI) which measures employee satisfaction, loyalty, advocacy and pride in their organisation.
2. Inclusive Meritocracy Index (IMIX) measures organisational progress in establishing a culture of Inclusive Meritocracy.
3. The Work Well Index (WWi) is a scientifically designed index that measures the stress levels of employees and comprises ten equally weighted areas that cause work-related strain. It measures demands, rewards, control, support, and social capital and a higher index score is associated with better employee health and productivity.

	2017 rating	2016 Rating
Employee Engagement Index (EEI)	74%	79%
Inclusive Meritocracy Index (IMIX)	76%	74%
Work Well Index (WWi)	73%	73%

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 in the Renewal Agenda, define the approach taken to achieve business objectives.

Training

Fostering state- of- the- art technical / operational knowledge – target behaviour in the 1st People Attribute

Professional staff as at 21 December

	Total Employee Cadre	No of Professionals
Life UW/ claims	13	4
Life sales and distribution	56	12
Non Life UW/ claims	144	45
Non Life sales and distribution	294	39
Finance	28	6
Support Services	64	27
Total	599	133

Allianz Lanka carried out several local training and development initiatives locally and overseas which developed a wide cross section of staff in job-related as well as soft skills during the year.

Selected management grade staff were nominated for training programmes, conferences, meetings and seminars organised and conducted by the Allianz Head Office in Germany and Regional Office in Singapore. In addition to the routine induction and familiarisation programmes for new recruits, we also conducted regular trainings on technical and soft skills development. These programmes were for the distribution management team, sales staff and operational support staff, and were conducted by the respective technical, HR, Sales and T&D departments and other support service units.

Training Cost

Foreign training cost – Rs. 7,499,244
Local training cost – Rs. 1,054,158
Total Training Cost – Rs. 8,553,402

Our staff also attended training programmes, conference, meetings and seminars related to their fields of work which were conducted at Allianz offices in the Asia Pacific region and Europe, organized by the Group and the Regional office. This has provided participants with substantial exposure since it facilitated the exchange of knowledge with Allianz colleagues from other Allianz Operational Entities (OEs). A total of 30 employees participated in 56 such programmes held during 2017.

Training Highlights

Workshops on Decision Making and Negotiation skills

Two workshops were conducted by trainer Professor Errol Weerasinghe to enhance the soft skills of senior management staff. This was the first instance that the Company provided training on these two subject areas.

Customer Service Workshops

In line with the People Attributes of the Renewal Agenda, a series of customer service workshops titled "Passion to Delight" were conducted by insurance and customer service trainer Suranjith Godagama for Head Office staff.

Action plans were also prepared at department level to improve customer service in departments.

Asia Pacific Talent Pool (APTP)

'Collaborative Leadership' that empowers the team and provides purpose and direction – target behaviour in the 2nd People Attribute

The Asia Pacific Talent Pool which was formed in May 2016 was continued. Several webinar and knowledge- sharing sessions on various topics were conducted for the members by the Regional HR team.

By living the people Attributes we shape 'The home for those who dare.'

In Oct 2017, the talent pool was reviewed regionally and re-launched for 2017/2018. Allianz Lanka also reviewed the talent pool members and new members were appointed based on their performance. The pool has 43 employees from Allianz Lanka this year, which comprises high-performing middle management and senior staff from grades ranging from executive to general manager.

This select team is 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 resources through webinars conducted by the Region.

Other Initiatives and Activities

Employee Value Proposition

As an employer branding activity, a staff photo shoot was conducted to promote the Allianz Employee Value Proposition "Home for those Dare". This had high participation from Head Office staff.

Career Fairs

Allianz HR participated in two career fairs conducted by the National Youth Council in Maharagama on the 4 December and ICBT Campus Nugegoda on 7 December. The fairs were a talent search and also served to create awareness among the youth, of Allianz Lanka's potential as a future employer.

Students networked with the Insurance professionals and learned about job and internship prospects at Allianz Lanka. Allianz representatives conducted Q & A sessions that provided the students with a background knowledge of the Company and the career opportunities available. Mock Interview sessions were also held to

Human Capital Report contd.

enable students to experience the interview process carried out by the Company. Over 50 students and potential job seekers attended the Career Fair at ICBT and provided the Allianz Lanka staff with about 150 Curriculum Vitae. A similar quantity of CVs were also received at the career fair held at the National Youth Council in Maharagama which was attended by 200 young participants.

Career Guidance Workshops for Job Seekers and School Leavers

Allianz conducted a one- day career guidance workshop for school leaver and job seekers to promote the Alllianz brand and attract suitable candidates for employment. Over 25 job seekers and school leavers attended.

Promoting Work – Life Balance

Several initiatives were also organised during the year to enhance the work- life balance and promote teamwork and fellowship. The recreation club established last year enables gym, badminton and pool membership at the St. Joseph's College Sports Complex in Darley Road, Colombo.

Please see Allianz Moments on page 54 for more employee initiatives organised during the year, which include awards and quiz programmes, sports events, the annual dinner dance and seasonal programmes.

Allianz believes that our people are the foundation of the Company's development and progress, and the cornerstone of its success. We will continue to equip our teams with the most contemporary tools needed to respond effectively to new market movements and stay competitive in the rapidly evolving business landscape.

We are confident that our strategy of Inclusive Meritocracy will succeed in its aim of keeping our employees happy, fulfilled and productive, which will pave the way for their long-term commitment with Allianz.

We're

IN novative

We've set industry benchmarks that have raised the bar in professionalism and met contemporary market requirements in service delivery, customised product offerings and digital media platforms.

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 2017.

The Audited Financial Statements were approved by the Board of Directors on 25 June 2018.

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 30 to 32. The future developments of the Company are presented in the Review of the Managing Director on pages 19 to 21. These reports, together with the Audited Financial Statements, reflect the state of affairs of the Company.

Corporate Governance

The Board of Directors is committed to maintaining an effective corporate governance structure and process and best practices on corporate governance. The 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 issue 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 that risk management and internal controls are integral to the management of the Company and its business processes.

The Allianz Group has put in place a comprehensive framework that ensures risks are properly identified, analysed and evaluated. The continuous review of 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 41 to 44.

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 76 to 117, and the Auditors' Report on the Financial Statements is provided on page 75 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 2017 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.

Operating Results

GWP grew significantly by 32 % to Rs. 6,021 million, from Rs. 4,576 million in 2017.

The Company has recorded Rs. 184 million operating profit which increased by Rs. 60 million mainly due to an increase in underwriting profit and investment income of Rs. 74 million.

Financial Results

The Company recorded a net profit of Rs. 132.5 million (2016: Rs. 23.7 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. The investments are closely monitored and reviewed by the Finance and Investment Committee (FiCo).

Directors Report contd.

Earnings Summary

For the year ended 31 December	2017 Rs. '000
Gross Written Premium (GWP)	
Accident	178,493
Fire	1,588,586
Marine	151,514
Medical	1,248,629
Miscellaneous	444,333
Motor	2,409,335
Total GWP	6,020,890
Net Earned Premium	3,413,816
Underwriting Profit / (Loss)	(163,940)
Profit Before Taxation	184,346
Taxation	(51,753)
Profit After Taxation	132,593
Profit brought forward from previous year	522,117
Dividend Paid	-
Profit available for appropriation	654,710

Asset allocation by class

As at 31 December	2017 Rs. '000	%	2016 Rs. '000	%
Sri Lanka government securities	2,928,890	90	1,918,290	96
Fixed deposits	79,411	6	48,015	2
Corporate debentures	15,423	1	16.185	1
Unit trusts	26,281	3	23,479	1
Total	3,050,035	100	2,005,969	100

Property and Equipment

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

Solvency

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 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 2017.

For the year ended 31 December	2017 Rs.'000	2016 Rs.'000
Total Available Capital (TAC)	1,263,160	716,952
Risk Based Capital Requirement (RCR)	883,784	561,811
Risk Based Capital Adequacy Ratio (CAR)	1.43	1.28

Dividends and Bonus Issue

There is 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 a 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 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. We believe we can create real competitive advantage by building and maintaining a high-performance culture in the Company.

Stated Capital and Shareholders' Funds

In compliance with the Companies Act No. 07 of 2007, the Financial Statements reflect the Stated Capital of the Company. The Stated Capital is the total of all amounts received by the Company in respect of the Issued Share Capital. The Stated Capital of the Company as at 31 December 2017 was Rs. 905.5 million (2016: Rs. 500 million). The increase in Stated Capital is due to new capital infusion.

The total equity of the Company as at 31 December 2017 amounted to Rs. 1,574 million (2015: Rs. 973 million). The movement of equity is shown in the Statement of Changes in Equity on page 86.

Directorate

The Board consist of three members, and the information on the Directors of the Company is available in the Directors, profile on pages 27 to 29.

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 28.2 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 minimize 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 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 31 to the Financial Statements in page 106.

Auditors

The Financial Statements for the year ended 31 December 2017 have been audited by Messrs. KPMG (Chartered Accountants), who will retire from office at the end of this Annual General Meeting. As per the Allianz group decision and the governance policy PricewaterhouseCoopers (Chartered Accountants) will be appointed as the auditors of the company until the next Annual General Meeting at remuneration to be agreed upon.

Details of their remuneration are given in Note 28.2 to the Financial Statements. 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

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

25th June 2018

Certification of Incurred But Not Reported (IBNR) Reserve

24 June 2018

To the shareholders of Allianz Insurance Lanka Ltd

Allianz Insurance Lanka Ltd 31 December 2017 Net IBNR and LAT Certification

We hereby certify that the IBNR provision (inclusive of CHE) of LKR 133,696,920 is adequate in relation to the Claim Liability of Allianz Insurance Lanka Ltd as at 31 December 2017, 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 2017, 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 2,638,057,499 set by the Company, net of reinsurance, is adequate in relation to the unexpired risks of Allianz Insurance Lanka Ltd as at 31 December 2017, 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

For and on behalf of NMG Consulting
Dated 24 June 2018

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

Independent Auditors' Report

KPMG

KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
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To the Shareholders of ALLIANZ INSURANCE LANKA LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of Allianz Insurance Lanka Limited ("the Company"), which comprise the statement of financial position as at December 31, 2017, 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, 2017, 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, 2017, 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 Regulatory Commission of Sri Lanka, so as to clearly indicate the true and fair view of the financial position of the Company.

KPMG

CHARTERED ACCOUNTANTS
Colombo
25 June, 2018

KPMG, a Sri Lankan partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

M.R. Mihular FCA	P.Y.S. Perera FCA	C.P. Jayatilake FCA
T.J.S. Rajakarier FCA	W.W.J.C. Perera FCA	Ms. S. Joseph FCA
Ms. S.M.B. Jayasekara ACA	W.K.D.C Abeyrathne FCA	S.T.D.L. Perera FCA
G.A.U. Karunaratne FCA	R.M.D.B. Rajapakse FCA	Ms. B.K.D.T.N. Rodrigo FCA
R.H. Rajan ACA	M.N.M. Shameel ACA	Ms. C.T.K.N. Perera ACA

Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA

Statement of Profit or Loss and Other Comprehensive Income

(All amounts in Sri Lanka Rupees Thousands)

For the year ended 31 December	Notes	2017 Rs.	2016 Rs.
Gross written premium	20.1	6,020,890	4,576,123
Premiums ceded to reinsurers		(1,341,405)	(1,470,225)
Compulsory cession to NITF		(382,363)	(289,328)
Net written premium	20.2	4,297,122	2,816,570
Net change in reserve for unearned premium		(883,306)	(416,019)
Net earned premium		3,413,816	2,400,551
Other revenue			
Investment income	21	284,182	210,611
Other operating revenue	22	64,104	50,434
		348,286	261,045
Total net revenue		3,762,102	2,661,596
Net insurance benefits and claims paid	23	(2,514,982)	(1,968,095)
Gross change in contract liabilities		(150,270)	(557,722)
Change in contract liabilities ceded to reinsurers		354,067	711,090
Net benefits and claims		(2,311,185)	(1,814,727)
Underwriting and net acquisition costs	24	(94,767)	49,085
Other operating and administrative expenses	25	(1,171,804)	(858,319)
Total benefits, claims and expenses		(1,266,571)	(809,234)
Profit before tax		184,346	37,635
Income tax expense	26	(51,753)	(13,933)
Profit for the year		132,593	23,702
Other comprehensive income			
Items that are or maybe reclassified to profit or loss			
Net change in fair value of available for sales financial assets		97,286	(31,195)
Net change in fair value of available for sales financial assets reclassified to profit or loss		(8,048)	(18,415)
Items that will not be reclassified to profit or loss			
Actuarial gain / (losses) on defined benefit obligations	18.1	(2,001)	(1,706)
Tax on Other Comprehensive Income	26.3	(24,426)	14,368
Total Other Comprehensive Income		62,811	(36,948)
Total comprehensive income for the year net of income tax		195,404	(13,246)
Earning per share - Basic	27	1.63	0.47

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

Statement of Financial Position

(All amounts in Sri Lanka Rupees Thousands)

As at 31 December,	Notes	2017 Rs.	2016 Rs.
Assets			
Financial Investments	5	3,050,035	2,005,969
Property, plant and equipment	6	90,794	105,704
Intangible assets	7	17,411	43,194
Reinsurance receivables	8	763,921	1,044,035
Premium receivables	9	2,440,764	1,573,724
Other receivables	10	64,297	57,858
Amounts due from related parties	11	27,184	498
Insurance contract - deferred expenses	12	303,085	208,380
Deferred tax assets	26.2	17,983	50,406
Cash and cash equivalents	13	128,959	121,294
Total assets		6,904,433	5,211,062
Equity and liabilities			
Equity			
Stated capital	14	905,500	500,000
Available for sale reserve	15	15,606	(48,646)
Retained earnings	16	653,269	522,117
Total equity		1,574,375	973,471
Liabilities			
Insurance contract liabilities	17	4,114,989	3,077,685
Reinsurance payables		492,249	716,432
Employee benefit obligations	18	24,852	17,801
Other payables	19	585,450	262,151
Bank overdraft		112,518	163,522
Total liabilities		5,330,058	4,237,591
Total equity and liabilities		6,904,433	5,211,062

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

25 June, 2018

Statement of Changes in Equity

(All amounts in Sri Lanka Rupees Thousands)

	Stated Capital Rs.	Available for Sale Investments Reserve Rs.	Retained Earnings Rs.	Total Equity Rs.
Balance as at 1 January 2016	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	-	(35,720)	22,474	(13,246)
Balance as at 31 December 2016	500,000	(48,646)	522,117	973,471
Balance as at 1 January 2017	**500,000**	**(48,646)**	**522,117**	**973,471**
Net profit for the year	-	-	132,593	132,593
Other comprehensive income, net of tax				
- Net change in fair value	-	97,286	-	97,286
- Net amount reclassified to profit or loss	-	(8,048)	-	(8,048)
- Actuarial gains / (losses)	-	-	(2,001)	(2,001)
- Deferred tax on actuarial gain/(losses)	-	-	560	560
- Deferred tax on change in fair value	-	(24,986)	-	(24,986)
Total comprehensive income	-	64,252	131,152	195,404
Transactions with owners of the Company				
Issue of Ordinary shares	405,500	-	-	405,500
Balance as at 31 December 2017	**905,500**	**15,606**	**653,269**	**1,574,375**

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,	2017 Rs.	2016 Rs.
Cash flow from operating activities		
Premium received from customers	5,153,850	4,538,840
Reinsurance premium paid	(1,947,951)	(1,695,785)
Claims paid	(2,639,742)	(3,682,599)
Reinsurance receipts in respects of claims	575,853	1,042,593
Cash paid to and behalf of employees	464,038	(343,676)
Operating cash payments	(1,232,304)	532,058
Cash inflow/ (out flow) from operating activities (note A)	373,743	391,431
Employees benefit paid	(1,012)	(294)
Net cash flow from operating activities	372,731	391,137
Cash flow from investing activities		
Acquisition of investments	(24,212,216)	(8,840,676)
Proceeds on disposal of investment	23,257,388	8,381,734
Acquisition of intangible assets	(5,693)	(38,255)
Acquisition of property and equipment	(43,223)	(52,610)
Interest income received	284,182	122,638
Net cash flow from investing activities	(719,562)	(427,169)
Net cash flow before financing activities	(346,831)	(36,032)
Cash flow from financing activities		
Share issue	405,500	-
Net cash flow from financing activities	405,500	-
Net increase / (decrease) in cash and cash equivalents (note B)	58,669	(36,032)

Notes to cash flow statement

A. Reconciliation of operating profit with cash flow from operating activities

Profit before taxation	184,346	37,635
Depreciation charge for the year	58,133	53,445
Provision for employee benefits	6,062	3,899
Amortisation of intangible assets	31,476	33,040
Interest and investment income	(284,182)	(210,611)
Provision for premium receivable	6,536	1,464
Increase in receivables	(653,750)	(481,139)
Increase in unearned premiums and deferred acquisition costs	771,620	442,773
Increase / (decrease) in claims provisions	170,979	548,832
Increase/ (decrease) in creditors and accruals	82,523	(37,906)
Cash inflow / (outflow) from operating activities	373,743	391,432
Employee benefit paid	(1,012)	(294)
Net cash inflow /(outflow) from operating activities	372,731	391,137

B. Net increase / (decrease) in cash and cash equivalents

Cash in hand and at bank	128,959	121,294
Bank overdraft	(112,518)	(163,522)
Net cash and cash equivalents closing balance	16,441	(42,228)
Net cash and cash equivalents opening balance	(42,228)	(6,196)
Net increase / (decrease) in cash and cash equivalents	58,669	(36,032)

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 20 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 Flows 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 authorisation of issue

The Financial Statements of Allianz Insurance Lanka Ltd for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the Board of Directors on 25 June 2018.

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 actuarial 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 26.2

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 a 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 very 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 utilised such tax losses to recognise deferred tax asset 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 utilise 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 are 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 the basis of 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 the functional currency at the rates of exchange prevailing at the time of underwriting and revenue is recognised accordingly.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are 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 re-translation are recognised in the Statement of 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 where 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 balance sheet date.

Notes to the Financial Statements contd.

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 amortisation and accumulated impairment losses.

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

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 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 this 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 the 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 and Fittings	5 years
Motor vehicles	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 de-recognised on disposal or when no future economic benefits are expected from it. The gain or loss arising from the de-recognition of an item of property, plant and equipment is included in the Statement of Comprehensive Income when the item is de-recognised.

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 capitalisation, the remaining carrying amount of the previous cost of inspection is de-recognised.

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 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 generate cash inflows from continuous 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 recognises 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.

Notes to the Financial Statements contd.

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 is 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 amortised 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/de-recognise 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 unrealised gains or losses recognised in Other Comprehensive Income (OCI) in the available-for-sale reserve.

Interest earned whilst holding available-for-sale investments is reported as 'Interest 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 de-recognised, 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 amortised to the Statement of Comprehensive Income over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired then the amount recorded in equity is reclassified to the Statement of 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 amortised cost, using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium if any, on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in 'Investment Income' in the Statement of Comprehensive Income. Gains and losses are recognised in the Statement of Comprehensive Income when the investments are de-recognised or impaired, as well as through the amortisation process.

3.6.2 Non-derivative financial liabilities

The Company initially recognises 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 amortised cost using the effective interest method.

3.6.2.1 De-recognition

The Company derecognises 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 the Statement of Comprehensive Income.

The Company de-recognises 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 realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under SLAS, or for gains and losses arising from a group of similar transactions such as in the Company's trading activity.

3.6.3 Amortissed cost measurement

The amortised 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 amortisation 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 repackaging, or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in 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.

Notes to the Financial Statements contd.

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 3
Units Trusts		
Listed Units Trusts	Published Market Prices (VWA)	Level 1
Debentures		
Listed Debentures	Valued using the market yield	Level 2
Corporate Debt		
Listed instrument (Security)	Published Market Prices	Level 2
Fixed and Term Deposits		
Deposit < 1year	Cost plus interest	Level 3
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 amortised cost

For financial assets carried at amortised 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 amortised 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 amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the Statement of 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 amortised 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.

Notes to the Financial Statements contd.

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 payable

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 amortised 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.

Notes to the Financial Statements contd.

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 amortised over the period in which the related written premiums are earned.

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

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 realization 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 Flows 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. New standards, amendments and interpretations not yet adopted

The Institute of Chartered Accountants of Sri Lanka has issued the following standards which become effective for annual periods beginning after the current financial year. Accordingly these standards have not been applied in preparing theses Financial Statements and the Company plans to apply these standards on the respective effective dates. The Company is currently in the process of evaluating the potential effect of adoption of these standards and amendments on its Financial Statements. Such impact has not been quantified as at the year end. The Company will be adopting these standards as and when they become effective.

SLFRS 9 – Financial Instruments – effective for annual periods beginning on or after January 1, 2018

The final version of SLFRS 9 Financial Instruments that replaces LKAS 39 Financial Instruments: Recognition and Measurement and all previous versions of SLFRS 9. SLFRS 9 brings together all three aspects of the accounting for the financial instruments project: classification and measurement; impairment; and hedge accounting. SLFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Company plans to adopt the new standard on the required effective date. During 2017, the Company has performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Company in the future. Overall, the Company expects no significant impact on its assets, liabilities and equity.

Notes to the Financial Statements contd.

SLFRS 15 – Revenue from Contracts with Customers– effective for annual periods beginning on or after January 1, 2018

SLFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under SLFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Company expects no significant impact from the adoption of this standard.

SLFRS 16 – Leases – effective for annual periods beginning on or after January 1, 2019

SLFRS 16 replaces LKAS 17 Leases and related interpretations (IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). SLFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under LKAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under SLFRS 16 is substantially unchanged from the current requirements under LKAS 17. Lessors will continue to classify all leases using the same classification principle as in LKAS 17 and distinguish between two types of leases: operating and finance leases.

SLFRS 16 also requires lessees and lessors to make more extensive disclosures than under LKAS 17.

SLFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies SLFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

During 2018, the Company plans to assess the potential effect of SLFRS 16 on its consolidated Financial Statements.

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 analysing the movement in the interest rate-sensitive asset duration, the allocation to interest-rate sensitive assets, and the sensitivity of interest rate movements on the Solvency Margin. The report is reviewed by the local CRO and the Allianz Asia Pacific Risk Team.

b. Currency Risk

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

The Company's principal transactions are carried out in Sri Lankan Rupees and hence, its exposure to foreign exchange risk arises primarily with respect to the US Dollar and Euro denominated assets maintained in order to 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.

Notes to the Financial statements contd.

(All amounts in Sri Lanka Rupees Thousands)

The Company's Risk Management team assesses all foreseeable risks involved in its operations and develop and implement action plans to control those identified operational risks. These action plans recommended by the team are to manage the 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
- training 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,		2017		2016	
	Note	Cost of investment Rs.	Carrying value Rs.	Cost of investment Rs.	Carrying value Rs.
5. Financial Investments					
Available for sale investments	5.1	2,768,255	2,886,228	1,861,763	1,843,515
Loans and receivables	5.2	159,366	163,807	159,439	162,454
Total financial investments		**2,927,621**	**3,050,035**	**2,021,202**	**2,005,969**
5.1 Available for sale investments					
At fair value					
Treasury bonds		1,388,681	1,411,530	1,738,192	1,708,892
Treasury bills		1,340,356	1,432,994	90,571	94,959
Unit trust investments		26,218	26,281	20,000	23,479
Corporate debentures		13,000	15,423	13,000	16,185
		2,768,255	**2,886,228**	**1,861,763**	**1,843,515**
5.2 Loans and receivables					
Fixed deposit		75,000	79,441	45,000	48,015
Repo investments		84,366	84,366	114,439	114,439
		159,366	**163,807**	**159,439**	**162,454**

6. Property, plant and equipment (PPE)

	Office equipment Rs.	Furniture and fittings Rs.	Computer equipment Rs.	Motor vehicles Rs.	Total Rs.
Cost					
Balance as at 1 January 2017	49,107	90,563	154,570	10,057	304,297
Additions during the year	4,393	8,278	30,552	-	43,223
Balance as at 31 December 2017	53,500	98,841	185,122	10,057	347,520
Depreciation and impairment losses					
Balance as at 1 January 2017	38,279	50,354	103,508	6,452	198,593
Depreciation charge for the year	7,397	16,209	32,555	1,972	58,133
Balance as at 31 December 2017	45,676	66,563	136,063	8,424	256,726
Carrying amount					
- As at 31 December 2017	7,824	32,278	49,059	1,633	90,794
- As at 31 December 2016	10,828	40,209	51,062	3,605	105,704

6.1 Acquisition of PPE during the year

During 2017, the Company had acquired PPE to the aggregate value of Rs. 43.2 million (2016: 52.6 million).

6.2 Fully depreciated PPE in use

As at 31 December 2017 the Company has fully depreciated assets amounting to Rs. 242 million (2016: Rs. 205 million)

6.3 PPE pledge as security

No property, plant and equipment 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 that requires 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.

Notes to the Financial statements contd.

(All amounts in Sri Lanka Rupees Thousands)

As at 31 December,	2017 Rs.	2016 Rs.
7. Intangible assets		
Computer software		
Costs		
Balance as at 1 January	186,241	147,986
Acquisition during the year	5,693	38,255
Balance as at 31 December	191,934	186,241
Amortisation		
Balance as at 1 January	143,047	110,007
Amortisation for the year	31,476	33,040
Balance as at 31 December	174,523	143,047
Carrying amount as at 31 December	17,411	43,194

7.1 During the financial year, the Company acquired intangible assets (computer software) to the aggregate value of Rs. 5.7 million (2016: Rs. 38.2 million).

As at 31 December,	2017 Rs.	2016 Rs.
8. Reinsurance receivables		
Reinsurance receivable on outstanding claims (Note 8.1)	592,220	600,476
Reinsurance receivables on settled claims (Note 8.1)	171,701	443,559
	763,921	1,044,035

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,	2017 Rs.	2016 Rs.
9. Premium receivables		
Premium receivables	2,468,764	1,595,188
Less: Impairment on premium receivables	(28,000)	(21,464)
Premium receivable net of provision	2,440,764	1,573,724

9.1 Impairment losses on premium receivables

The Board of Directors has assessed the potential impairment loss of premium receivables as at 31 December 2017. 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,	2017 Rs.	2016 Rs.
10. Other receivables		
Other debtors and receivables	63,591	57,375
Staff loans and advances	706	483
	64,297	57,858
11. Amount due to/due from related parties		
Allianz Life Insurance Lanka Limited	27,184	498
	27,184	498
12. Insurance contract - deferred expenses		
Reserve for deferred acquisition costs		
Balance as at 1 January	208,380	163,756
Transferred during the year - Commission expenses	79,845	10,666
Transferred during the year - Leasing commission	14,860	33,958
Balance as at 31 December	303,085	208,380
13. Cash and cash equivalents		
Cash in hand	16,423	7,488
Cash at bank	112,536	113,806
	128,959	121,294

	No of shares outstanding	Amount
14. Stated capital		
Issued and fully as at 31 December	90,550,000	905,500

As at 31 December,	2017 Rs.	2016 Rs.
15. Available for sale investment reserve		
Balance as at 1 January	(48,646)	(12,926)
Net change in fair value of available for sale of financial assets	97,286	(31,195)
Net change in fair value of available for sale of financial assets reclassified to profit or loss	(8,048)	(18,415)
Deferred tax on change in fair value	(24,986)	13,890
Balance as at 31 December	15,606	(48,646)

Notes to the Financial statements contd.

(All amounts in Sri Lanka Rupees Thousands)

As at 31 December,	2017 Rs.	2016 Rs.
16. Retained earnings		
Balance as at 1 January	522,117	499,643
Profit for the year	132,593	23,702
Actuarial gains/(losses) on retirement benefit obligations	(2,001)	(1,706)
Deferred tax on actuarial gain/ (losses) on retained earnings	560	478
Balance as at 31 December	653,269	522,117

17. Insurance contract liabilities

Reserve for net unearned premium (note 17.1)	2,724,071	1,840,765
Reserve for deferred commission income (note 17.2)	217,071	234,052
Reserve for gross outstanding claims (note 17.3)	1,040,150	930,946
Reserve for IBNR (note 17.4)	133,697	71,922
	4,114,989	3,077,685

17.1 Reserve for net unearned premium

Reserve for unearned premium (note 17.1.1)	3,741,220	2,808,744
Reserve for unearned Reinsurance premium (note 17.1.2)	(1,017,149)	(967,979)
	2,724,071	1,840,765

17.1.1 Reserve for unearned premium

Balance as at 1 January	2,808,744	2,275,616
Premiums written in the year	6,020,890	4,576,123
Premiums earned during the year	(5,088,414)	(4,042,995)
Balance as at 31 December	3,741,220	2,808,744

17.1.2 Reserve for unearned reinsurance premium

Balance as at 1 January	967,979	850,869
Premiums ceded during the year	1,723,768	1,759,553
Premiums earned during the year	(1,674,598)	(1,642,443)
Balance as at 31 December	1,017,149	967,979

17.2 Reserve for deferred commission income

Balance as at 1 January	234,052	207,297
Transfers during the year	(16,981)	26,755
Balance as at 31 December	217,071	234,052

17.3 Reserve for gross claims outstanding

Balance as at 1 January	930,946	397,884
Transfers during the year	2,919,925	3,109,107
Claims approved during the year	(2,810,721)	(2,576,045)
Balance as at 31 December	1,040,150	930,946

As at 31 December,	2017 Rs.	2016 Rs.
17.4 Reserve for IBNR/IBNER		
Balance as at 1 January	71,922	56,152
Transfers during the year	61,775	15,770
Balance as at 31 December	133,697	71,922
17.5 Reconciliation between insurance liabilities and technical reserve		
Non Life insurance provision	3,811,904	2,869,306
Reinsurance receivables on claims outstanding	(592,220)	(600,476)
Technical reserve as at 31 December	3,219,684	2,268,830

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 technical reserve of Rs. 3,219 million as at 31 December 2017 includes the provision of IBNR claims of Rs. 134 million that has been certified by independent consultants actuaries, NMG Consulting Singapore, according to the actuaries certificate dated 27 April 2018. The IBNR reserve as at 31 December 2016 was Rs. 72 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 General Insurance contract liability was carried out by M/s NMG Consultants as at 31 December 2017 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 2017. No additional provision was required against the LAT as at 31 December 2017.

As at 31 December,	2017 Rs.	2016 Rs.
18. Employee benefits		
Balance as at 1 January	17,801	12,490
Current service cost	4,104	2,650
Interest cost	1,958	1,249
Actuarial (gain)/losses on defined benefit plan	2,001	1,706
Payments during the year	(1,012)	(294)
Balance as at 31 December	24,852	17,801

Notes to the Financial statements contd.

(All amounts in Sri Lanka Rupees Thousands)

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 2017. The actuarial valuation is performed on an annual basis. The liability is not externally funded.

As at 31 December,	2017 Rs.	2016 Rs.
18.1 Movement in the present value of the defined benefit obligations		
Opening net liability	17,801	12,490
Expense recognised in profit or loss	6,062	3,899
Expense/(income) recognised in the Other Comprehensive Income	2,001	1,706
Benefits paid	(1,012)	(294)
Closing net liability	24,852	17,801

18.2 Actuarial assumptions

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

a) Discount rate per annum	11%	11%
b) Future salary increment rate per annum	11%	11%
c) Normal retirement age	58 Years	58 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.

	2017 1% Increase	2016 1% Increase
Discount rate	22,340	16,085
Salary escalation rate	27,819	19,824

As at 31 December,	2017 Rs.	2016 Rs.
19. Other payables		
Other financial liabilities		
Agency commission payable	166,527	96,704
	166,527	96,704
Other non financial liabilities		
Government levies	196,171	103,963
Tax payable	8,201	7,601
Other creditors and accrued expenses	214,551	53,883
	418,923	165,447
Total other payables	585,450	262,151

For the year ended 31 December	2017 Rs.	2016 Rs.
20. Gross premiums on insurance contracts		
20.1 Gross written premium		
Accident	178,493	111,082
Fire	1,588,586	1,466,472
Marine	151,514	121,448
Medical	1,248,629	618,031
Miscellaneous	444,333	469,128
Motor	2,409,335	1,789,962
	6,020,890	4,576,123
Premium ceded to reinsurers	(1,341,405)	(1,470,225)
Compulsory cession to NITF	(382,363)	(289,328)
20.2 Net written premium	4,297,122	2,816,570

For the year ended 31 December	2017 Rs.	2016 Rs.
21. Investment income		
Interest and investment income from Available for Sale investments (Note 21.1)	265,807	185,585
Interest income from Loans and Receivable investments (Note 21.2)	10,013	6,885
Net realised gain on Available for Sale Investments	8,362	18,141
	284,182	210,611
21.1 Interest and investment income from available for sale investments		
Treasury Bonds	159,572	174,586
Treasury Bills	104,025	8,024
Quoted Debentures	2,210	2,210
Unit Trust	-	765
	265,807	185,585

Notes to the Financial statements contd.

(All amounts in Sri Lanka Rupees Thousands)

For the year ended 31 December	2017 Rs.	2016 Rs.
21.2 Interest income from loans and receivable investments		
Term Deposits	3,634	4,478
Repo Investments	5,541	1,285
Other Saving Accounts and Deposits	838	1,122
	10,013	6,885

22. Other operating revenue

Gain on foreign currency translation	6,661	9,970
Policy administration fee	50,360	28,798
Reversal of unclaimed premium due	(13)	9,020
Miscellaneous income	7,096	2,646
	64,104	50,434

23. Net insurance benefits and claims paid

Gross benefits and claims paid		
Accident	105,038	111,006
Fire	775,678	880,353
Marine	42,903	37,699
Medical	677,437	627,967
Miscellaneous	69,678	44,702
Motor	1,236,721	1,020,416
Gross claims incurred	2,907,455	2,722,143
Less: recoveries from salvage sales	(96,734)	(146,098)
Gross claims	2,810,721	2,576,045
Less: Reinsurance recoveries	(295,739)	(607,950)
Net insurance benefits and claims paid	2,514,982	1,968,095

24. Underwriting and net acquisition cost

Underwriting and policy acquisition cost	(596,109)	(383,827)
Reinsurance commission	404,515	449,001
Net decrease / (increase) in deferred acquisition expenses (Note 24.1)	96,827	(16,089)
	(94,767)	49,085

24.1 Net decrease / (increase) in deferred acquisition expenses

Commission cost	79,845	10,666
Commission income from reinsurers	16,982	(26,755)
	96,827	(16,089)

For the year ended 31 December	2017 Rs.	2016 Rs.
25. Operating and administrative expenses		
Staff expenses (Note 25.1)	470,100	347,575
Administration and establishment expenses	468,939	312,181
Selling expenses	124,095	99,009
Depreciation on property, plant and equipment	58,125	53,445
Amortisation of intangible assets	31,475	33,040
Nations building tax	19,070	13,069
	1,171,804	858,319

25.1 Staff expenses

Wages and salaries	225,394	191,549
Contributions made to defined contribution plans (Note 25.1.1)	31,577	25,231
Provision for employee benefits (Note 18)	6,062	3,899
Staff welfare	2,178	5,371
Training expenses	175	2,889
Other costs	204,714	118,636
	470,100	347,575

25.1.1 Contributions made to defined contribution plans

Employees Provident Fund	25,262	20,163
Employees Trust Fund	6,315	5,068
	31,577	25,231

25.1.2 Number of employees

As at the end of the financial year	499	557

26. Income tax

Current tax		
Current period (Note 26.1)	49,798	37,797
Over provision in respect of previous years	(6,042)	(738)
Deemed dividend tax provision	-	4,120
Deferred tax expense		
Reversal and origination of temporary differences (Note 26.2)	7,997	(27,246)
	51,753	13,933
Total income tax provision/(reversal)	51,753	13,933

Notes to the Financial statements contd.

(All amounts in Sri Lanka Rupees Thousands)

For the year ended 31 December	2017 Rs.	2016 Rs.
26.1 Current income tax expense		
Accounting profit	184,346	37,635
Aggregate disallowed items	124,441	107,868
Aggregate allowable expenses	(74,767)	(86,010)
Aggregate exempt income	(275,822)	(210,611)
Taxable profit/(loss)	(41,802)	(151,118)
Taxable profit	-	-
Investment income	273,612	207,679
Loss claimed for the year - 35% of Statutory Income (Note 26.1.a)	(95,764)	(72,688)
Taxable Income	177,848	134,991
Statutory tax rate	28%	28%
Current income tax expense	49,798	37,797
Note 26.1.a - Tax loss carried forward		
Tax loss brought forward	87,972	9,542
Tax loss incurred during the year	41,802	151,118
Tax loss claimed for the year	(95,764)	(72,688)
Tax loss carried forward	34,010	87,972

26.2 Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2017	2016	2017	2016	2017	2016
Property, plant and equipment	-	-	(270)	(4,137)	(270)	(4,137)
Employee benefits	6,959	4,984	-	-	6,959	4,984
Bad debt provision	7,840	6,010	-	-	7,840	6,010
Available for sale reserve	-	18,917	(6,069)	-	(6,069)	18,917
Tax loss carried forward	9,523	24,632	-	-	9,523	24,632
Net tax assets / (liabilities)	24,322	54,543	(6,339)	(4,137)	17,983	50,406
Reversal and (origination) of temporary differences					32,423	(41,614)

	2017		2016	
	Temporary Difference	Tax	Temporary Difference	Tax
26.3 Analysis of deferred tax assets / (liabilities)				
Property, plant and equipment	(964)	(270)	(14,774)	(4,137)
Employee benefits	24,853	6,959	17,801	4,984
Bad debt provision	28,000	7,840	21,464	6,010
AFS reserve	(21,674)	(6,069)	67,562	18,917
Tax loss carried forward	34,010	9,523	87,972	24,632
	64,224	17,983	180,025	50,406

Movement in deferred tax balance during the year	Balance as at 1 January 2016	Recognized in profit or loss	Recognised in OCI	Balance as at 31 December 2016	Recognized in profit or loss	Recognised in OCI	Balance as at 31 December 2017
Property, plant and equipment	(5,333)	1,195	-	(4,138)	3,868	-	(270)
Employee benefits	3,497	1,009	478	4,984	1,415	560	6,959
Bad debt provision	5,601	410	-	6,011	1,829	-	7,840
AFS reserve	5,027	-	13,890	18,917	-	(24,986)	(6,069)
Tax loss carried forward	-	24,632	-	24,632	(15,109)	-	9,523
	8,792	27,246	14,368	50,406	(7,997)	(24,426)	17,983

27. Basic earnings per share

The calculation of basic earnings per share as at 31 December 2017 was based on the profit attributable to shareholders and weighted average number of ordinary shares outstanding for the year ended 31 December 2017.

For the year ended 31 December,	2017	2016
Profit attributable to shareholders	132,593	23,702
No of shares as at 31 December	81,329,041	50,000,000
Basic earnings per share (Rs.)	1.63	0.47

28. Related party disclosures

28.1 Transactions with group companies

Company	Relationship	Nature of Transaction	Transaction amount Rs.000'	Balance as at 31-Dec-17 Rs.000'
Allianz SE	Group Company	Reinsurance arrangement	94,607	56,088
Allianz Global	Group Company	Reinsurance arrangement	40,017	(22,084)
Allianz China General Insurance Company Ltd	Group Company	Reinsurance arrangement	6,967	(3,002)
Allianz AG	Group Company	Reinsurance arrangement	78,931	(50,415)
Allianz Belgium S.A	Group Company	Reinsurance arrangement	-	-
Allianz Austrailia Ltd	Group Company	Reinsurance arrangement	188	(188)
Allianz General Insurance Company (Malaysia) Berhad	Group Company	Reinsurance arrangement	1,175	(1,175)
Allianz Insurance (Hong Kong) Ltd	Group Company	Reinsurance arrangement	212	(212)
Allianz New Zealand Limited	Group Company	Reinsurance arrangement	1,049	(1,049)
Allianz Life Insurance Lanka Ltd	Group Company	Reimbursable Expenses (net of reimbursements)	26,686	27,184

Notes to the Financial statements contd.

(All amounts in Sri Lanka Rupees Thousands)

28.2 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 2017.

29. Capital commitments

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

30. 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.

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.

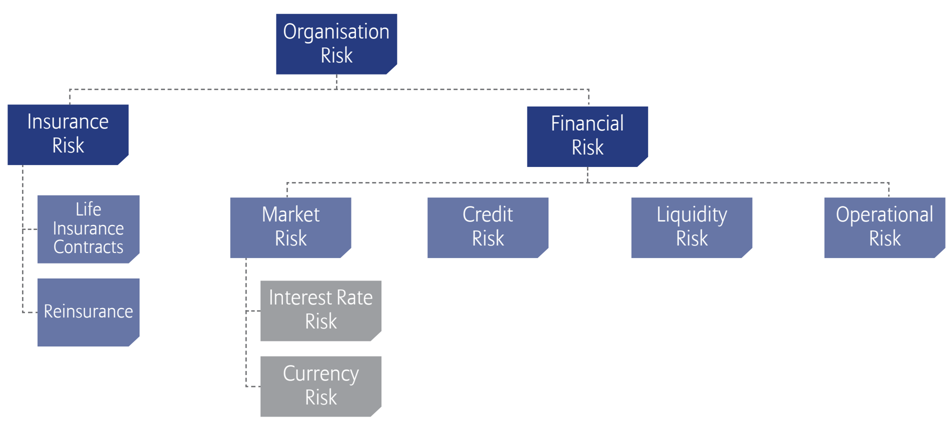
32. Comparative information

The presentation and classification of the following items in the Financial Statements are amended to ensure comparability with current year information

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 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

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

Risk management framework

The key elements of the risk management framework are:

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

Notes to the Financial statements contd.

(All amounts in Sri Lanka Rupees Thousands)

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 returns on capital employed meet the requirements of shareholders and policyholders.
- Financial flexibility by maintaining a strong liquidity position.
- Alignment of asset and liability profiles by minimising asset-liability duration mismatches.
- Maintain financial strength to support business growth and to satisfy the requirements of the policyholders, regulators and other stakeholders.

The operations of the Company are subject to regulatory requirements. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions (e.g. Solvency Margin, Approved Assets Requirements of IRCSL) 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 IRCSL. 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 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 Regulatory Commission Sri Lanka (IRCSL) is primarily interested in protecting the rights of policyholders and monitors the Company closely to ensure that it is satisfactorily managing affairs for the benefit of policyholders. At the same time, they are also interested in ensuring that the Company maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks, natural disasters, etc.

Thus, the operations of the Company are subject to the regulatory requirements of the IBSL as well as various other regulators such as the Central Bank of Sri Lanka (CBSL), 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 the 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 the 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 the careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits.

Notes to the Financial statements contd.
(All amounts in Sri Lanka Rupees Thousands)

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 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 limiting the validity period to 60 days.
- Application of four-eye principle on the 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 on the sum assured.

c. Claims Risk

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

- Claims are governed by the internal Claims Manual.
- Motor and medical claims intimation are carried out through a 24 hour fully-fledged Call Centre.
- Assessments are carried out by in-house as well as independent assessors/loss adjustors working throughout the island on a 24 - hour basis.
- Claims are assessed immediately and reserved accordingly.
- The service of a qualified independent Actuary is obtained annually to assess the adequacy of
- Reserves are 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 quarterlly audit is conducted to ensure compliance.

The table below sets out the concentration of Non Life Insurance contract liabilities by the type of contracts. This includes Unearned Premium, Insurance Contracts - Deferred Acquisition, Claims outstanding and IBNR / IBNER Reserves.

Refer notes 17.3 and 17.4 to the Financial Statements, which show the gross claim liability and the reinsurance component.

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

	31 December 2017			31 December 2016		
Non-life Insurance Claims Reserve.	Gross claims	Reinsurance	Net	Gross claims	Reinsurance	Net
Claims Outstanding	1,040,150	(592,220)	447,930	930,946	(600,476)	330,470
IBNR/IBNER Reserve	325,899	(192,202)	133,697	255,802	(183,880)	71,922
Total	1,366,049	(784,422)	581,627	1,186,748	(784,356)	402,392

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 recent years
- payments in particular years are clearly out of line 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, different weights to each method across accident years as appropriate are applied.

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, claims 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 are 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 are 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.

Notes to the Financial statements contd.
(All amounts in Sri Lanka Rupees Thousands)

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

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 analysing the movement in the interest rate-sensitive asset duration, the allocation to interest-rate sensitive assets, and the sensitivity of interest rate movements on the Solvency Margin. The report is reviewed by the local CRO and the Allianz Asia Pacific risk team.

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

b. Currency Risk

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

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

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

	31 December 2017		31 December 2016	
	Amount in Foreign Currency '000	LKR Amount '000	Amount in Foreign Currency '000	LKR Amount '000
USD Assets	193.39	29,561	93.82	14,055
EURO Assets	28.96	5,262	5.25	831
MVR Assets	-	-	-	-
Total Foreign currency denominated assets	222.35	34,824	99.8	14,886
Impact on PBT				
5% strengthening of rupee*		33,082		14,141
5% weakening of rupee *		36,565		15,630
+/- % impact of PBT		0.1%		2.08%

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 the 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 2017

Notes to the Financial statements contd.
(All amounts in Sri Lanka Rupees Thousands)

Financial Instruments	Government Guaranteed Rs'000	A+ Rs'000	AA- Rs'000-	A- Rs'000-	Total Rs'000
Available for Sale					
Government Securities	2,844,524	-	-	-	2,844,524
Unit Trust		-	-	26,281	26,281
Debenture	-	-	15,423	-	15,423
Loans and Receivables					
Fixed Deposit	-	79,441	-	-	79,441
REPO	84,366	-	-	-	84,366
Total	2,928,890	79,411	15,423	26,281	3,050,035

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

**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 2017	< 180 days Rs.000	180 to 365 days Rs.000	365 < days Rs.000	Total Rs.000
Reinsurance receivable				
- Non Life	375,994	194,777	193,150	763,921
Premium receivables				
- Non Life	1,989,961	468,082	(17,279)	2,440,764
Total	2,365,955	662,859	175,871	3,204,684
% Distribution	74%	21%	5%	100%

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%

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

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

Maturity Analysis of Financial Assets and Liabilities 2017

	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	264,315	606,488	540,727	-	1,411,530
Treasury bills	1,432,994	-	-	-	1,432,994
Debentures	15,423	-	-	-	15,423
Unit Trust	-	-	-	26,281	26,281
Loans and Receivables					
Fixed Deposits	50,058	-	29,383	-	79,441
REPO	84,366	-	-	-	84,366
Total	1,847,156	606,488	570,110	26,281	3,050,035
Liabilities					
Claims Outstanding	1,040,150	-	-	-	1,040,150
Reinsurance Creditors	492,249	-	-	-	492,249
Total	1,532,399	-	-	-	1,532,399

Notes to the Financial statements contd.

(All amounts in Sri Lanka Rupees Thousands)

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

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 returns, financial penalties from regulators or damage to the reputation of the Company. Operational risks arise from all operations of the Company.

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

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

- requirements for having appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development

- ethical and business standards
- Risk mitigation, including insurance where this is cost effective.

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

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

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 2017	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Fair Value Rs. '000
Available for Sale				
- Treasury Bonds	1,411,530	-	-	1,411,530
- Treasury Bills	1,432,994	-	-	1,432,994
- Debentures	-	15,423	-	15,423
- Unit Trust	26,281	-	-	26,281
- Fixed Deposit	-	-	79,441	79,441
- Repo	-	-	84,366	84,366
Total	2,870,805	15,423	163,807	3,050,035
As at 31 December 2016				
Available for Sale				
- Treasury Bonds	1,708,892	-	-	1,708,892
- Treasury Bills	94,959	-	-	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	1,827,330	16,185	162,454	2,005,969

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 2017. The Audited Financial Statements were approved by the Board of Directors on 20 April 2018.

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 01 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 33 to 34. The future developments of the Company are presented in the Managing Director's review on page 19 to 21. 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 124 to 159 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 2017 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

There are no significant accounting policies adopted during the year in the preparation of these Financial Statements.

Going Concern

The Board has conducted the necessary reviews and inquiries to assess the Company's ability to apply the assumption of going concern in the preparation of these Financial Statements. These included a review of the Company's budget and corporate plan for the 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 in page 41 to 44 of the Annual report.

Directors Report contd.

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. 1,179 million for 2017 (Rs. 1,040 million in 2016).

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 4 to the Financial Statements.

Property, Plant and Equipment

Details of plants and equipment are given in Note No 5 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 2017.

For the year ended 31 December	2017 Rs. '000
Total Available Capital (TAC)	1,208,658
Risk-based Capital Requirement (RCR)	172,560
Risk-based Capital Adequacy Ratio (CAR)	7.0

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 employee's exceptional commitment and dedication to providing an excellent service to our customers is crucial, and the Company places great emphasis on fostering leadership, talent and continuous personnel 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 reflect the stated capital of the Company. The stated capital is the total of all amounts revised by the Company in respect of the issued share capital. The stated capital of the Company as at 31 December 2017 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 pages 22 to 24.

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 adjustments to disclosures 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 2017 have been audited by Messrs. KPMG (Chartered Accountants), who will retire from office at the end of this Annual General Meeting. As per the Allianz group decision and the governance policy PricewaterhosueCoopers (Chartered Accountants) will be appointed as the auditors of the company 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 interests in contracts with the Company.

Heinz Dollberg
Director

Surekha Alles
Director

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

20th April 2018

Actuary's Report - Life

To the shareholders of Allianz Life Insurance Lanka Limited.

I have conducted a liability valuation for the Long Term Insurance Business as at 31 December 2017. 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 Regulatory Commission 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 rates declared for 2017 are 9.0% for the Allianz Cash Builder product and 8.5% for all the other Universal Life products.

5. The total actuarial liabilities of the Long Term Insurance Fund as included in the audited accounts as at 31 December 2017 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 2017 is well above the regulatory minimum of 120%.

Malaka Mihindukulasuriya
Fellow of Institute and Faculty of Actuaries, UK

20th April 2018

Independent Auditors' Report

KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300, Sri Lanka.

Tel : +94 - 11 542 6426
Fax : +94 - 11 244 5872
+94 - 11 244 6058
Internet : www.kpmg.com/lk

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, 2017, 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 the 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, 2017, 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, 2017, 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 Regulatory Commission of Sri Lanka, so as to clearly indicate the true and fair view of the financial position of the Company.

KPMG

CHARTERED ACCOUNTANTS
Colombo

20th April 2018

KPMG, a Sri Lankan partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

M.R. Mihular FCA, T.J.S. Rajakarier FCA, Ms. S.M.B. Jayasekara ACA, G.A.U. Karunaratne FCA, R.H. Rajan ACA
P.Y.S. Perera FCA, W.W.J.C. Perera FCA, W.K.D.C Abeyrathne FCA, R.M.D.B. Rajapakse FCA, M.N.M. Shameel ACA
C.P. Jayatilake FCA, Ms. S. Joseph FCA, S.T.D.L. Perera FCA, Ms. B.K.D.T.N. Rodrigo FCA, Ms. C.T.K.N. Perera ACA

Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA

Statement of Financial Position

As at 31 December	Note	2017 Rs. '000	2016 Rs. '000
Assets			
Financial investments	4	2,796,318	1,930,971
Property, plant & equipment	5	5,558	8,533
Intangible assets	6	7,323	2,230
Unit Linked investments	7	321,800	255,593
Deferred acquisition cost	8	623,592	512,550
Reinsurance receivables		44,420	41,577
Other receivables	9	198,816	125,869
Amounts due from related parties	10	574	-
Cash and cash equivalents	11	17,436	30,246
Total Assets		4,015,837	2,907,569
Equity and liabilities			
Equity			
Stated capital	12	739,624	739,624
Other reserves	13	109,838	(182,254)
Retained earnings	14	34,284	(71,184)
Total equity		883,746	486,186
Liabilities			
Insurance contract liabilities - Life	15	2,848,317	2,184,464
Reinsurance payables		80,833	58,275
Other payables	16	195,595	171,888
Amounts due to related parties	17	-	483
Employee benefit obligations	18	7,346	6,273
		3,132,091	2,421,383
Total equity and liabilities		4,015,837	2,907,569

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.

Samantha Perera
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
Managing Director

20th April 2018

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December	Note	2017 Rs. '000	2016 Rs. '000
Gross written premium	19	1,178,817	1,040,269
Premium ceded to reinsurers		(83,473)	(67,154)
Net written premium		1,095,344	973,115
Other revenue			
Income from investments	20	285,759	207,495
Other income	21	4,352	3,012
		290,111	210,507
Total net revenue		1,385,454	1,183,622
Benefits and claims			
Gross insurance claims and benefits		(149,719)	(108,928)
Claims ceded to reinsurers		34,531	22,280
Net insurance benefits and claims	22	(115,188)	(86,648)
Net income less benefits and claims		1,270,266	1,096,974
Expenses			
Underwriting and net acquisition commission costs	23	(134,713)	(133,837)
Other operating, administrative and selling expenses	24	(496,929)	(468,449)
Changes in deferred acquisition cost	8	111,042	111,242
Total expenses		(520,600)	(491,044)
Increase in insurance contract liabilities - Life fund	15.2	(645,642)	(579,971)
Profit before taxation		104,024	25,959
Income tax expense	25	-	-
Profit for the year		104,024	25,959
Earnings per Share (Rs.)	26	1.41	0.44
Other comprehensive income			
Profit for the year		104,024	25,959
Items that will not be classified to profit or loss			
Net change in fair value of available-for-sale financial assets		298,310	(156,256)
"Net change in fair value of available-for-sale financial assets reclassified to profit or loss"		(6,218)	(58)
Tax on Other Comprehensive Income		-	-
Items that are or may be reclassified to profit or loss			
Actuarial gain / (losses) on defined benefit obligations		1,443	826
Total comprehensive income for the year, net of tax		397,560	(129,529)

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 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)
Balance as at 31 December 2016	739,624	(182,254)	(71,184)	486,186
Net profit / (loss) for the year	-	-	104,024	104,024
Other comprehensive income, net of tax				
- Net change in fair value	-	298,310	-	298,310
- Tax on Other Comprehensive Income	-	-	-	-
- Net amount reclassified to profit or loss	-	(6,218)	-	(6,218)
- Actuarial gains / (losses)	-	-	1,443	1,443
Total comprehensive income	-	292,092	105,467	397,560
Issued during the year	-	-	-	-
Balance as at 31 December 2017	**739,624**	**109,838**	**34,284**	**883,746**

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	2017 Rs. '000	2016 Rs. '000
Cash flows from operating activities			
Premium received from customers		1,175,581	1,048,771
Reinsurance premium paid		(29,228)	(39,545)
Insurance benefits and claims paid		(148,707)	(100,371)
Cash paid to and on behalf of employees		(203,248)	(118,066)
Other operating cash flows		(461,975)	(585,156)
Cash flow from operating activities (Note A)		332,423	205,633
Retiring gratuity paid		(413)	(168)
Income tax paid		-	-
Net cash from operating activities		332,010	205,465
Cash flows from investing activities			
Acquisition of liquid investments (Other than cash equivalents)		(685,921)	(683,255)
Proceeds on maturity of investments (Other than cash equivalents)		145,118	355,641
Interest received		253,310	174,248
Dividend received		-	309
Investment in unit linked investments	7	(47,995)	(64,541)
Acquisition of intangible assets		(6,926)	(3,335)
Acquisition of property, plant and equipment		(2,406)	(2,422)
Net cash from investing activities		(344,821)	(223,355)
Cash flows from financing activities			
Issue of shares		-	-
Net cash from financing activities		-	-
Increase in cash and cash equivalents (Note B)		(12,811)	(17,890)

Notes to the Statement of cash flows

A. Reconciliation of profit before tax with cash flows from operating activities

Profit before tax		104,024	25,959
Depreciation and amortisation		7,214	10,434
Provision for employee benefit obligation		2,929	2,519
Interest income		(279,541)	(207,128)
Dividend income		-	(309)
Increase in other receivables		(72,947)	(28,681)
Increase in reinsurance receivables/(payable)		19,715	5,328
Increase in insurance contract liabilities		645,642	586,505
Increase in other liabilities		22,648	(77,694)
Gratuity paid		(413)	(168)
Gain on disposal of Unit Trust		(6,218)	(58)
Deferred acquisition cost		(111,042)	(111,242)
Cash flows from operating activities		332,010	205,465

B. Increase in Cash and cash equivalents

Net cash and cash equivalents at the end of the year	11	17,436	30,246
Net cash and cash equivalents at the beginning of the year		30,246	48,136
Increase / (decrease) in cash and cash equivalents		(12,811)	(17,890)

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. 3A/B, Valiant Tower 46/7, 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 (LKAs) 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 2017 were authorised for issue in accordance with a resolution of the Board of Directors on 20 April 2018.

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 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 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 2017 was carried out by the appointed actuary 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 recognised 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 utilised. 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 recognised 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 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 those 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 recognised if it is probable that future economic benefits that are attributable to the asset will flow to the Company and the cost of the asset can be measured reliably. Software acquired by the Company is stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure
Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in the Statement of Profit or Loss and Other Comprehensive Income as incurred.

Amortisation
Amortisation 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.

Notes to the Financial Statements contd.

De-recognition

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

3.2.2 Property, plant and equipment

Basis of recognition

Property, plant and equipment are tangible items that are held for servicing or for administrative purposes and are expected to be used during more than one year. Property, plant and equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the asset can be measured reliably.

Measurement

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

Gains and losses on disposal

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within "other income/ other expenses" in the Statement of 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-recognises a financial asset when the contractual rights to the cash flows from the asset expire or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

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

The Company has the following non-derivative financial assets;

Loans and receivables

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

Loans and receivables comprise 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 in equity is reclassified to profit or loss.

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

The Company classifies non-derivative financial liabilities into the 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 expired.

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

The Company has the following non-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 categorised.

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

Notes to the Financial Statements contd.

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 maximises the use of relevant observable inputs and minimises 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 flows of the asset which can be estimated reliably.

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

The Company considers evidence of impairment for receivables at both a specific asset as well as 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 amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables.

When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the Statement of 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 use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuous use that is largely independent on the cash inflows of other assets or groups of assets (the "cash generating unit, or CGU").

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

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

3.3 Deferred acquisition cost (DAC)

The Costs that vary and directly relate to the acquisition of insurance contracts are deferred by recognising 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 statement of Financial Position. For Universal Life-type and Unit-Linked life insurance contracts, DAC is generally amortised 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 recognised 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 derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

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

Short duration contract liabilities are primarily group term insurance products, where reserving was done on an unearned premium reserve basis. The liabilities are de-recognised when the contract expires, is discharged or cancelled.

3.8.1.2 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 flows including related cash flows such as claims handling and policy administration expenses, policyholder options and guarantees, as well as investment income from assets backing such liabilities, are used. To the extent that the test involves discounting of cash flows, the interest rate applied is based on management's prudent expectation of current market interest rates.

Fund value plus non-fund sterling reserves valuation methodology have been used with prudent assumptions considering all expenses.

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 LKAS 19. However, under the Payment of Gratuity Act, No. 12 of 1983, the liability to an employee arises only on completion of five years of continued service.

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

3.8.2.2 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 of 1980 covering all employees, are recognised as an employee benefit expense in profit and loss when they are due.

The Company contributes 12% and 3% of gross emoluments of employees as Provident Fund and Trust Fund contributions respectively.

3.8.3 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 recognise profits over the estimated life of the policies.

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

3.9.2 Reinsurance premiums

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

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

3.9.3 Reinsurance Commission Income

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

3.9.4 Investment income

Interest income is recognised 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 recognised as an adjustment to the effective interest rate of the instrument.

3.9.5 Dividend income

Dividend income is recognised when the Company's right to receive the payment is established.

3.9.6 Realised gains and losses

Realised 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 amortised cost and are recorded on the occurrence of the sale transaction.

3.9.7 Other income

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

While the Directors consider that the provision for claims is fairly stated on the basis of information currently available, the ultimate liability will vary as a result of subsequent information and events. This may result in 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 recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

3.11 Expenditure recognition

a) Expenses are recognised 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 the 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.

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3.12.2 Deferred taxation

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and relate to income taxes levied by the same tax authority on the same taxable entity.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

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

3.13 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 ordinary shares which are classified as equity.

3.15 Statement of Cash Flows

The Statement of Cash Flows has been prepared using the direct method. Interest received, interest paid and dividend received are classified as operating cash flows while dividends paid is classified as financing cash flow. For cash flow purposes, cash and cash equivalents are presented net of bank overdrafts.

3.16 Commitments and contingencies

Contingencies are possible assets or obligations that arise from a past event and would be concerned only with the occurrence or non-occurrence of uncertain future events which are beyond the Company's control. Contingent liabilities are disclosed in Note No. 30 to the Financial Statements. Commitments are disclosed in Note No. 29 to the Financial Statements.

3.17 Events occurring after the reporting date

All material post - Balance Sheet events have been considered and where appropriate, adjustments or disclosures have been made in Note No. 31 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 framework. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit risk

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

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

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

Liquidity risk

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

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

Market risk

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

Market risk is an aggregation of,

a. Interest rate risk
b. Currency risk

a. Interest rate risk

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

b. Currency risk

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

The Company's principal transactions are carried out in Sri 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 implements action plans 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;

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- Requirements for the reporting of operational losses and proposed remedial actions;
- Development of contingency plans;
- Training 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 and SLFRS 17 Insurance Contracts:

SLFRS 9 is effective for annual periods beginning on or after 1 January 2018. It replaces LKAS 39 – Financial Instruments: Recognition and Measurement.

Based on the proposed amendments to SLFRS 4 – Insurance Contracts, the entities whose predominant activity is issuing insurance contracts are permitted to defer the full application of SLFRS 9 until the earlier of 2021 or adopting of the SLFRS 17, which is currently expected to commence in 2021.

An insurer may apply the temporary exemption from SLFRS 9 if and only if:

a) It has not previously applied any version of SLFRS 9 other than the requirements for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss.
b) Its activities are predominantly connected with insurance, at its annual reporting date that immediately precedes 1 April 2016, or at a subsequent annual reporting date.

Disclosures on qualifying for the Temporary Exemptions:
Based on the proposed SLFRS 17 – Insurance Contracts, the Company is permitted to apply the temporary exemption as the Company meets the following eligibility criteria:

1. The Company has not applied SLFRS 9 before; and
2. The Company's activities are predominantly connected with insurance, as the ratio of its liabilities connected with insurance, including investment contracts measured at fair value through profit or loss compared with total liabilities, is greater than 90%. Accordingly, the Company qualifies as a pure insurance company.

SLFRS 9 brings together all three aspects of accounting for the financial instruments i.e. classification and measurement, impairment and hedge accounting. SLFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. Except for hedge accounting, retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively with some limited exceptions.

The Company plans to adopt the new standard on the required effective date. During the financial year, the Company has performed an impact assessment of all three aspects of SLFRS 9 and determined that its impact on the Financial Statements would be insignificant. This assessment is based on currently available information and may be subject to changes arising from further analysis.

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

Revenue arising from insurance contracts and financial investments is outside the scope of SLFRS 15. The impact of recognising the revenue from other services when these services are delivered to customers is not expected to be material to the company.

SLFRS 16 Leases – effective from 1 January 2018.

SLFRS 16 replaces LKAS 17 Leases and related interpretations. SLFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under LKAS 17. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

SLFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies SLFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2018, the Company plans to assess the potential effect of SLFRS 16 on its consolidated Financial Statements.

3.5 The basis for computation of "One-off Surplus"

Insurance contract liabilities are measured on a market consistent basis for regulatory solvency reporting in accordance with the Solvency Margin (Risk Based Capital) Rules 2015 with effect from 1 January 2016. The period prior to 1 January 2016, the regulatory requirement was to use the Net Premium Valuation (NPV) methodology to calculate the insurance contract liabilities in accordance with Solvency Margin (Long Term Insurance) Rules 2002.

The Company used the same basis to calculate the insurance contract liabilities for both regulatory solvency reporting as well as for accounting under Sri Lanka Accounting Standards (SLFRS) - "Distribution Basis", up to 31 December 2015.

As required, with the implementation of the new Solvency Margin (Risk Based Capital) rules with effect from 1 January 2016, the Company changed the regulatory solvency reporting basis. However, for accounting under Sri Lanka Accounting Standards the Company continued to use the same "Distribution Basis" (as mentioned above) in order to strengthen the policyholder liabilities. This is in compliance with SLFRS and is in accordance with the guidelines issued by the Insurance Regulatory Commission of Sri Lanka (IRCSL). This resulted in a zero "one-off surplus" which is defined as the excess of the policy liabilities under NPV regime as at 31 December 2015 over the total policy liabilities of the distribution basis under the RBC regime as at 1 January 2016 under Section 2 of "Identification and Treatment of One-Off Surplus" guidelines issued by the IRCSL.

As per the "Identification and Treatment of One-Off Surplus: Direction # 16 - 20.03.2018 issued under Section 96A of the Regulation of Insurance Industry Act No, 43 of 2000", the following disclosures have been made to the IRCSL with related to the basis used for the calculation of One-off Surplus.

(i) The basis used for determining the NPV liabilities as at 31 December 2015 is the same as the minimum regulatory basis used prior to the implementation of RBC rules.

(ii) The differences between SLFRS (distribution basis) and RBC (solvency basis) bases as at 31 December 2017 are as follows for different product types:

Product Type	SLFRS (distribution)basis	RBC (solvency) basis
Universal Life (with UDR*)	"Account Value + Non-account value" basis with product level zerorisation of the "Non-account value" component. UPR and IBNR reserves are held for monthly COI deducted for the UDR.	"GPV basis" allowing for negative reserves
Unit Linked (with UDR*)	"Unit Reserves + Non-unit Reserves" basis with product level zerorisation of the "Non-unit" component. UPR and IBNR reserves are held for monthly COI deducted for the UDR.	"Unit Reserves + Non-unit Reserves" allowing for negative reserves in the "Non-unit" component
Decreasing Term Assurance (MRTA)	GPV basis	GPV basis
Group Term	UPR + IBNR basis	UPR + IBNR basis

*UDR: Unit Deducting Riders / COI: Cost of Insurance / UPR: Unearned premium reserve / IBNR: Incurred but not reported claims reserve

(iii) There are no changes in methodology used in the determination of One-off Surplus compared with the SLFRS basis as at 31 December 2017 shown in the above table. The best estimate assumptions as at 31 December 2015 (used for 2016 Q1 RBC submissions) were used together with the risk free yield curve as at 31 December 2015 for the calculation.

	2017 Face value Rs. '000	2017 Cost of investment Rs. '000	2017 Carrying value Rs. '000	2016 Face value Rs. '000	2016 Cost of investment Rs. '000	2016 Carrying value Rs. '000
4. Financial investments						
Available-for-sale financial assets (Note 4.1)	2,333,683	2,336,175	2,642,069	1,902,465	1,899,799	1,781,378
Loans and receivables (Note 4.2)	111,947	99,769	154,248	110,118	110,118	149,593
	2,445,629	2,435,944	2,796,318	2,012,583	2,009,917	1,930,971
4.1 Available-for-sale financial assets						
Treasury bonds	2,289,673	2,293,067	2,596,869	1,864,673	1,862,909	1,738,405
Quoted debentures	17,792	16,890	19,149	17,792	16,890	19,494
Unit trusts	26,218	26,218	26,052	20,000	20,000	23,479
	2,333,683	2,336,175	2,642,069	1,902,464	1,899,799	1,781,378
4.2 Loans and receivables						
Repo/Call deposits	21,947	9,769	9,769	20,118	20,118	20,118
Term deposits	90,000	90,000	144,480	90,000	90,000	129,475
	111,947	99,769	154,248	110,118	110,118	149,593

	Computer equipment Rs. '000	Office equipment Rs. '000	Furniture and fittings Rs. '000	Total Rs. '000
5. Property, plant and equipment				
Cost				
Balance as at 1 January 2017	21,882	25,836	38,574	86,292
Additions during the year	371	742	1,293	2,406
Balance as at 31 December 2017	22,254	26,578	39,867	88,698
Accumulated depreciation				
Balance as at 1 January 2017	20,264	24,485	33,011	77,759
Charge for the year	1,477	1,251	2,653	5,381
Balance as at 31 December 2017	21,741	25,736	35,664	83,140
Carrying amount				
Balance as at 31 December 2017	513	842	4,203	5,558
Balance as at 31 December 2016	1,618	1,351	5,563	8,533

5.1 Title restriction on property, plant and equipment

There are no restrictions that existed on the title of 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. 2.41 million (2016- Rs. 2.42 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 (2017 - 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 2017. 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	2017 Rs. '000	2016 Rs. '000
Computer equipment	20,468	16,061
Office equipment	24,770	20,138
Furniture and fittings	27,427	23,934
	72,665	60,133

	2017 Rs. '000	2016 Rs. '000
6. Intangible assets		
Acquisition cost		
Balance as at 1 January	9,794	6,459
Additions during the year	6,926	3,335
Balance as at 31 December	16,720	9,794
Accumulated amortisation		
Balance as at 1 January	7,564	5,754
Amortisation for the year	1,833	1,810
Balance as at 31 December	9,397	7,564
Carrying amount as at 31 December	7,323	2,230

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 2017. 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. 6.926 million (2016 - Rs.3.335 million). Cash payments amounting to Rs. 6.926 million (2016- Rs. 3.335 million) were made during the year for purchase of Intangible Assets (computer software).

Notes to the Financial Statements contd.

6.4 Capitalisation of borrowing costs

There were no capitalised borrowing costs relating to the acquisition of intangible assets during the year (2017 - 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.7.71 million.

	2017		2016	
	No. of units	Net asset value Rs. '000	No. of units Rs. '000	Net asset value Rs. '000
7. Unit linked investments				
Growth fund	9,573,913	133,668	8,357,096	115,658
Balanced fund	7,156,646	106,236	6,116,483	83,056
Bond fund	5,522,790	77,375	4,594,993	56,040
Sharia Fund	364,580	4,520	73,627	839
	22,617,929	321,800	19,142,199	255,593

The above investments relate to the Unit-Linked Life insurance contract liability of the Company.

	2017 Rs. '000	2016 Rs. '000
8. Deferred acquisition cost		
Balance as at 1 January	512,550	401,308
Deferred cost during the year	70,875	75,800
Interest unwinding on acquisition cost	47,736	37,713
Amortisation of deferred acquisition cost during the year	(7,569)	(2,271)
Deferred asset as at 31 December	623,592	512,550
9. Other receivables		
Other debtors and receivables (Note no 9.1)	178,691	108,926
Receivable from policyholders	20,125	16,943
	198,816	125,869
9.1		
WHT receivables	93,058	65,395
Rents paid in advance	50,026	17,575
Prepayments	29,586	9,197
Loans and advances	4,519	6,500
Other receivable	1,499	10,259
	178,688	108,926

	2017 Rs. '000	2016 Rs. '000

10. Amounts due from related parties

Allianz Insurance Lanka Limited	574	-
	574	-

11. Cash and cash equivalents

Cash at bank	(14,766)	12,607
Cash in hand	32,202	17,639
	17,436	30,246

12. Stated Capital

Balance as at 1 January	739,624	739,624
Balance as at 31 December (fully paid up 73,962,400 ordinary shares)	739,624	739,624

13. Other reserves

Available for sale reserve		
Balance as at 1 January	(182,254)	(25,940)
Net change in fair value of available for sale financial assets	298,310	(156,256)
Net change in fair value of available for sale financial assets reclassified to profit or loss	(6,218)	(58)
Balance as at 31 December	109,838	(182,254)

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	298,310	(156,256)
Tax on change in fair value of AFS investments	-	-
Net change in fair value of AFS assets during the year	298,310	(156,256)

14. Retained earnings

Balance as at 1 January	(71,184)	(97,969)
Net profit for the year	104,024	25,959
Actuarial gain / (losses) on defined benefit obligations	1,443	826
Balance as at 31 December	34,284	(71,184)

Notes to the Financial Statements contd.

15. Insurance contract liabilities - Life

"The valuation of the long term insurance business as at 31 December 2017 was carried out by Mr. Malaka Mihindukulasuriya as a Fellow of the Institute and Faculty of Actuaries (IFoA) UK (FIA), for and on behalf of Allianz Life Insurance Lanka Ltd. In accordance with the Actuarial Report, the reserve for the year amounted to Rs. 2,848,317 (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."

Actuarial assumptions	2017	2016
Mortality table used	80% of A67/70	80% of A67/70
Interest rate for Universal Life & Unit Linked	IBSL Risk Free Yield curve	IBSL Risk Free Yield curve
Interest rate for Decreasing Term Insurance	IBSL Risk Free Yield curve	IBSL Risk Free Yield curve
Crediting rate - All the other Universal Life products	8.50%	8.50%
Crediting rate - Allianz Cash Builder product	9.00%	-

15.1 Movement in insurance contract liabilities - Life

	2017	2016
Universal Life/conventional Life insurance		
Balance as at 1 January	1,928,871	1,413,441
Increase in the life fund	597,647	515,430
Balance as at 31 December	2,526,518	1,928,871
Unit-Linked Life insurance contracts		
Balance as at 1 January	255,593	184,518
Increase in the Life fund	47,995	64,541
Gains/(losses) on unit linked investments	18,212	6,534
Balance as at 31 December	321,800	255,593
	2,848,317	2,184,464

15.2 Recognised in profit or loss

	2017	2016
Increase in conventional Life insurance fund	597,647	515,430
Increase in Unit-Linked Life insurance contracts	47,995	64,541
Increase in insurance contract liabilities - Life	645,642	579,971

	2017 Rs. '000	2016 Rs. '000
16. Other payables		
Commission payable	20,888	15,999
Claims payable (Note 16.1)	25,009	23,997
Premium in deposit	50,703	50,756
Others creditors and accrued expenses (Note 16.2)	98,995	81,136
	195,595	171,888
16.1 Movement of claims payables		
Balance as at 1 January	23,997	15,440
Claims approved during the year	149,719	108,928
Claims paid during the year	(82,856)	(58,430)
Surrenders during the year	(65,852)	(41,941)
Balance as at 31 December	25,009	23,997
16.2 Others creditors and accrued expenses		
Accrued expenses	86,685	70,919
Staff creditors	1,605	-
Bonus provision	3,194	3,658
Surrender payable	2,560	3,057
Other liabilities	4,952	3,502
	98,995	81,136
17. Amounts due to related parties		
Allianz Insurance Lanka Limited	-	483
	-	483
18. Employee benefit obligations		
Defined benefit obligation as at 1 January	6,273	4,748
Current service cost	2,454	2,094
Interest for the year	475	425
Actuarial (gains) / losses	(1,443)	(826)
Benefits paid by the plan during the year	(413)	(168)
Defined benefit obligation as at 31 December	7,346	6,273
Number of employees as at 31 December	96	89
Expense recognised in profit or loss		
Current service cost	2,454	2,094
Interest for the year	475	425
	2,929	2,519
Amounts recognised in Other Comprehensive Income		
Actuarial (gain)/loss	(1,443)	(826)

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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.

	2017 Rs. '000	2016 Rs. '000
18.1 Principal Assumptions as at the reporting date		
Discount rate	11.00%	11.00%
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%)	(150)	155	(150)	155
Salary increment rate (change by 1%)	155	(153)	155	(153)

	2017 Rs. '000	2016 Rs. '000
19. Gross written premium		
Variable universal Life	997,325	872,204
Unit Linked	147,961	131,926
Decreasing term assurance	9,926	19,551
Group Life	23,605	16,588
	1,178,817	1,040,269
20. Income from investments		
Available-for-sale financial assets (Note 20.1)	267,100	188,436
Loans and receivables (Note 20.2)	18,659	19,059
	285,759	207,495

	2017 Rs. '000	2016 Rs. '000

20.1 Available-for-sale financial assets

	2017 Rs. '000	2016 Rs. '000
Treasury bonds	257,544	185,793
Treasury bills	1,254	114
Quoted debentures	2,085	2,162
Unit trusts	-	309
Gain on disposal of unit trust investment	6,218	58
	267,100	188,436

20.2 Loans and receivables

	2017 Rs. '000	2016 Rs. '000
Term deposits	16,454	17,596
Repo/call deposits	2,205	1,463
	18,659	19,059

21. Other incomes

	2017 Rs. '000	2016 Rs. '000
Interest from loan to staff and agents	42	86
Fund manager charges (NAMAL) & miscellaneous income	1,733	2,490
Claims related administration fees	2,578	437
	4,352	3,012

22. Insurance claims and benefits (net)

	2017 Rs. '000	2016 Rs. '000
Life insurance claims death, disabilities and hospitalisation (Note 22.1)	149,719	108,928
Reinsurance recoveries	(34,531)	(22,280)
	115,188	86,648

22.1 Life insurance claims death, disabilities and hospitalisation

	2017 Rs. '000	2016 Rs. '000
Death, disability and hospitalisation	78,735	62,914
Surrenders	65,852	41,941
Policy maturities	5,131	4,073
	149,719	108,928

23. Underwriting and net acquisition commission costs

	2017 Rs. '000	2016 Rs. '000
Policy acquisition commission cost	130,392	130,863
Other insurance related cost	4,321	2,974
	134,713	133,837

24. Other operating, administrative and selling expenses

	2017 Rs. '000	2016 Rs. '000
Staff expenses (Note 24.1)	206,177	163,246
Administration and establishment expenses	230,735	237,537
Selling expenses	52,801	57,232
Depreciation and amortisation (Note 5 and 6)	7,217	10,434
	496,929	468,449

Notes to the Financial Statements contd.

	2017 Rs. '000	2016 Rs. '000
24.1 Staff expenses		
Staff salaries	80,886	66,864
Defined contribution plan cost- EPF, ETF (Note 24.2)	12,232	8,712
Provision for employee benefits (Note 18)	2,929	2,519
Staff welfare	4,836	4,931
Training expenses	749	2,901
Other Costs	104,545	77,319
	206,177	163,246
24.2 Contributions made to the Defined Contribution Plan		
Employee Provident Fund	9,608	6,991
Employee Trust Fund	2,624	1,720
	12,232	8,712

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.

	2017 Rs. '000	2016 Rs. '000
25.1 Current income tax expense		
Profit (loss) before tax	104,024	25,959
Aggregate disallowed expenses	45,922	50,618
Aggregate exempt income	(449,864)	(307,143)
Taxable income/(loss)	(299,918)	(230,566)
Tax loss brought forward	(2,336,231)	(2,105,665)
Tax loss carried forward	(2,636,150)	(2,336,231)
Statutory tax rate	28%	28%
Current income tax expense	Nil	Nil

Impact of the Inland Revenue Act No 24 of 2017

Based on Inland Revenue Act No. 24 of 2017, which has been legislated and became effective from 1 April 2018, the gains and profits liable to tax from the business of Life Assurance, whether mutual or proprietary, is the aggregate of the following, subject to the deduction of any unrelieved loss from business specified in the Act.

1. The surplus distributed to shareholders from the Life insurance policyholders fund, as certified by the Appointed Actuary, and
2. The investment income of the shareholders fund less any expenses incurred in the production of such income

The surplus distributed to a Life insurance policyholder who shares the profits of a person engaged in Life insurance business shall be deemed as profits from the business of that person and be liable to tax accordingly. Temporary concession has been granted via a reduced rate of tax of 14% on the surplus distributed to Life insurance policyholders who share profits, for three years of assessment from the commencement of the Act.

The amendment to the existing tax law will change the tax base for the Company and accordingly, the re-measurement of deferred tax assets and liabilities of the Company. In absence of transitional provisions relating to recognition of tax losses carried forward, no adjustments have been made to the basis on which the Company has recognised deferred tax assets / liabilities so far and no entries have been passed in the current year for deferred tax asset / liability computation.

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.

	2017 Rs. '000	2016 Rs. '000
Deferred tax asset	709,424	706,932
Deferred tax liability	-	-
Net deferred tax asset/(liability)	709,424	706,932
Deferred tax asset		
Employee benefits	2,057	1,757
Carried forward tax losses	738,122	654,145
Available for sale reserve	(30,755)	51,031
	709,424	706,932

25.3 The Company is entitled to the following notional tax and withholding tax credits in case of a future tax liability

	2017 Rs. '000	2016 Rs. '000
Notional tax credit and Withholding tax credit	93,058	65,395

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.

	2017 Rs. '000	2016 Rs. '000
Net profit attributable to ordinary shareholders (Rs.)	104,024	25,959
Weighted average number of ordinary shares in issue	73,962,400	73,962,400
Earnings per share (Rs.)	1.41	0.35

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.

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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 notes 10 and 17. The following transactions were carried out with related parties during the year ended 31 December 2017.

Company	Relationship	Nature of transaction	Transaction value (Net)	Balance as at 31 December 2017	Balance as at 31 December 2016
Allianz SE	Parent	Reinsurance Agreement	(48,942)	(28,942)	(13,068)
Allianz SE	Parent	Management fee	(20,840)	(63,629)	(42,789)
Allianz Insurance Lanka Limited	Group company of Allianz SE	Reimbursable expenses (net)		574	(483)

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 2017.

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.

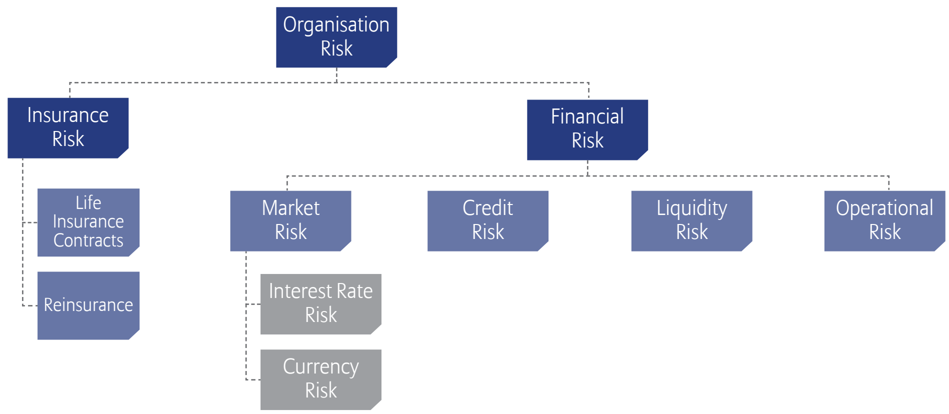
32. Litigations and claims

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

33. 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

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

Risk management framework

The key elements of the risk management framework are:

- Promotion of a strong risk management culture supported by a robust risk governance structure.
- Consistent application of an integrated risk capital framework across the Company to protect the capital base and to support effective capital management.
- Integration of risk considerations and capital needs into management and decision-making processes through the attribution of risk and 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 ensures transparency and provides risk indicators to senior management on the overall risk profile and whether it falls within delegated limits and authorities.

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

The operations of the Company are subject to regulatory requirements. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions (e.g. Solvency Margin, Approved Assets Requirements of IRCSL) to minimise the risk of default and insolvency on the part of the Company to meet unforeseen liabilities as they arise.

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

The Company maintains its capital well above the minimum regulatory requirements of the IRCSL. The Company has a Stated Capital of Rs.739.6 million whereas the current minimum capital requirement is only Rs.500 million.

b. Approach to capital management

The Company seeks to optimise the structure and sources of capital to ensure that it consistently maximises returns to the shareholders. The Company's approach to managing capital involves managing assets, liabilities and risks in a coordinated way, assessing shortfalls between reported and required capital levels on a regular basis and taking appropriate actions to influence the capital position of the Company in the light of changes in economic conditions and risk characteristics.

The primary source of capital used by the Company is equity shareholders' funds. The capital requirements are routinely 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 affairs for the benefit of policyholders. At the same time, it is interested in ensuring that the Company maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks, natural disasters, etc.

Thus, the operations of the Company are subject to the regulatory requirements of the IRCSL 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.

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

In addition, IRCSL has decided to implement a Risk Based Capital (RBC) framework in Sri Lanka to monitor insurance companies in the country, replacing the existing solvency regime.

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 the careful selection and implementation of underwriting strategy guidelines as well as the use of reinsurance arrangements.

33.1.1 Life insurance contracts

a. Product design risk

Life Insurance contracts offered by the Company include Universal Life, Unit Linked, MRTA and group plans. Under Universal Life and Unit Linked plans, the Company offers single and regular products. Universal Life plan and Unit Link plan are products where lump sum benefits are payable on death, maturity or in some cases, permanent total disability. The Universal Life and Unit Linked plans acquire a surrender value upon completion of three years. The Company also had single premium product (MRTA) to protect the family from the burden of the payment of the loan in case of the death of 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

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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 Need Analysis is conducted and a Risk Assessment is in place (for Unit-Linked products) to ensure the most appropriate policy is sold.
- Input on terms and conditions and product pricing is obtained from the 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 the 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 reserves, 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 – discounting rate is derived based on the IRCSL 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 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.

33.1.2. 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 are 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	2017	2016	Rating Agency
Allianz SE	AA	AA	Standard & Poor's
Munich Re	AA-	AA-	Standard & Poor's

33.2 Financial risk

33.2.1 Credit risk

The tables below set out information about the credit quality of financial investments.

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As at 31 December 2017

Financial Instruments	Government guaranteed Rs. '000	AAA Rs. '000	AA+ Rs. '000	A+ Rs. '000	AA- Rs. '000	BBB+ Rs. '000	Unrated	Total Rs. '000
Available-for-sale								
Government Securities	2,596,869	-	-	-	-	-	-	2,596,869
Unit Trust	-	-	-	-	-	-	26,052	26,052
Debentures	-	-	-	10,465	8,683	-	-	19,149
Loan and receivables								
Term Deposits	-	52,132	35,715	-	56,633	-	-	144,480
Repo/Call Deposit	-	-	-	-	-	9,769	-	9,769
Total	2,596,868	52,132	35,715	10,465	65,316	9,769	26,052	2,796,318

As at 31 December 2016

Financial Instrument	Government guaranteed Rs. '000	AAA Rs. '000	AA+ Rs. '000	AA- Rs. '000	Unrated	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						
Fixed 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

** 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 2017	< 180 days Rs. '000	180 to 365 days Rs. '000	365 < days Rs. '000	Total Rs. '000
Reinsurance receivable	30,556	13,864	-	44,420
Premium receivables	20,125	-	-	20,125
Total	50,681	-	-	64,545
% Distribution	100%			

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%			

33.2.2. 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 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.

Notes to the Financial Statements contd.

Maturity analysis of financial assets – 2017

	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	-	-	2,596,869	2,596,869
Treasury bills	-	-	-	-
Unit Trust	26,052	-	-	26,052
Debentures	8,683	-	10,465	19,149
Loans and receivables				
Fixed deposits	35,715	78,845	29,918	144,480
Repo/call deposit	9,729	-	-	-
Total	80,220	78,845	2,637,252	2,796,318

Maturity analysis of financial assets – 2016

	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	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

The maturity analysis of financial liabilities is not disclosed due to non-availability of maturity data.

33.2.3 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 returns, 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 those identified operational risks. These action plans recommended by the team manage operational risk in the following areas:

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

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

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 long 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.

Notes to the Financial Statements contd.

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 the level of the fair value hierarchy:

As at 31 December 2017	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total market value Rs. '000
Available-for-sale				
- Treasury bonds	2,596,869	-	-	2,596,869
- Treasury bills	-	-	-	-
- Debentures	-	19,149	-	19,149
- Unit Trust	26,052	-	-	26,052
Total	2,622,921	19,149	-	2,642,069

As at 31 December 2016	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total market value 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

33.3.2 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 being material for the disclosure.

	Carrying value (Rs. '000) 2017	2016
Loans and receivables		
Fixed deposits	144,480	129,475
Repo/Call Deposits	9,769	20,118
Premium receivable	20,125	16,943
Reinsurance receivable	44,420	41,578
Total	218,794	208,115
Liabilities	80,833	58,275
Reinsurance liability	80,833	58,275

Ten Year Summary

Allianz Life Insurance Lanka Ltd

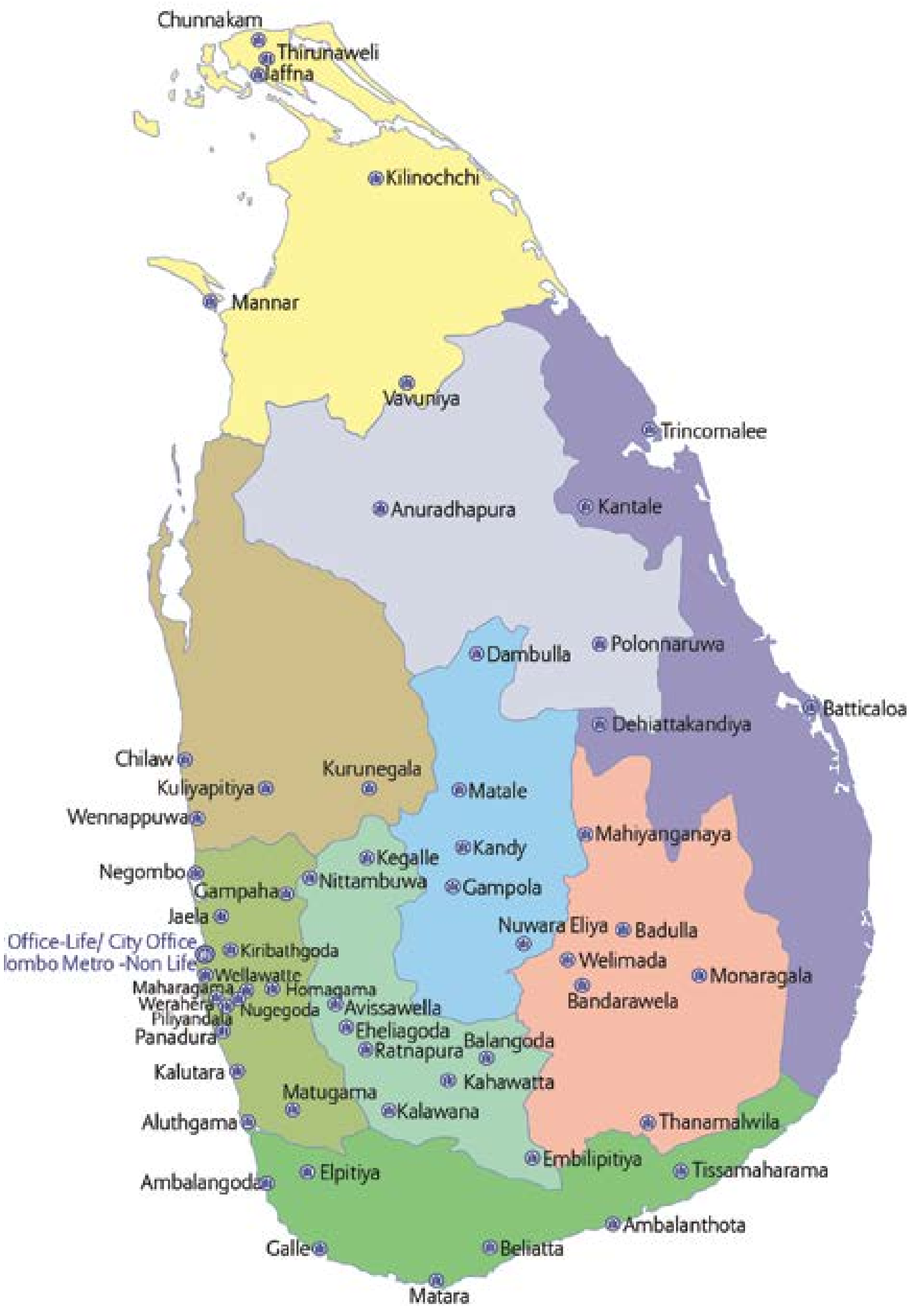
	2017 Rs. '000	2016 Rs. '000	2015 Rs. '000	2014 Rs. '000	2013 Rs. '000	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000	2009 Rs. '000	2008 Rs. '000
Statement of Income										
Gross Written Premium	1,178,817	1,040,269	919,144	823,456	828,790	532,141	351,299	204,814	101,816	4,013
Net Earned Premium	1,095,344	973,115	859,835	768,148	784,600	497,452	329,558	192,569	94,322	3,840
Income from Investments and Other Income	290,111	210,507	148,000	107,950	78,931	52,753	31,087	30,092	33,819	22,331
Insurance Claims and Benefits	(115,188)	(86,648)	(52,493)	(38,562)	(23,316)	(15,877)	(12,612)	(5,715)	(3,283)	-
Net Acquisition Cost	(134,713)	(133,837)	(134,241)	(154,947)	(170,131)	(152,276)	(111,814)	(81,149)	(48,014)	(1,849)
Increase in Life Insurance Provision	(645,642)	(579,971)	(504,042)	(367,672)	(335,881)	(191,674)	(112,933)	(58,289)	(7,317)	(684)
Deferred Acquisition Cost (Movement)	111,042	111,242	84,725	108,966	-	-		-	-	-
Expenses	(496,929)	(468,449)	(363,893)	(410,493)	(373,730)	(249,964)	(181,792)	(201,486)	(145,243)	(33,289)
Profit Before Taxation	104,024	25,959	(46,834)	(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	104,024	25,959	(71,358)	(71,053)	(39,527)	(59,587)	(58,506)	(123,978)	(75,716)	(9,651)
Balance Sheet										
Assets										
Investments Non Unit Linked	2,796,318	1,930,971	1,569,538	1,186,394	908,592	523,259	393,807	212,677	189,150	231,775
Investments Unit Linked	321,800	255,593	184,518	111,449	44,587	-	-	-	-	-
Property,Plant and Equipment	5,558	8,533	14,736	24,045	25,637	25,635	25,065	23,787	18,147	6,210
Deferred acquisition cost	623,592	512,550	401,308	316,583	-	-	-	-	-	-
Intangible Assets	7,323	2,230	705	1,209	1,653	3,128	4,738	-	-	-
Reinsurance Receivables	44,420	41,577	28,133	37,680	15,988	13,389	10,710	3,108	2,376	-
Other Assets	198,816	125,869	97,188	82,220	59,335	37,722	34,936	34,442	57,981	19,238
Amounts Due from related parties	574	-	4,170	-	-	-	-	-	-	-
Cash & Cash Equivalents	17,436	30,246	48,136	24,973	16,145	23,039	15,778	8,351	5,849	2,522
Total Assets	4,015,837	2,907,569	2,348,433	1,784,553	1,071,937	626,172	485,034	282,365	273,503	259,745
Liabilities and Shareholders' Equity										
Liabilities										
Insurance Provision - Non Unit Linked	2,526,518	1,928,871	1,413,441	980,303	662,191	370,897	179,223	66,290	8,001	684
Insurance Provision - Unit Linked	321,800	255,593	184,518	111,433	44,587	-	-	-	-	-
Reinsurance Creditors	80,833	58,275	39,502	43,868	22,646	18,277	10,645	7,252	5,098	937
Other Liabilities	195,595	171,888	90,508	92,022	77,237	75,856	69,803	65,481	93,179	17,776
Employee Benefits	7,346	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	3,132,091	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	739,624	592,624	592,624	492,499	492,499	349,999	249,999	249,999
Revenue Reserves	34,284	(71,184)	(97,969)	(112,314)	(358,121)	(318,132)	(258,935)	(209,345)	(85,367)	(9,651)
Fair Value Reserve	109,838	(182,254)	(25,940)	65,037	27,456	(19,263)	(12,084)	-	-	-
Total Shareholders' Equity	883,746	486,186	615,716	545,347	261,958	155,104	221,480	158,086	164,632	240,348
Total Liabilities and Shareholders' Equity	4,015,837	2,907,569	2,348,433	1,784,553	1,071,937	626,172	485,034	(140,654)	273,503	259,745

Ten Year Summary

Allianz Insurance Lanka Ltd

	2017 RS. '000	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
Statement of Income										
Gross Written Premium	6,020,890	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
Net Earned Premium	3,413,816	2,400,551	1,617,389	1,421,992	684,309	435,561	336,747	293,436	265,074	115,236
Income from Investments and Other Income	348,286	261,045	145,455	144,574	158,297	127,498	105,454	95,379	95,709	45,640
Insurance Claims and Benefits (net)	(2,311,185)	(1,814,727)	(1,169,854)	(1,109,326)	(317,838)	(163,837)	(139,168)	(172,754)	(150,698)	(59,178)
Underwriting and Net Acquisition Cost/Income (Including Reinsurance)	(94,767)	49,085	142,690	101,576	121,337	163,639	151,610	115,060	88,096	66,090
Expenses	(1,171,804)	(858,319)	(576,625)	(545,298)	(396,876)	(251,962)	(173,452)	(109,816)	(139,869)	(80,854)
Profit before taxation	184,346	37,635	159,055	13,518	249,229	310,899	281,191	221,305	158,312	86,934
Income Tax Expenses	(51,753)	(13,933)	(50,122)	8,130	(55,408)	(81,382)	(46,594)	(53,996)	(38,646)	(14,190)
Net Profit for the year	**132,593**	**23,702**	**108,933**	**21,648**	**193,821**	**229,517**	**234,597**	**167,309**	**119,666**	**72,744**
Balance Sheet										
Assets										
Investments	3,050,035	2,005,969	1,508,664	1,294,635	1,129,579	1,098,551	943,206	828,458	656,207	347,368
Property, Plant & Equipment	90,794	105,704	106,539	100,924	63,563	34,999	19,020	26,330	31,988	22,963
Intangible Assets	17,411	43,194	37,979	48,150	46,884	24,870	10,122	11,233	19,453	9,802
Reinsurance Receivables	763,921	1,044,035	609,392	472,646	463,164	261,048	341,143	296,505	125,480	133,939
Premium Receivables	2,440,764	1,573,724	1,537,905	1,202,145	897,033	451,657	379,805	334,602	130,678	104,593
Other Assets	91,481	58,356	93,767	81,516	60,187	35,070	77,072	95,316	111,342	23,680
Insurance Contract - Deferred Expenses	303,085	208,380	163,756	98,600	86,797	56,764	44,819	36,324	43,477	27,858
Deferred Tax assets	17,983	50,406	8,792	19,553	8,906	7,616	5,060	3,183	7,124	2,884
Cash & Cash Equivalents	128,959	121,294	40,054	44,865	57,899	56,250	18,485	19,827	23,172	54,804
Total Assets	**6,904,433**	**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**
Liabilities and Shareholders' Equity										
Liabilities										
Insurance Provision-General	4,114,989	3,077,685	2,086,080	1,613,794	1,217,450	586,642	513,471	556,576	358,582	266,361
Reinsurance Creditors	492,249	716,432	674,046	574,178	451,752	469,908	535,829	336,200	240,657	86,537
Employee Benefits	24,852	17,801	12,490	8,573	8,169	5,890	4,112	4,899	2,856	966
Other Liabilities	585,450	262,151	301,264	216,202	198,155	168,117	91,037	105,524	107,535	46,881
Bank Overdraft	112,518	163,522	46,250	53,419	62,976	15,983	22,540	28,457	7,345	14,866
Total Liabilities	**5,330,058**	**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**
Shareholders' Equity										
Stated Capital	905,500	500,000	500,000	500,000	250,000	250,000	250,000	250,000	250,000	188,635
Revenue Reserves	653,269	522,117	499,643	390,118	616,707	534,706	430,243	349,446	181,946	123,645
Fair Value Reserve	15,606	(48,646)	(12,926)	6,749	8,803	(4,421)	(8,500)	20,676	-	-
Total Shareholders' Equity	**1,574,375**	**973,471**	**986,717**	**896,867**	**875,510**	**780,285**	**671,743**	**620,122**	**431,946**	**312,280**
Total Liabilities and Shareholders' Equity	**6,904,433**	**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**

Our Branch Network



Aluthgama

168, Galle Road, Kaluwa Modara, Aluthgama
Tel: 034-2270418
Fax: 034-2270416

Anuradhapura

523/3, 01st Floor, Maithreepala Senanayake Mawatha, Anuradhapura
Tel: 025-2234899
Fax: 025-2234380

Ambalangoda

21/1/1, New Road, Ambalanagoda
Tel: 091-2255895
Fax: 091-2255894

Ambalantota

155/1, Tissa Road, Walawa, Ambalantota
Tel: 047-2225561
Fax: 047-2225562

Avissawella

162, 1/1, Colombo Road, Avissawella
Tel: 036-2231840
Fax: 036-2231844

Badulla

19, Bailey Road, Badulla
Tel: 055-2228698
Fax: 055-2228699

Balangoda

135 1/1, Barnes Ratwatte Mawatha, Balangoda
Tel: 045-2289422
Fax: 045-2289423

Batticaloa

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Fax: 065-2228225

Bandarawela

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Our Branch Network contd.

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Tel: 047-2243195
Fax: 047-2243196

Chilaw
105/01/02, Colombo Road, Chilaw
Tel: 032-2224832
Fax: 032-2224831

Chunnakkam
133, K K S Road, Chunnakam
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Fax: 021-2242506

City Office-Life
251, Dharmapala Mawatha, Colombo 07
Tel: 011-2303171
Fax: 011-2303116

City Office-Non-Life
251, Dharmapala Mawatha, Colombo 07
Tel: 011-2300400
Fax: 011-2317959

Dambulla
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Fax: 066-2283089

Dehiattakandiya
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Fax: 027-2250654

Eheliyagoda
326, Main Street, Eheliyagoda
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Fax: 036-2257136

Elpitiya
45/1A, Pituwala Road, Elpitiya
Tel: 091-2290812
Fax: 091-2290813

Embilipitiya
127/C, New Town Road, Embilipitiya
Tel: 047-2261773
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Galle
141, Colombo Road, Kaluwella, Galle
Tel: 091-2227392
Fax: 091-2227393

Gampaha
394A1/1, Colombo Road, Gampaha
Tel: 033-2234995
Fax: 033-2234994

Gampola
73/1/2, Nuwaraeliya Road, Gampola
Tel: 081-2353696
Fax: 081-23551003

Homagama
579/A, Highlevel Road, Godagama, Homagama
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Fax: 011-2895714

Ja-ela
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Jaffna
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Kahawatta
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Fax: 045-2270432

Kalawana
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Kalutara
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Fax: 034-2221328

Kandy
583/B, William Gopallawa Mawatha, Kandy
Tel: 081-2205152
Fax: 081-2205153

Kanthale
58L, Main Street, Kanthale
Tel: 026-2234747

Kegalle
17/C/1, Court Road, Kegalle
Tel: 035-2230157
Fax: 035-2230454

Kilinochchi
17/3, Kandy Road, Kilinochchi
Tel: 021-2285441
Fax: 021-2285443

Kiribathgoda
63/1, Kandy Road, Kiribathgoda
Tel: 011-2907825
Fax: 011-2907826

Kuliyapitiya
262/1/1, The Finance Building, Madampe Road, Kuliyapitiya
Tel: 037-2283471
Fax: 037-2283470

Kurunegala
174, Negombo Road, Kurunegala
Tel: 037-2230505
Fax: 037-2230535

Maharagama
237/1, Highlevel Road, Maharagama
Tel: 011-2088732
Fax: 011-2088733

Mahiyanganaya
02/18, Padiyathalawa Road, Mahiyanganaya
Tel: 055-2258519
Fax: 055-2258520

Mannar
07, Hospital Road, Mannar
Tel: 023-2251630
Fax: 023-2251631

Matale
17/1/1, Kandy Road, Matale
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Fax: 066-2230170

Matara
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Fax: 041-2234584

Mathugama
121 B, Agalawatta Road, Mathugama
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Fax: 034-2248372

Monaragala
236, Kachcheriya Junction, Wellawaya Road, Monaragala
Tel: 055-2055449
Fax: 055-2055448

Negombo
51, Galison Street, Negombo
Tel: 031-2228455
Fax: 031-2228477

Nittambuwa
31/A, Kandy Road, Nittambuwa
Tel: 033-2246142
Fax: 033-2246143

Nugegoda
119/119 1/1, Subadrarama Road, Nugegoda
Tel: 011-2819519
Fax: 011-2828333

Nuwara Eliya
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Fax: 038-2244281

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Saranapala Himi Mawatha, Piliyandala
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Fax: 011-2615821

Polonnaruwa
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Tel: 027-2224100
Fax: 027-2227266

Ratnapura
144, Bandaranayake Mawatha, Ratnapura
Tel: 045-2230520
Fax: 045-2230521

Thanamalwila
16, Tissa Road, Thanamalwila
Tel: 047-2285311
Fax: 047-2285312

Thirunelvelli
28, Palaly Road, Thirunelvelli
Tel: 021-2212380
Fax: 021-2212381

Tissamaharama
142/1, Hambantota Road, Tissamaharama
Tel: 047-2239591
Fax: 047-2239592

Trincomalee
447/2, Dockyard Road, Trincomalee
Tel: 026-2226255
Fax: 026-2226254

Vavuniya
45, 2nd Cross Street, Vauniya
Tel: 024-2225473
Fax: 024-2225523

Welimada
35/2, Welimada Road, Bandarawela
Tel: 057-2231214
Fax: 057-2231149

Wellawatte
251, Dharmapala Mawatha, Colombo 07
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

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 also include 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.

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 Non Life insurance business, net earned premium is the proportion of written premiums (including where relevant those of prior accounting periods) attributable to the risks borne, net of premiums ceded to reinsurance.

Net Expense Ratio

A formula used by 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.

Glossary contd.

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 capital to risk based capital required to be maintained by the insurer carrying on Non Life 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

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Concept & Designed by
Copyline
a great equation

We're

Allianz **IN**surance

We want to give you the courage to succeed in your personal and professional life, whatever your next steps may be.

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